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THE CABOTAGE VESSEL FINANCING FUND: PROSPECTS AND CHALLENGES IN THE PROMOTION OF INDIGENOUS SHIPPING IN NIGERIA*

Abstract

This paper investigates the prospects and challenges of the Cabotage Vessel Financing Fund (CVFF) in promoting indigenous shipping in Nigeria. It begins by providing an overview of the legal framework governing the cabotage practice in Nigeria. The paper also discusses the potential benefits offered by the Cabotage Vessel Financing Fund (CVFF), such as promoting national economic growth, improving maritime security, and creating job opportunities. Additionally, the fund's challenges, such as insufficient funding, mismanagement, and a lack of proper implementation, are examined. The paper then conducts a comparative analysis of three countries known for their successful indigenous shipping promotion initiatives, highlighting important similarities and differences. Based on these findings, the paper makes practical recommendations to improve the Cabotage Vessel Financing Fund (CVFF) effectiveness, such as increasing government commitment, implementing capacity development programmes, investing in Research and Development, and improving maritime education. The methodology adopted in this paper is doctrinal.

Keywords: Cabotage, Vessel, Maritime, Indigenous, Shippers, NIMASA, Nigeria, Cabotage Vessel Financing Fund (CVFF)

1. Introduction

The maritime sector in Nigeria has a rich history dating back centuries, as the nation's extensive coastline has always been a hub for trade and commerce. Over the years, this sector has evolved significantly, and in the contemporary era, it plays a pivotal role in Nigeria's economic development. The maritime industry in Nigeria has a long-standing tradition of connecting the country to the global economy, dating back to the pre-colonial era when coastal communities engaged in trade with neighboring regions and European merchants. However, it was in the early 21st century, with the enactment of the Coastal and Inland Shipping (Cabotage) Act of 2003, that a deliberate effort was made to promote indigenous participation in this vital sector. The Cabotage Vessel Financing Fund (CVFF), a cornerstone of this policy, was established to provide financial support for the acquisition and development of ships by indigenous shipowners. Its primary aim was to enhance the competitiveness of local players in the maritime industry. The fund draws its financial resources from a two-percent levy imposed on the contract sum of vessels engaged in domestic coastal trade.[1] This paper explores the significance of the Cabotage Vessel Financing Fund (CVFF) in driving indigenous shipping in Nigeria and the prospects and challenges associated with its implementation.

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Cabotage Act 2003, s.43 (a).

2. Legal Framework for Cabotage Practice In Nigeria

Nigeria, being a coastal state, has a vast coastline and operates a large fleet of vessels. The country is the most populous country in Africa, with a population of over 218 million people in 2023.[2] According to the Organization of the Petroleum Exporting Countries (OPEC), Nigeria is the 11th largest oil producer in the world.[3] In 2022, Nigeria exported an average of 1.081 million barrels of oil per day. This accounted for about 76% of Nigeria's total exports.[4] The oil industry is the most important sector of the Nigerian economy, accounting for about 90% of export earnings and 20% of government revenue.[5] The most important goods exported from Nigeria are oil, natural gas, cocoa, rubber, and cotton.[6] While the most important goods imported into Nigeria are machinery, transportation equipment, and food, and most of this transportation are done through shipping.[7]

The legal framework of Cabotage practice in Nigeria is governed by the Coastal and Inland Shipping (Cabotage) Act 2003, complemented by the Merchant Shipping Act and the Nigerian Maritime Administration and Safety Agency (NIMASA) Act. These legislations provide the legal framework for regulating cabotage activities and ensuring compliance with the objectives of promoting indigenous participation and capacity building.[8] The four pillars of the cabotage policy in Nigeria are:

- **Wholly Nigerian-owned vessels:** Vessels that are used for cabotage must be wholly owned by Nigerian citizens.[9] This means that the beneficial ownership of the vessel must be vested in a Nigerian citizen or entity.
- **Wholly Nigerian-manned vessels:** Vessels that are used for cabotage must be wholly manned by Nigerian citizens.[10] This means that all of the crew members, including the captain, must be Nigerian citizens.

[2] Aaron O'Neill, Nigeria: Total population from 2018 to 2028, (Statista, Aug 10, 2023) <https://www.statista.com/statistics/382264/total-population-of-nigeria/> accessed on 11 June 2024.
[3] Chika Izuora, Nigeria Ranks 11th Of 20 Countries With Largest Oil Reserves, (Leadership, January 2023) https://leadership.ng/nigeria-ranks-11th-of-20-countries-with-largest-oil-reserves/> accessed 11 June 2024..
[4] Emmanuel Addeh, Nigeria's Crude Oil Underproduction Losses Hit N6.8tn in Seven Months, (ThisDay, 15 August 2023)<https://www.thisdaylive.com/index.php/2023/08/15/nigerias-crude-oil-underproduction-losses-hit-n6-8tn-in-seven-months?amp=1> accessed 11 June 2024.
[5] Doris Dokua Sasu, Oil industry in Nigeria - statistics & facts, (Statista, Jun 29, 2023) <https://www.statista.com/topics/6914/oil-industry-in-nigeria/> accessed 11 June 2024..
[6] Odinaka Anudu, Changing Nigeria's approach to export, (Business Day, December 2, 2020) <https://businessday.ng/lead-story/article/changing-nigerias-approach-to-export/> accessed 11 June 2024.
[7] Ibid.
[8] FAOLEX, "Coastal and Inland Shipping (Cabotage) Act 2003" (30 Apr. 2003), <https://faolex.fao.org/docs/pdf/nig61610.pdf.> accessed 17 June 2024.
[9] Cabotage Act 2003, s.3.
[10] Cabotage Act 2003, s.3.

