verraki
Business Solutions for Africa

Q1: 2022 GDP
Five bold ideas for **macroeconomic revitalisation**

7mins
READ

The **SODDI** Approach

Security

Oil production

Diaspora remittances

Digital entrepreneurship

Incentives for Agric, Trade, ICT

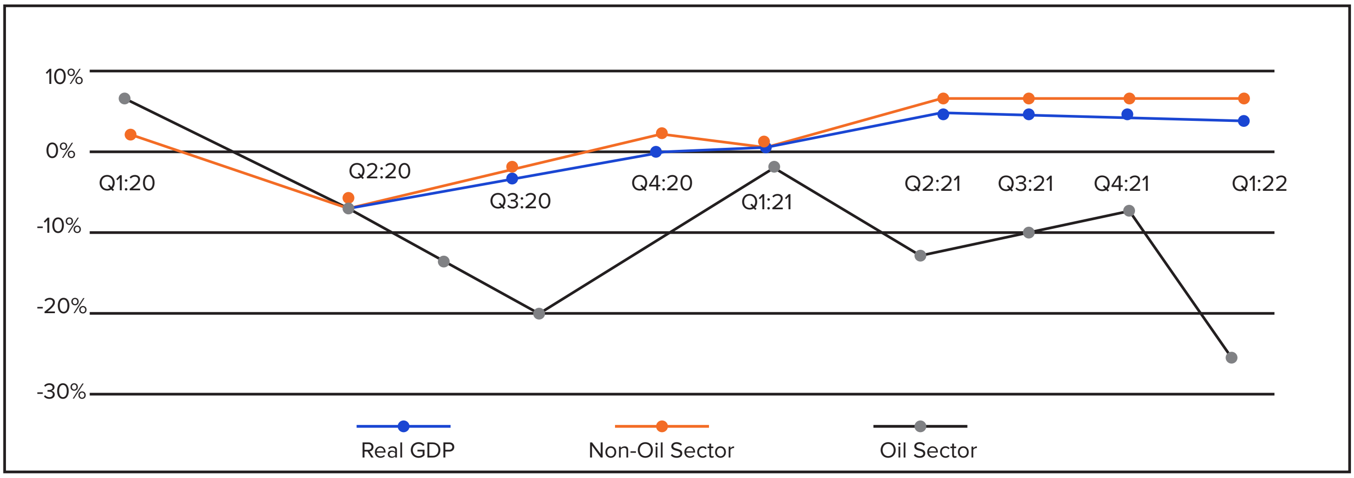
Highlights:

- The Nigerian real GDP grew by 3.11% year-on-year in Q1:2022. This was the sixth consecutive quarterly growth since the country exited recession in Q4:2020. We believe Nigeria needs to achieve and sustain a minimum of 5% y/y real GDP growth for at least five years to revitalise the production and consumption drivers of the economy.
- To revitalise growth, a complete overhaul of the country's security architecture is pertinent and urgent. National security plays a central role in economic growth, particularly through foreign investment and trade linkages.
- The recent scale of crude oil theft in Nigeria is unprecedented and has worsened the country's fragile fiscal position. Government must urgently deal with this economic sabotage. Community engagement and smart pipeline monitoring system should be deployed to monitor real time distribution activities along the country's crude oil pipeline network.
- Digital entrepreneurship, diaspora remittances and right incentives for Agriculture, ICT and Trade are some growth enablers that could catalyse growth if properly utilised.
- When the GDP is growing, especially in a non-inflationary environment, businesses and consumers are generally better off than when it is not. This is the desired future state.

The Gross Domestic Product (GDP) is perhaps one of the most commonly observed macro-economic variables globally. It has become widely used as a reference point for the health of any economy and measures the monetary value of final goods and services produced within the borders of a country in a given period of time (say a quarter or a year). GDP is important because it gives useful information about the size of an economy and how it has performed within a time period. When GDP is growing, especially if inflation is not a problem, businesses and consumers are generally better off than when it is not. Unfortunately, the GDP does not measure the overall standard of living or well-being of a country. Indices such as Human Development Index, Genuine Progress Indicator and the Gross National Happiness Index may be more instructive.

The Nigerian real GDP grew by 3.11% year-on-year (y/y) in Q1:2022, according to a recent publication of the National Bureau of Statistics (NBS). This was the sixth consecutive quarterly growth since the country exited recession in Q4:2020. The reported GDP growth is significantly better when compared to the 0.51% growth recorded in Q1:2021; but shy of the 3.98% recorded in Q4:2021. The real GDP growth has been on a declining trend; from a peak of 5.01% in Q2:2021, 3.98% in Q4;2021 and 3.11% in Q1:2022. On a quarter-on-quarter (q/q) basis, real GDP compressed by 14.66% in the quarter. This is a reflection of the elevated weaknesses in both the production and consumption segments of the economy. The oil sector (which contributes 6.63% to the GDP) declined by 26.04% y/y, whilst the non-oil sector (which contributes 93.37% to the GDP) grew only by 6.08%, driven by activities in the ICT, Trade, Finance and Insurance and Manufacturing sectors.

