Bullion

Volume 40 | Number 3 Article 3

9-2016

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Recommended Citation
Uwatt, B. U. (2016). Overview of non-oil sector in Nigeria. CBN Bullion, 40(3), 31-38.

OVERVIEW OF NON-OIL SECTOR IN NIGERIA

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Introduction

1.1 Background

The current economic downturn has brought the age-long desire of galvanizing Nigeria's non-oil sector to the front burner once again, due mainly to over-dependence on oil export as a major source of the country's revenue. Sharp declines in global crude oil prices have seriously diminished government's revenue, thereby enforcing major headwinds for the economy, including rising fiscal deficit, fast depleting reserves and weakening of the naira against major foreign currencies. Nigeria's continued dependence on oil export poses a big threat to the economic stability of the country, even as technological advancements continue to place less emphasis on fuel energy for powering industrial growth in advanced economies.

Oil sector growth, relative to gross domestic product (GDP), has been negative since 2011. In fact, oil money profligacy may partly explain the ever heated Nigerian polity, even as politicians see political offices as a sure way of amassing wealth, without regard to rising income inequality. Consequently, most of our states which depend almost wholly on oil revenue allocations are virtually bankrupt at the moment, going cap in hands for survival. Not only that, development projects in these states are fast becoming a mirage, the workforce is also wallowing in abject poverty as a consequence of non-payment of wages and salaries for a disturbingly long period of time. Indeed, oil money appears to be responsible for the unprecedented corruption that has characterized the Nigerian polity. Suffice it to say that, the Nigerian economy has been so badly infected that a very serious economic renaissance is necessary, not just to get out of the present economic predicament, but to ensure sustainable growth and development thereafter.

The good news is that Nigeria was once a prosperous country without oil, so nothing extraordinary new is required to get rid of the "Dutch Disease Syndrome" and get the economy back on recovery track, and growth trajectory. It is common knowledge that the non-oil sector, especially agriculture, was the fulcrum of economic activities in the 1950s, 1960s and early 1970s. The sector dominated the economy in terms of economic activities, export, revenue and employment generation. All the development strides of the then regional governments were financed from the proceeds of the non-oil economy. However, the discovery of crude petroleum in commercial quantity became both a blessing and a challenge from the mid-1970s. Oil exports brought considerable inflow of foreign exchange receipts but turned the economy to a mono-cultural one, thus making it vulnerable to external shocks. The erstwhile booming non-oil sector was neglected and the hardship the country is passing through today is the price we have to pay. It is not surprising therefore, that, the nation is trying to retrace its path after five decades, to the non-oil sector that once gave it a place of pride in the global economy.

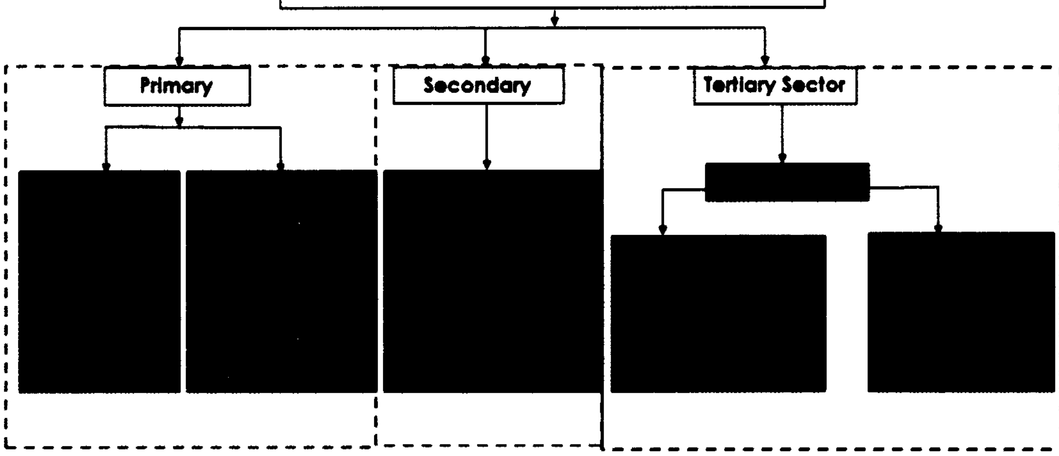
In the wake of a dire need for economic reawakening, the non-oil sector holds the key to the prospective economic revolution that would take the nation out of the present predicament. The potentials of the non-oil sector to turn the economy around through diversification of the nation's revenue base sector provide economic planners the opportunity to formulate policies that would help stimulate activities in the sector. Making conscious and concerted efforts to harness our diverse local resources and promote domestically produced goods and services, while importing less, would reduce the nation's heavy dependence on the oil sector and improve internal competitiveness (Esu & Udonwa, 2015 and Riti et al., 2016).