- **Vessels registered in Nigeria:** Vessels that are used for cabotage must be registered in Nigeria.[11] This means that the vessel's registration must be with the Nigerian Maritime Administration and Safety Agency (NIMASA).

- **Vessels built in Nigeria:** Vessels that are used for cabotage must be built in Nigeria.[12] This means that the hull and superstructure of the vessel must be constructed in Nigeria.

The Act was enacted to address Nigeria's compliance with the United Nations Conference on Trade and Development (UNCTAD) 40:40:20 sharing formula, which allocates 40% of the cargo's value to the country of origin, 40% to the country of destination, and 20% to other interests.[13]

As stated above, the Act prohibits foreign vessels from transporting crude oil or other cargoes within Nigeria's territorial waters, thereby making jobs available for indigenous ship owners and operators.[14] This provision is intended to give local shipping firms a competitive edge over foreign vessels operating in the nation's waters, thereby developing local capacity and the indigenous shipping industry.[15] However, despite the Act's objectives, many challenges have hindered its effective implementation. These challenges include a lack of local capacity, a limping legal framework, insufficient enforcement, ambiguities in the legal provisions, a lack of capacity building, and limited access to funding.[16] For instance, the Act's provision that only Nigerian-owned vessels or carriers may engage in coastal trade has been hindered by infrastructural shortages, which impede the Act's implementation.[17]

Another significant challenge is the age limit of 15 years imposed by the Act on vessels operating within the Nigerian cabotage sector.[18] This provision is detrimental to cabotage operations, as the efficiency and performance of vessels are not determined by their age

[11]Cabotage Act 2003, s.3.

[12]Cabotage Act 2003, s.3.

[13]Theophilus Chinoyerem Nwokedi, Comparative Study on Implementation Outcomes of UNCTAD 40-40-20 and cabotage Maritime Policies in Nigeria, (Academia, 2018) <https://www.academia.edu/38045867/Comparative_Study_on_Implementation_Outcomes_of_UNCTAD_40_40_20_and_cabotage_Maritime_Policies_in_Nigeria> accessed 17 June 2024.

[14]Ibid.

[15]Andersen, Expanding Indigenous Maritime Capacity In Nigeria Through The Cabotage Vessel Financing Fund (CVFF), (Mondaq, 26 MAY 2023) <https://www.mondaq.com/nigeria/marine-shipping/1320904/expanding-indigenous-maritime-capacity-in-nigeria-through-the-cvff> accessed 17 June 2024.

[16]Abdulhaleem, 'Effectiveness of Nigeria's Cabotage Laws', LinkedIn Pulse, 2022, <https://www.linkedin.com/pulse/effectiveness-nigerias-cabotage-laws-abdullahi-abdulhaleem> accessed 18 June 2024.

[17]Anna Okon, 'Coastal trade: Nigerian operators fall behind amid challenges' (Punch, 15 April 2019) <https://punchng.com/coastal-trade-nigerian-operators-fall-behind-amid-challenges/> accessed 18 June 2024.

[18]Cabotage Act 2003, s.28.

but by their ongoing maintenance. The inclusion of this age limit seems to be based on subjective beliefs rather than objective information, as there is no specific regulation in any jurisdiction that imposes an age limit on seagoing vessels, as long as these vessels consistently comply with existing rules about safety requirements.[19]

Furthermore, the Act's provision that requires a 15% equity contribution by fund applicants has been found to be a significant obstacle for many indigenous operators, who are unable to provide this contribution.[20] This has led to a situation where local operators applying for access to the Cabotage Vessel Financing Fund (CVFF) do not fulfill the PLI's fundamental risk criteria, thereby undermining the essence of the fund's creation.[21]

In addition, the lending rates charged by financial institutions in Nigeria are considered to be prohibitively high, making it difficult for entrepreneurs to recover the funds required to make loan repayments.[22] This has led to a situation where financing presents a formidable obstacle for the cabotage industry, as local operators are unable to access the necessary funding for ship acquisition and other business endeavours.[23]

The cabotage policy has had a mixed impact on the Nigerian maritime industry since its inception in 2003. On the one hand, the policy has helped to protect the domestic shipping industry from foreign competition and has created jobs for Nigerian seafarers. On the other hand, the policy has also led to higher shipping costs for consumers and has made it difficult for some businesses to operate in Nigeria. According to NIMASA, there are currently 347 fishing vessels and 3,408 other types of registered vessels.[24] However, it is disclosed that a total of 1071 vessels were registered as cabotage vessels.[25] These vessels employ over 50,000 people and generate over $1 billion in revenue each year.[26]

[19]I Ihenacho, (2004). The Cabotage Act: A Critical Analysis. *Journal of Maritime Law and Commerce*, 35(2), 147-164.

