

THE WAVE OF COVID-19 PANDEMIC AND NIGERIA'S OVERDEPENDENCE ON OIL: THE CHALLENGES AND POSSIBLE SOLUTION

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Abstract

Since the discovery of oil in commercial quantities during the 1950s, and the oil boom in the 70s, oil has been the mainstay of the Nigerian economy. It accounts for about 90% of exports and over 80% of total government revenues. There is no doubt that the present global disruption due to covid-19 pandemic has posed a threat to the economy. This study examined Nigeria's overdependence on oil revenue. The objective is to explore the challenges of covid-19 on Nigeria's overdependence on oil revenue and proffer possible solutions. The study undertook an exploratory research using secondary data and relevant literature. The paper suggested some possible solutions that, the short-term focus for Nigeria will be on freeing up fiscal space in transparent and accountable ways, avoiding a downward debt spiral, and ensuring that the recovery is based on a cleaner, more diversified in agriculture, solid minerals and renewable energy for sustainable future growth and development.

Keyword: Challenges, Covid-19, Nigeria, Overdependence, Oil, Pandemic, Solutions

JEL Classification: I 15; I18

1. Introduction

The world has faced unprecedented challenges as a result of covid-19 pandemic with significant negative effects on the society as a whole. The disease has caused enormous economic disruptions into a global recession (Ozili, 2020, cited in Otache 2020). According to Yemisi. (2020). The pandemic has become a world crisis assumed its influence on the whole global population especially in relation of taking substantial human misery and key economic disruption. Nigeria as Africa's major economy, solely depends on oil and about 90% of its export earnings comes from the sale of crude oil. To accumulate more foreign reserves countries struggle to increase the level of their exports holding to the significance of foreign reserves to the growth process of an economy. (Akighir & Kpoghul 2020). Due to the covid-19 pandemic the oil market has collapsed and the Nigeria's economy is tight this resulted in budgets cut down. COVID-19 pandemic primarily upsurges a health crisis and speedily became the worst human and economic crises which increase the national and global security pressures (Basne et al., 2020). Thus, the pandemic has claimed many lives around the world and Nigeria is not an exception thus, as at 3rd December 2020 it shows that, 67,960 cases have been confirmed, 63,839 cases have been discharged and 1,177 deaths have been recorded in 36 states and the Federal Capital Territory. And 122 new cases are reported

from eleven states- Plateau 25, Ekiti 9, Rivers 5, Ogun 5, Kano 1, Edo 4, Kwara 4, Bauchi 1, Kaduna 37, Lagos 29 and Bayelsa 2. (Nigeria Centre for Disease Control (NCDC) report December 2020). Even though, the pandemic crisis stated in Wuhan China in December 2019, since then it spread throughout the Globe. Table 1 reveals the summary of confirmed cases and deaths reported since the outbreak of the Covid-19 pandemic globally as at 3rd December 2020.

Table 1 world-wide covid-19 statistics as of 3rd December 2020

Region	Total Confirmed cases	Total Deaths recorded
Africa	2,202,139	52,576
Asia	15,944,848	275,558
America	27,612,989	739,538
Europe	18,642,956	425,619
Oceania	51,991	1,132
Total	64,454,923	1,494,423

Source: European Centre for Disease Prevention and Control (2020)

Africa: country reporting most deaths is South Africa with (21 709), in **Asia:** country reporting most deaths is India with about (138 648), in **America:** country reporting most deaths is United States with (273 835) and in **Europe:** country reporting most deaths is United Kingdom with about (59 699).

Based on the statistics above the coronavirus has disrupted governance in Nigeria and untold hardship because of the global lock-down. According to Joseph et al (2020), virtually the economic activities of enterprises and organizations in Nigeria has been seriously affected. More troublesome is the fear of infection, customers' loss of revenue, and heightened insecurity which in turn reduces consumption and spending (Ngutsav, 2020). Thus, Covid-19 crisis has affected adversely several sectors of the economy such as manufacturing, sports, agricultural, education, banking, aviation, hospitality and transportation etc. The contemporary fall in oil prices is limiting the ability of Nigeria and other oil producing countries to react to the multidimensional domestic gravities created by coronavirus, at a time when more money is needed to finance service delivery, mitigate health risks and ease macroeconomic pressure (IEA 2020). With the growing odds against Nigeria's monotonous economy that the problems Nigeria faces can be attributed to the fact it focuses on just oil. Possibly the most critical one at this time, is the likely to diversify our foreign exchange earnings as a sovereign state.