Sequel to the above, the objective of this paper is to enhance the understanding of the non-oil sector in Nigeria. The underlying need is the emphasis on why the sector should be embraced as the new economic bride, not only by the government, but by all and sundry, to fast-track economic recovery and enhance sustainable growth.

2.0 The Non-oil Sector in Perspective

Generally, an economy of a nation can be divided into sectors based on different criteria. A sector is an area of the economy in which activities share the same or related products or services. Economic activities may be classified into four sectors. Primary Sector (Raw Materials sector made up of agriculture and the mining/quarrying sectors); Secondary Sector (manufacturing and industry); Tertiary Sector (services sector); and Quarternary Sector (knowledge sector). Some analysts merge the knowledge sector into the tertiary sector to have the standard classification (see Figure I). Nigeria adopts the standard classifications for international comparability.

FIGURE 1: CLASSIFICATION OF ECONOMIC ACTIVITIES

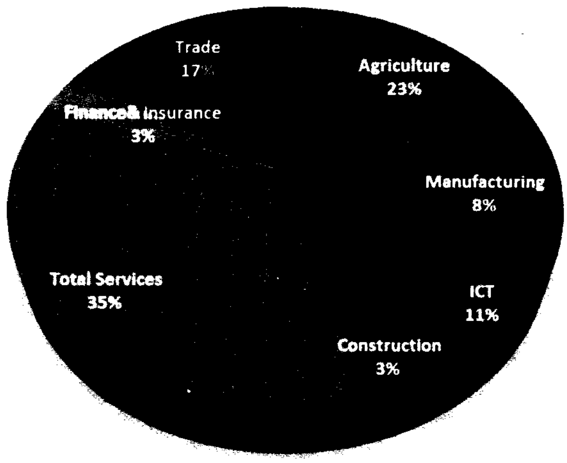


The economy is usually described based on the purpose of the discussion. When we consider the production pattern of the economy, we look at the Oil and Non-oil sectors. The oil sector refers to the oil and gas industry which is further divided into three major sub-sectors: upstream, midstream and downstream. The composition of the non-oil sector is discussed in the next sub-section.

2.1 The Structure of Non-Oil Sector in Nigeria

The non-oil sector comprises of economic activities which are outside the petroleum and gas industry. The hub of the non-oil sector is the real sector, where goods and services are produced through the combined utilization of raw materials and other production factors such as labour, land and capital. It therefore forms the main driving force of any economy, and the engine of economic growth and development. This sector includes, but is not limited to, agriculture, mining and quarrying, manufacturing, construction, trade, transportation and services. 'Services' is an amorphous subsector. It is an aggregation of several mini sectors such as telecommunication, financial, health, education, real estate and tourism. Figure II presents an abridged structure of non-oil sector in relation to their contribution to GDP.

Fig. II: Structure of Non-Oil sector and Contribution to GDP (2010-2015)



Under this structure, the Services subsector leads in terms of its contribution to economic activities. This is followed by agriculture. Even though mining and quarrying are subsets of manufacturing subsector, it accounts for only 9 per cent of economic activities in the non-oil sector. This is a clear manifestation that the varieties of solid minerals which abound in the country in commercial quantities have been left unexplored, or greatly underutilised.