[20]Abdulhaleem, 'Overview of the Nigeria Coastal and Inland Shipping Act (Cabotage)', LinkedIn Pulse, 2022, <https://www.linkedin.com/pulse/overview-nigeria-coastal-inland-shipping-act-cabotage-abdulhaleem> accessed 18 June 2024.

[21]The World Bank. (2023). Nigeria - interest rate spread (Lending rate minus deposit rate %). Retrieved from <https://data.worldbank.org/indicator/FR.INR.LNDP?locations=NG.>accessed 18 June 2024.

[22]Kayode Tokede, 'Bank Customers Groan as Maximum Lending Rate Reached 28.75% in February', This Day Live, 29 March 2023, <https://www.thisdaylive.com/index.php/2023/03/29/bank-customers-groan-as-maximum-lending-rate-reached-28-75-in-february/> accessed 18 June 2024.

[23]Ajiye, 'Nigerian Cabotage: Its Policy, Prospects and Challenges', CORE, 2013, <https://core.ac.uk/download/pdf/234646057.pdf> accessed 18 June 2024.

[24]Anozie Egole, 4,355 vessels registered in Nigeria – NIMASA report, (Punch, 25th May 2023) <https://punchng.com/4355-vessels-registered-in-nigeria-nimasa-report/> accessed 18 June 2024.

[25] Anozie Egole, Nigeria – NIMASA report, (Punch, 25th May 2023) <https://punchng.com/4355-vessels-registered-in-nigeria-nimasa-report/> accessed accessed 18 June 2024..

[26]Amaka Anagor-Ewuzie, NISA Shipping Line to create 50,000 seafaring jobs, billions in revenue, (Business Day, October 26, 2022) <https://businessday.ng/maritime/article/nisa-shipping-line-to-create-50000-seafaring-jobs-billions-in-revenue/> accessed 18 June 2024..

3. Overview of The Cabotage Vessel Financing Fund In Nigeria

The Cabotage Vessel Financing Fund *(*CVFF), established under the Cabotage Act, aims to promote the development of indigenous ship acquisition capacity. Its primary objective is to provide financial assistance to Nigerian operators in the domestic coastal shipping sector, enabling them to acquire and maintain vessels for cabotage trade. One of the sources of funding for the Cabotage Vessel Financing Fund (CVFF) is 2% of the contract sum performed by any vessel engaged in Cabotage trade.[27] This ensures that a portion of the earnings from contracts for the transportation of goods and passengers between Nigerian ports by Nigerian-owned vessels goes into the Cabotage Vessel Financing Fund (CVFF). This contribution is significant as it directly links the success of the industry to the fund, allowing for the sustainable growth and development of indigenous shipping in Nigeria. Another source of funding for the Cabotage Vessel Financing Fund (CVFF) is the monies generated through tariffs, fines, and fees for licenses and waivers.[28] Such financial inflows are critical as they provide the necessary capital to support the Fund's objectives, which include enhancing the competitiveness of Nigerian shipowners and reducing the dependency on foreign vessels for coastal and inland waterway operations.

The Cabotage Vessel Financing Fund *(*CVFF) also benefits from allocations periodically approved by the National Assembly, reflecting the government's commitment to the maritime industry's development. These allocations are instrumental in ensuring that the Fund can meet its obligations and support the sector's strategic initiatives. Moreover, the interest accrued from loans extended from the Cabotage Vessel Financing Fund (CVFF) constitutes a significant portion of the Fund's capital. As these loans are repaid with interest, they generate additional resources that can be reinvested into the Fund, thereby creating a sustainable financial ecosystem for the maritime industry.[29]

The administration of the Cabotage Vessel Financing Fund *(*CVFF) is entrusted to the Nigerian Maritime Administration and Safety Agency (NIMASA). NIMASA's role is multifaceted, encompassing the management of the Fund's resources, ensuring compliance with the Cabotage Act, and overseeing the disbursement of funds to eligible beneficiaries.[30] NIMASA's stewardship is crucial in maintaining the integrity and efficacy of the Cabotage Vessel Financing Fund (CVFF), as it is responsible for implementing the guidelines that govern the Fund's operations. As of December 2017, reports indicated that the Cabotage Vessel Financing Fund *(*CVFF) had accrued to approximately N100 billion, showcasing the substantial financial capacity that has been

[27] Cabotage Act 2003, s.43 (a).

[28] Cabotage Act 2003, s.43 (c).

[29] United Nations Environment Programme Finance Initiative, "4 examples of best practice to sustainably finance the maritime transportation sector," (September 30, 2021), <https://www.unepfi.org/themes/ecosystems/4-examples-of-best-practice-to-sustainably-finance-the-maritime-transportation-sector/.> accessed 18 June 2024.

[30] Nweze, 'Nimasa and the Implementation of Cabotage Policy for the Development of Indigenous Maritime Capacity', WRPSJ, 2011, <https://digitalcommons.aaru.edu.jo/cgi/viewcontent.cgi?article=1068&context=wrpsj> accessed 18 June 2024.

amassed over the years.[31] This accumulation of funds underscores the potential impact that the Cabotage Vessel Financing Fund *(*CVFF) can have on Nigeria's maritime sector, particularly in terms of developing a robust cabotage fleet and enhancing local shipping capacity.

