Nigeria
Country Case Study

Nigeria's Government Promotes Linkages in Oil Sector

Nigeria is highly dependent on the oil sector, which is currently the country's main source of its foreign exchange earnings and, growth although the contributions of non-oil sector to growth has been growing in recent years. From 1980 to 2010, oil revenues contributed an average of 76% of the federal government's revenues. Nigeria's exports are also seriously undiversified, with oil accounting for an average of 97% of exports over the same period. Nonetheless, efforts are being made to improve linkage between the oil sector and other sectors of the economy, albeit with moderate success.

Oil exploration and marketing and distribution are handled by multinational and local companies. Foreign companies, with better technology, dominate oil prospecting and exploration. Shell, which had acquired exploration licenses in the country in 1938, produces about 43% of Nigeria's crude oil. To encourage participation of local firms, the government and the oil companies have established training programs to develop local technology and upgrade skills of the labor force. The Nigerian National Petroleum Corporation manages the government's interests in the country's oil production.

National policy strategies recognize the importance of linkage between the oil sector and the rest of the economy. Past policy efforts to establish linkage included measures to build indigenous firms, develop human capacity, and organize development activities of the oil-rich Niger Delta region. In 2010, the Nigerian Content Policy was enacted to promote local value addition, build local capacity, and improve linkage between the oil and gas industry and other sectors of the Nigerian economy. The outcome of government's efforts to increase local content has been mixed. Minimal success in meeting targets is attributed to the absence of legislation, weak monitoring and supervision capacity by the NNPC, limited capacity of NNPC to carry out independent exploration and production activities, and dissatisfaction in the Niger Delta region.

1970s Ushered in an Export Shift

Before the 1970s, agriculture was the economic mainstay and the primary foreign exchange earner in Nigeria. The country produced and exported cocoa, cotton, palm oil, palm kernel, groundnuts, and rubber. Annual output growth rates of 3%–4% for agricultural and food crops were achieved in the 1950s and 1960s, and government revenues were heavily dependent on taxes on those exports. Between 1970 and 1974, agricultural exports as a percentage of total exports declined from about 43% to slightly over 7% and from the mid-1970s, the average annual growth rate declined by 17%. The major cause of this development was the oil price shocks of the 1970swhich resulted in large receipts of foreign exchange from Nigeria's oil sector and the neglect of agriculture.

Nigeria has since become a net importer of agricultural products, especially rice and edible oil. The transformation from a net exporter of agricultural produce to a large-scale importer of the same commodities was most striking from 1973 to 1982.In 1986, these trends began to reverse. Oil continues to dominate Nigeria's exports but the non-oil share of total exports has improved.

Currently, Nigeria is the world's 4thlargest producer of cocoa, behind Cote d'Ivoire, Ghana, and Indonesia. Cocoa is Nigeria's second-biggest foreign-exchange earner after crude oil, representing about 35%of earnings from non-oil exports. Only about 20% of Nigeria's cocoa output is processed locally; the rest are exported as raw beans. Chocolate, a cocoa-centric product, is heavily imported into Nigeria from Europe and the United States—thus cocoa is grown in Nigeria and packaged and exported for processing into products that are imported.

Three cocoa production factories were set up in southwestern Nigeria in the 1960s and 1970s and most subsequent factories were situated in the western states. Ownership of most of the cocoa processors is private, with no government or nationally owned firm. The processors come together under the umbrella of the Cocoa Processors Association of Nigeria (COPAN). Firms gain access to the cocoa trading network through registration as an exporter with the Nigerian Export Promotion Council (NEPC) and the National Maritime Authority (NMA) in order to be able to load cocoa products into vessels. Each processing factory employs about 200 people and provides up to 1,000 indirect jobs. The industry is targeting employment generation through the creation of at least 365,000 jobs by 2015. Challenges to the industry include high cost and inadequate supplies of cocoa beans to local factories; policy instability, access to funds, low capacity utilization, high energy cost; and high cost of imported machinery spare parts that are not available in Nigeria.

Little Policy Directed at Cocoa Sector

Cocoa processing is not identified as a priority in Nigeria's industrial development agenda, and the government has limited implementation capacity with respect to the incentives on cocoa processing in Nigeria. The exception is the export expansion grant, under which cocoa processors that export their output can benefit. While Nigeria is yet to have a published industrial policy or strategy for local value addition in terms of local content or local processing of cocoa, the export expansion grant is an incentive that can promote upstream and downstream linkages of cocoa processing with other domestic sectors. The policy framework encourages value addition, and most cocoa export processing companies have embarked on forward integration and invested heavily in plant and machinery to add value to indigenous commodities. The forward linkages enhance local consumption of cocoa-based products such as cocoa butter, cocoa cake, cocoa liquor, and cocoa powder. Firms are given an employment quota to be eligible for the export expansion grant, which is another indirect approach to establish local content.

The government has not set forth an industrial skills training program that is relevant to linkages between the cocoa processing industry and other sectors of the Nigerian economy. Cocoa processors on their own have invested in increasing the technological know-how of factory workers through training and education programs to set and maintain high manufacturing practice standards in their factories and further enhances the good reputation of Nigerian products in the world market.