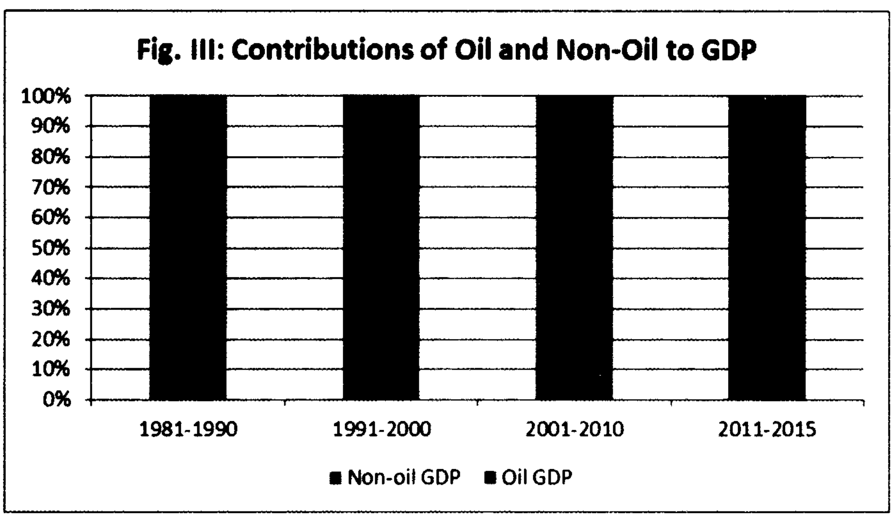
2.2 The Importance of Non-Oil Sector to the Economy

The non-oil sector is the hub of economic activities in modern economies and Nigeria is not an exception. The value chain effect in the sector has great potentials to open up the economy and generate various activities capable of creating jobs and enhancing industrialization (Onwualu, 2012), generating additional revenues and reducing poverty (Ijieh, 2014). Indeed, the capacity of the non-oil sector to sustain Nigeria's economic development is demonstrable. The National Bureau of Statistics (NBS) has consistently identified the sector as the main driver of GDP growth in Nigeria.

2.2.1 Contribution of Non-Oil Sector to GDP Growth

Figure III shows that non-oil sector has consistently contributed more to GDP than the oil sector.

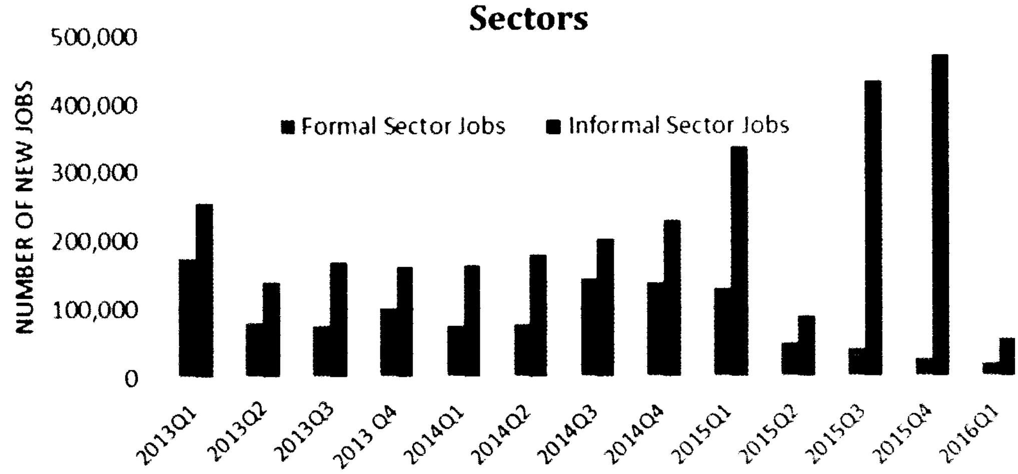
2.2.2 Contribution of Non-Oil Sector to Employment



2.2.2 Contribution of Non-Oil Sector to Jobs Creation

Even though there is no clear statistical separation of employment between the oil and non-oil sectors, it could be inferred from the pattern of job distribution between formal and informal sectors of the economy. The informal sector falls substantially within the realm of non-oil sector. Thus, releases from the NBS, as shown in Figure IV, indicates that, the informal sector accounted for 72 per cent of a total of 4,047,422 jobs created between 2013Q1 and 2016Q1. This tells us that the solution to unemployment lies with the development of the non-oil sector.