Coronavirus pandemic is quite recent, studies that discuss on Nigeria's overdependence on oil the challenges and possible solutions are limited. This paper, therefore, is among the first to discuss the challenges and possible solutions of the Covid-19 pandemic on the Nigeria's overdependence on oil. The article has proposed a number of solutions that can help Nigerian government to cope with the devastating challenges posed by the coronavirus pandemic and related pandemics or economic crises in future as a result of overdependence on oil as major source of government revenue. Undoubtedly, Nigerian government will be

the first recipients of this paper and the governments of other African countries will find this paper useful. Additionally, the paper may contribute to the body of literature.

The main purpose of this paper is to discuss the challenges of covid-19 on Nigeria's economy and identify the possible solutions that can mitigate such challenges. The paper is divided into five sections. Section one is the introductory section is followed by statistics on confirmed cases and deaths as a result of coronavirus in Nigeria and around the world. Section two presents Nigeria's overdependence on oil, section three the challenges arising from over dependence on oil are discussed, Section four proposed solutions and section five present conclusion.

2. Literature review

2.1 Nigeria's over dependence on oil

Nigerian economy is considered to be intricately linked with the oil sector to the level that crude oil receipts account for 90% of total government revenue accruable to the federation account, 95% of foreign exchange earnings, about 15% of the country's Gross Domestic Product (GDP) (14.85 % in the first quarter of the year 2014) and 4% of total employment-thus making Nigeria one of the most oil-dependent economies in the world. (Sampson 2013, cited in Eferakeya 2016). According to Patrick et al (2020), Nigerian economy has completely drifted when compared to other related countries and her natural endowments have also suffered due to over concentration on oil export. However, it is significant that agriculture ranks second; as Nigeria's most important earner of foreign exchange after petroleum, and contributes about thirty eight percent (38%) to Gross Domestic Product (GDP). Oil dependency has put the country in a persistence precarious situation while the economy remained in dire need to boost overall production and aggregate demand.

The labour market is not spared either, as it has remained largely under serious threat while external debt services are still high at unsustainable levels despite the debt relief from Paris club of creditors. In short the fixing of high prices for a barrel of crude oil by Organization of Petroleum Exporting Countries (OPEC) in the international market was a dominant factor that contributed immensely to the transformation of the Nigeria's economy into a mono-oil dependent economy. The unprecedented crisis of Covid-19 pandemic has seriously put the Nigerian government in tight situation as a result of disruption in extraction and exporting crude oil as the main source of its revenues and that leads to budgets cut-down. Thus, these adverse consequences on over reliance on oil revenue has attracted repeated calls for the need to have a relook and strategize in a manner to diversify the economy away from oil towards agriculture and other non-oil revenue earning sectors. Although, available literatures have recorded the determined efforts to diversify the economy by successive government though with little successes, because there is no political will to effectively implement the policies by the successive governments. Thus, the coronavirus pandemic has coursed economic disruption in Nigeria. Below is the summary

of the negative impact as a result of covid-19 pandemic on import of goods and services and Net balance of trade (Net exports) in quarterly bases in Nigeria.

2.2 Imports of Goods and Services

Nominal imports of goods and services rose by 12.44% in Q1 but declined 62.89% in Q2 2020 year on year, to bring half year 2020 growth rate to -26.30%. Quarter on quarter, nominal imports declined -14.05% in Q1 and -65.06% in Q2 compared to -0.26% and 5.88% in the preceding year respectively. (National bureau of Statistic 2020)

2.3 Net Balance of Trade (Net exports)

During Q2 2020, the value of exports surpassed imports, resulting in positive net exports. On a year on year basis, net exports grew by 18.15% in real terms during Q1 but declined -61.12% in Q2, compared to 7.08% in Q1 2019 and 0.01% in Q2 2019. For the first half of 2020, net exports fell by -19.89%, compared to 3.56% in 2019. On a quarter on quarter basis, the net trade balance declined by -69.64% in Q2 compared to 5.95% in Q1 while accounting for 6.72% of aggregate real expenditure in Q2 2020. (National bureau of Statistic 2020).

3. Challenges arising from over dependence on oil

Countries that are net exporters of oil like Nigeria, are experiencing an unprecedented double blow; as a global economic contraction driven by the COVID-19 pandemic and an oil market collapse with the benchmark price for United States crude oil, the West Texas Intermediate, briefly going negative for the first time in history (IEA 2020).