The Cabotage Vessel Financing Fund *(*CVFF) financial structure is designed to ensure that indigenous shipowners contribute to and benefit from the Fund. The surcharge, alongside other revenue streams, provides a steady flow of capital that enables the Fund to fulfill its mandate. With NIMASA at the helm, the Cabotage Vessel Financing Fund *(*CVFF) is poised to play a transformative role in Nigeria's maritime industry, fostering growth, self-reliance, and economic prosperity.

3.1 Disbursement and Utilization

The Cabotage Vessel Financing Fund (CVFF), established to enhance the capacity of Nigeria's maritime sector, has faced challenges in the disbursement of funds to its intended beneficiaries. Despite its inception over a decade ago, the Cabotage Vessel Financing Fund *(*CVFF) had not seen significant movement in fund allocation until a landmark decision in December 2022. President Muhammadu Buhari's approval for the disbursement marked a pivotal moment, signaling the Federal Government's dedication to nurturing indigenous ship ownership and fortifying the local maritime industry.[32]

The funds earmarked for disbursement were reported to exceed N16 billion and $350 million, a substantial sum aimed at catalyzing the growth of the Nigerian maritime domain.[33] The Minister of Transport, in affirming the commitment to the Cabotage Vessel Financing Fund *(*CVFF) objectives, identified Union Bank, Polaris Bank, United Bank of Africa, Zenith Bank, and Jaiz Bank as the Primary Lending Institutions (PLIs) tasked with the fund's distribution.[34] The selection of these PLIs was strategic, ensuring that the disbursement process would be managed by institutions with a robust understanding of the maritime sector's financial landscape. This approach was intended to streamline the application and allocation process, thereby facilitating a more efficient and effective distribution of the Cabotage Vessel Financing Fund *(*CVFF).

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[31]Terfa Abraham, 'Administration of Cabotage Vessel Financing Funds (CVVF) in Nigeria: Issues for Legislative Consideration' (NILDS, September 2018) <https://ir.nilds.gov.ng/bitstream/handle/123456789/99/Administration%20of%20Cabotage%20Vessel%20Financing%20Funds%20%28CVVF%29%20in%20Nigeria%20Issues%20for%20Legislative%20Consideration%20Issue%209%20No%201%20Sept%202018.pdf?isAllowed=y&sequence=1> accessed 18 June 2024.

[32]Mu'azu Jaji Sambo, 'VESSEL ACQUISITION: PRESIDENT BUHARI APPROVES DISBURSEMENT OF CABOTAGE VESSEL FINANCING FUND' (NIMASA, 11 December 2022) <https://nimasa.gov.ng/vessel-acquisition-president-buhari-approves-disbursement-of-cabotage-vessel-financing-fund/> accessed 18 June 2024.

[33]*Ibid.*

[34]Chisa Theodora Uba, 'The Cabotage Vessel Financing Fund (CVFF) - Dentons ACAS-Law' (BusinessDay, 7 March 2023) <https://www.dentonsacaslaw.com/en/insights/articles/2023/march/7/the-cabotage-vessel-financing-fund> accessed 18 June 2024.

As of the latest reports, the Cabotage Vessel Financing Fund *(*CVFF) disbursement framework had been meticulously developed to ensure transparency and accountability. The framework outlines the criteria for eligibility, application procedures, and the responsibilities of both the beneficiaries and the PLIs. It is designed to prevent past inefficiencies and ensure that the funds reach their intended targets—indigenous maritime operators who are poised to contribute significantly to the sector's development.

The disbursement of the Cabotage Vessel Financing Fund *(*CVFF) is not just a financial transaction; it is a strategic investment in the future of Nigeria's maritime industry. By empowering local shipowners and operators, the Cabotage Vessel Financing Fund *(*CVFF) aims to reduce the reliance on foreign vessels, promote job creation, and stimulate economic growth within the coastal regions of Nigeria.[35] The Cabotage Vessel Financing Fund *(*CVFF) disbursement and utilization represent a critical step towards achieving self-reliance in Nigeria's maritime operations. With the Federal Government's backing and the strategic involvement of selected PLIs, the Cabotage Vessel Financing Fund *(*CVFF) is set to make a lasting impact on the nation's maritime landscape.

3.2 Eligibility to Access Funds

To access the Cabotage Vessel Financing Fund *(*CVFF), applicants must fulfil certain requirements. Only Nigerian citizens and companies fully owned by Nigerians are eligible to apply for the fund.[36] This requirement ensures that the fund is dedicated to supporting indigenous shipowners and promoting local ownership in the shipping industry. Applicants must also provide a feasibility report for the proposed project, demonstrating the viability and potential for success.[37] Payment of fees is required, ensuring that applicants are committed to their projects and that the funds are utilized responsibly. Entering into an agreement with a Primary Lending Institution (PLI) is also necessary, as it ensures that the funds are disbursed and utilized effectively.[38] Providing adequate security is another requirement, protecting the fund and minimizing the risks associated with loan disbursement.