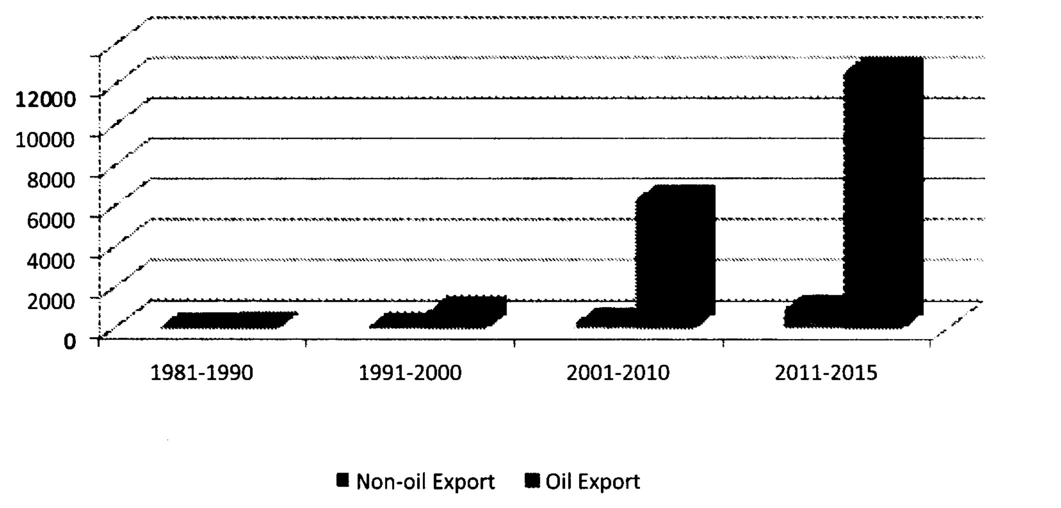
Fig. IV: Job Creation in the Formal and Informal Sectors



2.2.3 Contribution of Non-Oil Sector to Export

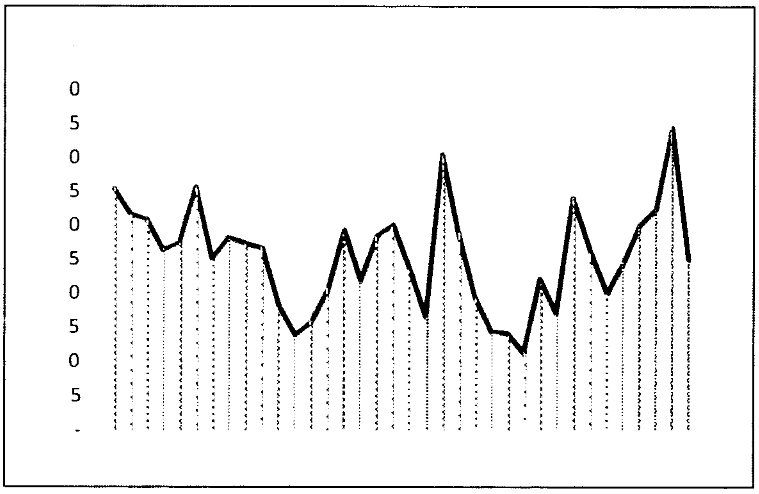
In spite of the gross neglect of the non-oil sector, it has made a modest contribution to export over time. Figure VI reveals that non-oil sector made an average contribution of 5.64 per cent to total export revenue between 1981 and 2015. The diversities and natural resources in the sector have remained grossly unexplored, even though, the sector has the capacity to put the country in the leading league of exporting nations in the African continent.

There is no doubt that expanded exports from the non-oil sector can boost the country's foreign reserves and greatly mitigate our foreign exchange management problem.



2.2.4 Contribution of Non-Oil Sector to Revenue

The non-oil sector contributes to the country's revenue. It could be gleaned from Figure VI that between 1981 and 2015, non-oil contribution to total government revenue was 25.0 per cent. However, the sector's contribution to revenue has improved lately. As of August 2016, non-oil revenue contributed 57.5 per cent to federally-collected revenue.