The challenges that arises from the current pandemic crisis is presented below;

1. The dependence of Nigeria on crude oil as a single commodity for exports and revenues renders the commodity extremely vulnerable to market volatility. The sharp fall of the oil prices around the world contracted the government revenues is classified as fragile.
2. The current fall in oil prices is limiting the ability of Nigeria to respond to the multidimensional domestic pressures produced by COVID-19, at a time when more money is needed to finance service delivery, mitigate health risks and ease macroeconomic pressure.
3. Nigeria is often having been found to overspend on consumption and wasteful infrastructure projects while neglecting priority sectors especially health that is deficient and fail to cater to the most vulnerable populations in the current pandemic crisis.
4. At the onset of the COVID-19 crisis, foreign exchange reserves were considered high by historical standards but these are expected to be insufficient to meet the multifaceted demands that developing countries like Nigeria now face (UNCTAD, 2020).
5. As a result, the sharp contraction of financial inflows from the oil sector that many countries are now experiencing has exacerbated existing fragilities by sparking social

unrest like the ENSARS in Nigeria which resulted in to looting of food stuffs in many part of the country. Also increase in unemployment, poverty, kidnapping and arm banditry.

6. Growth in economy has stalled as oil prices fluctuate further shrunk government revenue, negatively affecting growth and profitability in the economy.

4. Possible Solutions

Nigeria entered the covid-19 crisis with already high debt levels and are now experiencing a double blow due to the global economic contraction fuelled by the COVID-19 pandemic and significant decline in oil prices. The way to resolve this age-long and decades of over reliance on oil is to intensify diversification of the economy away from oil and the consideration of other sectors of the economy endowed with vast potentials for revenue generation.

1. Nigeria to diversify towards a cleaner and more sustainable development policies, that will require a carefully calibrated national transition plans that meaningfully accounts for the opportunities and constraints (including in the areas of skills, technology and resources).
2. Maximizing the proceeds of oil sales reverting to national government budgets.
3. Diversification of Agriculture and moving away for oil dependency. Investments in agriculture clearly provide a strategic and competitive means towards implementing the diversification model. The agricultural sector in the country has the capability of creating more employment than any other sector in the economy, generate foreign exchange, provide food and ensure food security, including provision of raw materials for the manufacturing sector.
4. The industrialization sector no doubt would play a significant role in the diversification process and elimination of dependency on oil. The sector is capable not only to convert raw materials from agriculture into semi-and finished goods for internal use and export, it also generates sizeable revenues and employment.
5. The solid mineral sector of the economy has a great role to play in the diversification process and reduction on oil dependency is to be successful. In Nigeria there are diverse mineral deposits across the length and breadth of the country that have remained largely untapped. These resources have great potentials to significantly raise Nigeria's revenue base if they are carefully exploited.

5. Conclusion and Recommendations

The study explored the challenges of Nigeria's overdependence on oil revenue, the situation worsen as a result of Covid-19 pandemic. It is glaring that the long years of dependency on oil revenue was a big mistake that has pervading negative effect on the country economy with little comparable benefits. As a result of this Nigeria must adopt proactive and efficient economic strategies and desirable methods of deploying her

resources. Therefore, the study concludes that the pandemic has negatively affected the economy of the country. Given the above, the study recommend the following so that policy makers may find it useful.

1. Nigeria's short-term focus, should be on freeing up fiscal space in transparent and accountable ways, avoiding a downward debt spiral, and ensuring that the recovery is based on a cleaner and renewable energy for sustainable future growth and development.
2. The government should reopen land borders for all traders and firms, This will help in limiting the inflationary pressures and to develop coordinated border management procedures with neighboring countries.
3. The government should diversify into other sectors such as the solid mineral sector of the economy. This has a great role to play in the reduction on oil dependency. There are diverse mineral deposits across the length and breadth of the country that have remained largely untapped. These resources have great potentials to significantly raise Nigeria's revenue base if they are carefully exploited.
4. Investments in agriculture. This can provide a strategic and competitive means towards implementing the diversification model. The agricultural sector in the country has the capability of creating more employment than any other sector in the economy, generate foreign exchange, provide food and ensure food security, including provision of raw materials for the manufacturing sector and also attract (FDI).
5. The government should focus on the manufacturing sector in its economic diversification drive (EDD). In this regard, the government should invest immensely in the sector. Apart from assisting the manufacturers financially, the government needs to invest in infrastructures such as electricity and road construction.
6. Nigeria should invest in the health sector and that would help position the country to cope with similar pandemics in future because the present pandemic has exposed the poor nature of health facilities in the country.

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