Lastly, demonstrating managerial and operational capability is essential for eligibility. This requirement ensures that applicants have the necessary skills and expertise to successfully manage and operate the vessels or projects they intend to undertake. It helps to safeguard against misuse or mismanagement of the funds. The maximum amount available from the Cabotage Vessel Financing Fund *(*CVFF) is $25 million, subject to

[35] Anugbum Onuoha, INDIGENOUS PARTICIPATION IN PETROLEUM PRODUCT IN NIGERIA: CABOTAGE VESSEL FINANCING FUND AS A CASE STUDY' (ResearchGate, May 2022) <https://www.researchgate.net/publication/360939349_INDIGENOUS_PARTICIPATION_IN_PETROLEUM_PRODUCT_IN_NIGERIA_CABOTAGE_VESSEL_FINANCING_FUND_AS_A_CASE_STUDY> accessed 19 June 2024.

[36] Cabotage Vessel Financing Fund (CVFF) Guidelines 2006, paragraph 3.2.

[37] Adebowale Adeniyi and Uzoma Okafor, Nigeria: Expanding Indigenous Maritime Capacity In Nigeria Through The Cabotage Vessel Financing Fund, (Mondaq, 19 May 2023)<https://www.mondaq.com/nigeria/marine-shipping/1316702/expanding-indigenous-maritime-capacity--in-nigeria-through-the-cabotage-vessel--financing-fund> accessed accessed 18 June 2024..

[38] Cabotage Vessel Financing Fund (CVFF) Guidelines 2006, paragraph 3.2 (v).

Ministry of Transportation approval.[39] This limit ensures that the disbursement process remains transparent and that funds are distributed fairly. It also allows for a wider distribution of funds, benefitting more indigenous shipowners and promoting economic growth in the industry.

4. Prospects and Challenges of The Cabotage Vessel Financing Fund In The Blue Economy

The promotion of indigenous shipping in Nigeria has been a long-standing goal of the Nigerian government, with the aim of empowering local shipowners and boosting the country's maritime sector. However, there are prospects and challenges of the fund.

4.1 Prospects

a) Development of Indigenous Ship Acquisition Capacity

One of the primary prospects of the Cabotage Vessel Financing Fund *(*CVFF) is the development of indigenous ship acquisition capacity. By providing financial assistance to Nigerian operators, the fund aims to increase the number of vessels owned by Nigerians. This expansion of the domestic fleet/tonnage would lead to the revitalization of the local shipping industry and reduce the dominance of foreign vessels in the coastal trade.

b) Creation of Employment Opportunities

The growth of indigenous shipping through the Cabotage Vessel Financing Fund (CVFF) can contribute to the creation of employment opportunities. Building vessels in Nigeria requires a skilled and semi-skilled workforce, leading to job creation for thousands of Nigerians. According to the Nigerian seafarers, investing in local shipbuilding to partake in international trade will generate over $100 billion for the economy and create about 15,000 jobs yearly to bridge the unemployment gap in the maritime industry.[40] Additionally, ship repair, maintenance, and operations also have the potential to employ a significant number of individuals, further boosting the economy.

c) Promotion of Local Capacity Building

The Cabotage Vessel Financing Fund (CVFF) promotes local capacity building in the maritime sector. By providing financial support for vessel acquisition and infrastructure development, the fund encourages the enhancement of skills and knowledge among Nigerian operators. This capacity building fosters self-sufficiency and reduces dependence on foreign shipowners and training programs.

d) Revenue Generation for the Federal Government

A thriving indigenous maritime industry can become a significant revenue earner for the Federal Government. As the Cabotage Vessel Financing Fund (CVFF) facilitates the growth of Nigerian-owned ships, it ensures that revenue from freight income, insurance, and other maritime activities remains within the country. This revenue generation

[39] Cabotage Vessel Financing Fund (CVFF) Guidelines 2006, Paragraph 7.10.

[40] Adaku Onyenucheya, How local shipbuilding can generate over $100b, revive steel industry, (Guardian, 28 June 2023)https://guardian.ng/saturday-magazine/travel-a-tourism/how-local-shipbuilding-can-generate-over-100b-revive-steel-industry/> accessed accessed 18 June 2024.

contributes to the overall economic development of Nigeria. The maritime sector has contributed N2.4 billion to the Nigeria's GDP.[41]

e) Enhancement of National Security

The Cabotage Vessel Financing Fund (CVFF) also has the potential to enhance national security. By restricting foreign vessels from operating in Nigerian waters, the fund helps safeguard the nation's internal security and defence mechanisms. Furthermore, Nigerian shipyards can contribute to activities such as the removal of shipwrecks, reducing navigational obstructions and ensuring the safety of marine environments.

4.2 Challenges

The Cabotage Vessel Financing Fund (CVFF) is plagued by a multitude of dreary challenges, chief among them being the abysmal lack of adequate funding.[42] Despite the supposed financing through a 2% surcharge on all contracts awarded to foreign vessels in the Nigerian maritime sector, the Cabotage Vessel Financing Fund (CVFF) has been left woefully underfunded. The grim reality is that the paltry actual remittance of funds into the Cabotage Vessel Financing Fund (CVFF) falls far short of satisfaction. According to the bleak statistics provided by the Nigerian Maritime Administration and Safety Agency (NIMASA), the Cabotage Vessel Financing Fund (CVFF) had only received a meagre total inflow of 58 billion naira (approximately $150 million) by 2019.[43] This alarming shortfall in funding mercilessly shackles the Cabotage Vessel Financing Fund (CVFF), stripping it of its ability to offer substantial financial support to indigenous shipowners. Consequently, the dreams of fostering a thriving indigenous shipping industry are cruelly crushed.