3. POLICY TO PROMOTE THE NON-OIL SECTOR

3.1 Government

Over the years, the Nigerian Government had put in place several policy measures and incentives aimed at supporting the growth of the non-oil sector. For example, the major plank of Protectionism Policy (1960 to 1986) was import substitution. The aim was to protect infant domestic industries using various forms of non-tariff barriers such as quotas, prohibitions and licensing schemes to limit imports of selected items. Tariff structures during that era were designed to favour the importation of capital goods and raw materials. Trade Liberalization Policy (1986 SAP era) which followed was characterized by policy options such as deregulation, commercialization, privatization and liberalization of the economy, all with the aim of encouraging private sector participation and attaining greater openness to integration with the rest of the world economy. Policy actions put in place included the abolition of marketing boards, the introduction of the Second-Tier Foreign Exchange Market (SFEM), as well as the establishment of the Nigeria Export-Import Bank (NEX1M). The NEX1M aided exporters in obtaining reliable information on the potentials of export markets and assisted in underwriting export risks. The introduction of the Structural Adjustment Programme (SAP) in 1986 boosted private sector participation in the economy, with more reliance on market forces and the price mechanism.

The Export Promotion Policy, as an industrialization strategy, was aimed at achieving greater global competitiveness in the production of processed and manufactured goods by linking industrial activity with primary sector activity, domestic and foreign trade, as well as services. The goal was to move Nigeria beyond selling just raw materials, into more value-added manufacturing activities. There was also the Export Expansion Grant (EEG) Scheme. Under the scheme, grant is given to exporters to moderate the impact of infrastructural deficits faced by Nigerian exporters and make exports competitive in the international market. Other policies included: the Agricultural Transformation Agenda (ATA) which was based on Commodity Value Chain approach and has the Growth Enhancement Support Scheme (GES) as a major plank; and the Nigeria Industrial Revolution Plan (NIRP) introduced to address the impediments to industrialization in the short-term, while highlighting the reforms that must be undertaken to solve longer-term challenges.

All these policies were expected to enhance job creation, diversify the economy and revenue sources, lead to domestic substitution of imports, diversify the export base and broaden the tax base. However, evaluations of the respective policy outcomes have revealed a "very weak and infinitesimal impact of non-oil export in influencing rate of change in level of economic growth in Nigeria" (Onodugo et al., 2013, p.115).

The present economic crisis, which is a confirmation of policy failures, has triggered off the urgency to galvanize a new initiative to reduce our over dependence on oil and diversify the economy. The extant administration's resolve to tackle the situation was encapsulated in President Buhari's message to a delegation of manufacturers in 2015 that "Nigeria must begin to behave as if we have no oil" (Awolowo, 2016). This has buoyed the NEPC's Zero Oil Economic Agenda to build a strong economy for the future.

3.2 CBN intervention Measures

In order to ensure the successful implementation of government policies in the critical subsectors of the non-oil sector, the Central Bank of Nigeria (CBN)) in collaboration with other agencies has come up with some of financing intervention schemes specially designed to support the sector. The highlights of the interventions include: the Agricultural Credit Guarantee Scheme Fund (ACGSF), the Agricultural Credit Support Scheme (ACSS), the N200 Billion Commercial Agricultural Credit Scheme (CACS), and the Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL). Other intervention measures includes Micro, Small and Medium Enterprises Development Fund (MSMEDFs), Anchor Borrowers' Programme (ABP), National Collateral Registry (NCR), Real Sector Support (RSSF), the N300 Billion Small and Medium Enterprises Rediscounting and Refinancing Facility (SMERRF), Nigeria Electricity Market Stabilisation Facility (NEMSF), Power and Airline Intervention Fund (PAIF), Entrepreneurship Development Centres (EDCs), and the Youth Entrepreneurship Development Programme (YEDP).

These programmes were intended to improve access of exporters to concessionary finance to expand and diversify the non-oil export baskets; attract new investments and encourage re-investments in value-added non-oil exports production and non-traditional exports; shore up non-oil export sector productivity and create more jobs; diversify and increase the level of contribution of non-oil exports revenue towards sustainable economic development; and broaden the scope of export financing instruments.