Another gloomy challenge lies in the abysmal disbursement and implementation of the Cabotage Vessel Financing Fund (CVFF). Even in the face of limited funding, the disbursement process has proven to be an exercise in dysfunction and futility, failing to reach the deserving shipowners. The repercussions of non-implementation of the Cabotage Act are utterly disheartening; as it was reported that non-implementation of the Cabotage Act costs the country an estimated $50 billion in capital flight yearly.[44] This snail-paced disbursement, amidst the already dire funding situation, suggests the existence of insurmountable obstacles and oppressive bureaucratic hurdles in the disbursement process. These disheartening inefficiencies fatally undermine the intended impact of the Cabotage Vessel Financing Fund (CVFF), as eligible shipowners are

[41] Dike Onwuamaeze, Expert Task NBS on Proper Capturing of Maritime Sector Contribution to GDP, (ThisDay, 01 September 2022)<https://www.thisdaylive.com/index.php/2022/09/01/expert-task-nbs-on-proper-capturing-of-maritime-sector-contribution-to-gdp> accessed 16 June 2024.

[42] *Ibid*.

[43] Adaku Onyenucheya, Nigeria yet to disburse Cabotage Vessel Financing Fund (CVFF) despite rise in global ship financing, (The Guardian, 12 July 2023) <https://guardian.ng/business-services/maritime/nigeria-yet-to-disburse-cvff-despite-rise-in-global-ship-financing/> accessed accessed 18 June 2024..

[44] Adaku Onyenucheya, Nigeria loses $50b yearly to foreign domination, non-implementation of Cabotage Act' (The Guardian, 26 June 2023) <https://guardian.ng/news/nigeria-loses-50b-yearly-to-foreign-domination-non-implementation-of-cabotage-act/> accessed accessed 18 June 2024.

callously denied the financial lifeline they desperately need to acquire and maintain vessels, leaving them adrift in a sea of despair.

Moreover, a shroud of darkness envelops the Cabotage Vessel Financing Fund (CVFF) due to its blatant lack of transparency in management. The disquieting statistics provided by NIMASA reveal that the Cabotage Vessel Financing Fund (CVFF) is shrouded in a shadowy aura, with an accumulated balance of a mere 50 billion Naira (approximately $128 million) as of 2019.[45] However, grave concerns persist about the integrity, accountability, and proper utilization of these funds. Numerous harrowing reports and investigations have unearthed distressing allegations of mismanagement and embezzlement, painting a bleak picture of transparency and accountability in the Cabotage Vessel Financing Fund (CVFF) management. These damnable allegations corrode the confidence of potential investors and shipowners, casting a sinister pall over their willingness to actively engage in the indigenous shipping sector. The result is a desolate landscape devoid of hope and trust.

Moreover, the Cabotage Vessel Financing Fund (CVFF) wearily grapples with the harrowing challenge of limited human capacity within the indigenous shipping sector. Alas, the statistics from the Nigerian Shipowners Association expose a harrowing truth - less than 10% of Nigerian shipowners possess the necessary technical and managerial skills to effectively navigate the treacherous waters of vessel operation and management.[46] This profound deficiency in human capital becomes a formidable barrier that obstructs the growth and development of the indigenous shipping industry. The Cabotage Vessel Financing Fund (CVFF) endeavors, albeit futilely, to address this wretched predicament through its supposed financial support.

5. Comparative Analysis of Cabotage Practices

Cabotage, the practice of restricting coastal shipping to domestic vessels, is a common regulatory framework employed by various countries to protect their domestic maritime industries.[47] This comparative analysis examines the cabotage practices in the United States, Canada, South Africa, and Nigeria, highlighting the similarities, differences, and unique aspects of each country's approach.

[45] Joshua, Our Real Fears About The *Cabotage Vessel Financing Fund (CVFF)* Disbursement, (Shipping Position, January 27, 2023) <https://shippingposition.com.ng/our-real-fears-about-the-cvff-disbursement/> accessed 18 June 2024.

[46] Olusegun Oluwole, An Assessment of Cabotage Act Implementation In Nigeria, (Research Gate, August 2016) <https://www.researchgate.net/publication/346488217_AN_ASSESSMENT_OF_CABOTAGE_ACT_IMPLEMENTATION_IN_NIGERIA> accessed 18 June 2024.

[47] R Amarachi. Dike and others, 'Legal Framework for Cabotage Regime in Nigeria: Making a Case for Reform Initiatives' (2023) 12 International Law Research 115, 115.

5.1United States

The United States has a well-established cabotage regime, known as the Jones Act, which was enacted in 1920.[48] The Jones Act requires that all goods transported by water between U.S. ports be carried on U.S.-built, U.S.-owned, and U.S.-crewed vessels.[49] This legislation aims to support the U.S. shipbuilding industry, maintain a strong domestic fleet, and ensure national security by limiting the involvement of foreign vessels in coastal trade.[50]

According to the U.S. Department of Transportation, the Jones Act has been highly effective in sustaining the U.S. maritime industry. In 2022, the U.S. merchant fleet consisted of over 40,000 vessels, making it one of the largest in the world.[51] The U.S. shipbuilding industry has also benefited, with over 100 shipyards employing more than 110,000 workers across the country.[52] The Jones Act has been credited with maintaining a robust domestic maritime sector, which is essential for the country's economic and national security interests.

5.2 Canada

Canada's cabotage regime is governed by the Coasting Trade Act, which was introduced in 1992.[53] The Act restricts the transportation of cargo and passengers between Canadian ports to Canadian-registered vessels, with certain exceptions.[54] The Canadian cabotage policy is designed to promote the development of the domestic maritime industry, support Canadian shipowners and seafarers, and ensure the availability of Canadian-flagged vessels for national security purposes.[55]

According to Transport Canada, the Coasting Trade Act has helped maintain a strong Canadian-flagged fleet, with over 15,000 vessels registered under the Canadian flag in 2022.[56] The domestic maritime industry employs approximately 45,000 workers, contributing significantly to the country's economy.[57] While the Canadian cabotage regime is less stringent than the U.S. Jones Act, it has still been effective in sustaining a vibrant domestic maritime sector.

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[48]Jonah Czerwinski and others, 'Cabotage Laws: Smithsonian National Museum of American History' (Smithsonian, 16 May 2022) <https://americanhistory.si.edu/collections/search/object/nmah_1041098> accessed 18 June 2024.

[49]*Ibid.*

[50]*Ibid.*

[51]US Department of Transportation, 'Maritime Administration' (MARAD, 2022) https://www.maritime.dot.gov/data-reports/data-statistics/data-statistics accessed 18 June 2024.

[52] *Ibid.*

[53]Government of Canada, 'Coasting Trade Act' (Justice Laws Website, 13 June 2023) https://laws-lois.justice.gc.ca/eng/acts/C-33.3/ accessed 18 June 2024.

[54]*Ibid.*

[55] Government of Canada, 'Policies and Initiatives - Coasting Trade' (Transport Canada, 3 May 2019) https://tc.canada.ca/en/marine/policies-initiatives/coasting-trade accessed 18 June 2024.

[56]Transport Canada, 'Coasting Trade in Canada' (Government of Canada, 2022) https://tc.canada.ca/en/marine/coasting-trade-canada accessed 18 June 2024.

[57]*Ibid.*

5.3 South Africa

South Africa's cabotage regime is relatively recent, with the introduction of the Cabotage Policy in 2016.[58] The policy aims to promote the participation of South African-registered vessels in the coastal trade, with the ultimate goal of developing the domestic maritime industry.[59] It requires that all cargo and passengers transported between South African ports be carried on South African-registered vessels, subject to certain exemptions.[60]

According to the South African Department of Transport, the implementation of the Cabotage Policy has led to a gradual increase in the number of South African-registered vessels engaged in coastal trade. In 2022, there were over 200 registered vessels, up from around 150 in 2016.[61] However, the country still faces challenges in securing sufficient domestic shipping capacity to meet its coastal trade needs, and foreign vessels continue to play a significant role in the sector.

5.4 Nigeria

Nigeria's cabotage regime is governed by the Coastal and Inland Shipping (Cabotage) Act 2003, which was enacted to promote the development of the country's maritime industry.[62] The Act restricts the use of foreign vessels in the country's coastal and inland waterways, with certain waivers and exemptions.[63]

Unfortunately, the effective implementation of the Cabotage Act has faced significant challenges in Nigeria. According to a report by the Nigerian Maritime Administration and Safety Agency (NIMASA), the number of Nigerian-flagged vessels engaged in coastal trade has remained relatively low, accounting for only about 25% of the total coastal shipping activities in 2022.[64] This is due to a lack of local capacity, insufficient enforcement, and ambiguities in the legal provisions. As a result, the intended objectives of the cabotage regime in Nigeria have not been fully realized, and foreign vessels continue to dominate the coastal shipping industry.

[58]Republic of South Africa, 'South Africa's Cabotage Policy' (Department of Transport, 2016) <https://www.transport.gov.za/documents/11623/39906/South+Africa%27s+Cabotage+Policy.pdf/aee7f9ba-4c4d-4fdd-bf9e-5dc2ad829d6d> accessed 18 June 2023.

[59]*Ibid.*

[60]*Ibid.*

[61]LANGA DLAMINI, Development Of The South African Coastal Shipping Policy: The Prospect Of Maritime Cabotage, (Researchspace, <https://researchspace.ukzn.ac.za/server/api/core/bitstreams/ce5f4e9c-401c-4ea0-8d44-7f0c137ee75a/content> accessed 18 June 2024.

[62]*Ibid.*

[63]*Ibid.*

[64]Osie Edwards, 'NIMASA DEVELOPING NIGERIAN SEAFARERS THROUGH CABOTAGE IMPLEMENTATION' (NIMASA, 19 June 2024) <https://nimasa.gov.ng/nimasa-developing-nigerian-seafarers-through-cabotage-implementation/> accessed 19 June 2024.