4.0 Challenges

In spite of the articulated policies, and financing schemes designed to boost the non-oil sector over time, the desired objectives have hardly been achieved. The performance of the sector and its contribution to the economic growth of Nigeria has been affected by various issues and challenges over the years, thus limiting its potential. Some of these challenges include the Dutch disease syndrome, infrastructure deficit, over reliance on imports and high cost of funds, among others.

4.1 Infrastructure Deficit

Inadequate and poor quality infrastructure constitutes an enormous challenge to the growth of the non-oil sector and the Nigerian economy in general. Infrastructure is an essential input in the provision of goods and services, and significantly affects the productivity, cost, and competitiveness of any economy. In Nigeria, the development of the non-oil sector has been hampered by huge infrastructure deficits. The adverse effects of infrastructure deficit necessitated private provision of such facilities, thereby increasing production cost and inducing uncompetitive prices for Nigerian goods in both domestic and international markets. For example, power remains one of the greatest infrastructure problems with highest average peak electricity generation of about 5000MW for a population of about 180 million (compared with South Africa's over 45,000MW for a population of barely 60 million). This is grossly inadequate and has made most manufacturing companies to resort to generating their own power which adds to cost. This problem cuts across the entire non-oil sector of the economy.

The huge deficit in transportation infrastructure (roads, rail, sea, and airports) has also constituted a major setback to the development of the non-oil sector in Nigeria. Other kinds of infrastructure such as water supply, healthcare facilities, housing, and municipal waste management and ICT are also in dire deficits, with substantial negative implications for the productivity and competitiveness of the non-oil sector.

4.2 Over Reliance on Imports

Over reliance on imports over the years have militated against the development of the non-oil sector. These imports cut across agricultural and industrial imports substitutes, as well as services like education, healthcare and tourism. This has gradually crowded-out these sectors and constrained their expansion and productivity, further heightening the existing lack of competitiveness of Nigerian manufacturers over time. The dependence on foreign goods and services has been occasioned by weak demand for locally manufactured goods and services due to huge appetite for imports and bias against locally manufactured goods by households and governments. This, in part, is due to the poor coordination of industrial and trade policies leading to uncontrolled importation of cheap and sometimes inferior products into the country. For example, unlike in other climes, existing government laws and policies on leveraging public procurement to patronize locally produced goods are usually not enforced.

4.3 High Cost of Funds

One often cited challenge that has contributed to the low performance of the non-oil sector in Nigeria has been high cost of funds and difficulty in accessing such funding. Bank lending rates are relatively too high to support meaningful non-oil sector investments. The problem is further compounded by short loan cycles, which are not suitable for most small scale producers, and the difficulty in accessing funding without substantial collateral. The reasons for high lending rates in the country are varied. These include, high inflation rates, high cost of doing business, limited alternative financing vehicles to support companies at different points in their life cycle, and high level of government domestic borrowing, which crowds out the private sector, among others.

5.0 Prospects of the Non-Oil Sector

The prospects of the non-oil sector have never been brighter than now, given the plunge in the price of crude oil, which has been the mainstay of the government revenue for over four decades. Given the current state of the oil sector and the urgent need to diversify the economy, the outlook of the Nigerian non-oil sector based on its unexploited potentials are bright. The key areas to focus on in this regard include: the opportunities offered by high cost of imported goods; large domestic market; availability of abundant raw materials; large labour force; and strategic location of the country.

6.0 Conclusion

The indispensability of a robust non-oil sector to the growth, or even survival of any economy cannot be overemphasized. Nigeria gained independence and attained economic importance on a structure of an oil-free economy before it was displaced, and replaced by the oil economy. The illusion of sporadic oil booms eventually diminished efforts to revitalize the non-oil economy, thereby driving the country into a mono-economic structure. As a consequence, all revenue and export sources were tilted to the petro-dollar sector at the expense of the non-oil sector. Even though, several oil doom opportunities akin to the current situation had been experienced in the past, lessons learnt from such oil slumps were always forgotten as soon as the oil economy recovered. However, the difference now is that the present economic outlook does not favour a quick recovery of the oil sector nor its global sustainability. Thus, zero oil initiative is no longer an option, but an obligation, if the economy is to recover and grow sustainably. This would entail a complete reform of the non-oil sector encompassing the entirety of its potentials to take over the role of sustaining economic growth.

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