Analysis

The cabotage regimes in the United States, Canada, South Africa, and Nigeria share the common goal of protecting and promoting their respective domestic maritime industries. However, the specific approaches and the level of success in achieving these objectives vary across the countries. The United States' Jones Act is considered one of the most stringent cabotage laws, with strict requirements for vessel ownership, construction, and crewing. This has led to the development of a robust U.S. maritime industry, with a significant domestic fleet and a thriving shipbuilding sector. In 2022, the U.S. merchant fleet consisted of over 40,000 vessels, and the shipbuilding industry employed more than 110,000 workers.[65]

In contrast, the Canadian and South African cabotage regimes are more flexible, with various exemptions and waivers, which has resulted in a more gradual development of their domestic maritime industries. Canada's Coasting Trade Act has helped maintain a strong Canadian-flagged fleet of over 15,000 vessels, employing around 45,000 workers.[66] South Africa's Cabotage Policy has led to a gradual increase in the number of South African-registered vessels, but the country still faces challenges in securing sufficient domestic shipping capacity.

Nigeria's Cabotage Act, while well-intentioned, has faced significant challenges in its implementation. The lack of local capacity, insufficient enforcement, and ambiguities in the legal provisions have hindered the growth of the Nigerian maritime industry, with foreign vessels still dominating the coastal shipping sector. In 2022, Nigerian-flagged vessels accounted for only 25% of the total coastal shipping activities.[67]

In terms of the impact on national security, the cabotage regimes in the United States and Canada have been more effective in maintaining a strong domestic fleet and ensuring the availability of vessels for strategic purposes. South Africa and Nigeria, on the other hand, have yet to fully realize the national security benefits of their cabotage policies due to the ongoing challenges in developing their domestic maritime capabilities. Overall, the comparative analysis demonstrates that while cabotage regimes share common objectives, the specific implementation and the resulting outcomes can vary significantly across countries, depending on the legal framework, enforcement mechanisms, and the overall state of the domestic maritime industry.

[65] Testimony of Matthew Paxton, President, Shipbuilders Council of America, before the House Committee on Transportation and Infrastructure, Subcommittee on Coast Guard and Maritime Transportation, "State of the U.S. Maritime Industry: Impacts of the COVID–19 Pandemic" (9 February 2021) 17, https://www.congress.gov/117/meeting/house/111228/documents/CHRG-117hhrg44493.pdf. accessed 17 June 2024.

[66] Government of Canada, 'The Coasting Trade Act and the transportation of passengers on cruise ships' (Transport Canada, 2022) <https://tc.canada.ca/en/corporate-services/policies/coasting-trade-canada/coasting-trade-act-transportation-passengers-cruise-ships> accessed 18 June 2024.

[67] Banwo & Ighodalo, "Continental Free Trade And Shipping In Nigeria: Ownership Or Flagging?" (2022), <https://www.banwo-ighodalo.com/resources/continental-free-trade-shipping-nigeria-ownership-flagging accessed 16 June 2024.

6. Conclusion

The Cabotage Vessel Financing Fund (CVFF) is a critical tool for promoting indigenous shipping in Nigeria. Through the Cabotage Vessel Financing Fund (CVFF), Nigeria has the opportunity to develop a vibrant domestic coastal shipping sector, create employment opportunities, and boost economic growth. However, to unlock the full potential of the maritime sector, Nigeria must address the challenges and seize the opportunities presented by the cabotage policy. This requires a collaborative effort among government agencies, industry stakeholders, and financial institutions to strengthen the legal framework, enhance capacity building initiatives, and foster a conducive environment for indigenous shipping companies to thrive.

7. Recommendations

Here are some recommendations to maximize the prospects and address the challenges associated with the Cabotage Vessel Financing Fund (CVFF) in promoting indigenous shipping in Nigeria.

Firstly, the Nigerian Maritime Administration and Safety Agency (NIMASA) should streamline the disbursement process and ensure greater transparency in selecting beneficiaries. This can be achieved by creating a standardized evaluation system with clear eligibility criteria and a transparent assessment process. Regular updates on fund utilization should also be made accessible to the public, promoting accountability and discouraging corruption.

Secondly, the Cabotage Vessel Financing Fund (CVFF) should introduce targeted financial support schemes to encourage indigenous shipping operators and boost competition. Prioritizing the financing of vessels specifically designed for domestic shipping, taking into account factors such as age, size, and capabilities, can stimulate growth and rejuvenate the Nigerian maritime industry.

Thirdly, capacity development programs should be prioritized to ensure the long-term sustainability of the Nigerian maritime sector. Allocating a portion of Cabotage Vessel Financing Fund (CVFF) funds to support training and skill development for Nigerian seafarers, shipbuilders, and ship repairers through partnerships with local and international maritime institutions can raise the competency and expertise of Nigerian maritime professionals, making them more competitive globally.

Fourthly, the Cabotage Vessel Financing Fund (CVFF) should allocate a portion of its funds to support research and development in the maritime industry, promoting the integration of technology and innovation. This can include investing in cleaner and more energy-efficient vessels, adopting digital technologies for improved operational efficiency, and exploring emerging trends such as autonomous vessels and blockchain applications in shipping. By incentivizing innovation, Nigeria can become a hub for maritime technology and drive industry growth.

Lastly, strengthening collaborations with the private sector through public-private partnerships (PPP) can increase the impact of the Cabotage Vessel Financing Fund (CVFF) . Engaging with financial institutions, shipyards, and maritime service providers

can facilitate knowledge transfer, funding opportunities, and technology exchange, leading to greater alignment of goals, increased efficiency, and sustainable growth in the maritime sector.