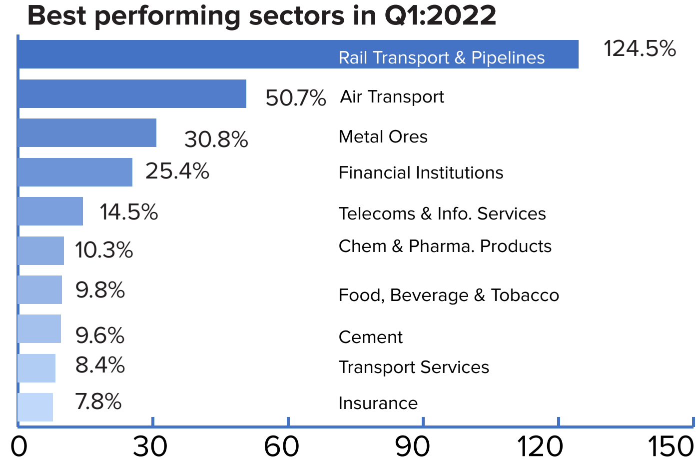
Real GDP Growth Trend (Q1:2020 - Q1-2022)



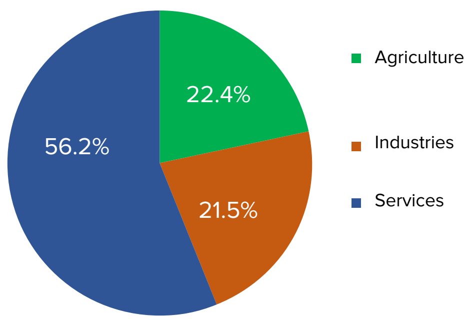
Source: NBS 2022

Growth of a few economic sectors was impressive in Q1:2022. The Finance and Insurance Sector (contributes 4.51% to the GDP) recorded a 23.24% real y/y growth. The ICT sector (contributes 16.20% to the GDP) recorded 12.07% real y/y growth, 5.6% above the rate recorded in Q1:2021 and 9.09% decline q/q. The growth rate of the Trade sector (contributes 16.13% to the GDP) stood at 6.54% y/y and 5.64% decline q/q, whilst Agriculture (contributes 22.36% to the GDP) grew by 3.26% y/y, but declined by 28.9% q/q. Events that have shaped output performance in Q1:2022 included positive developments in the ICT and financial services sectors, relaxation of pandemic restrictions, escalating insecurity across the country, chronic foreign exchange scarcity and troubling inflation.

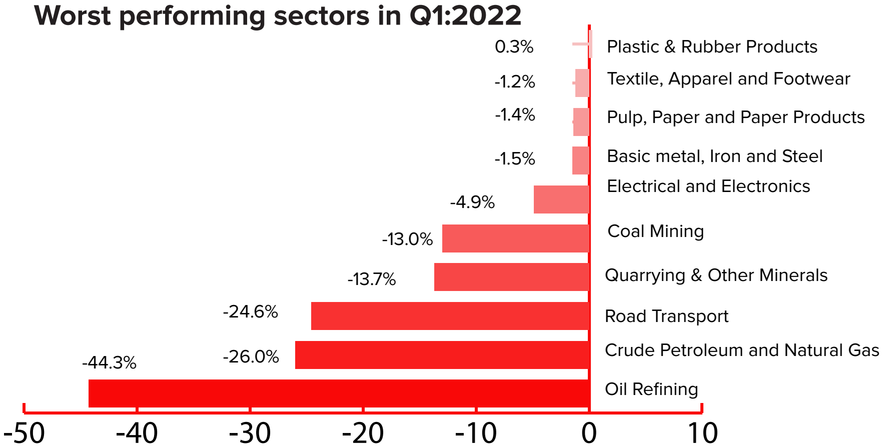
Best performing sectors in Q1:2022



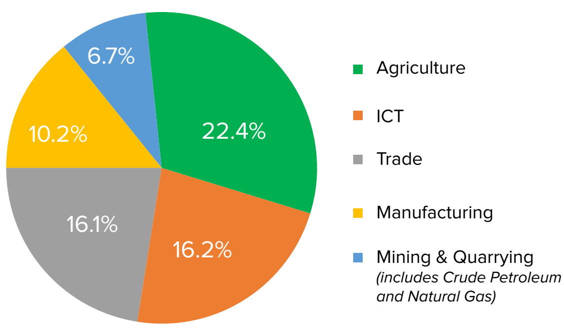
Contribution to GDP (1)



Worst performing sectors in Q1:2022



Contribution to GDP (2)



Source: NBS 2022

The International Monetary Fund (IMF) recently revised its 2022 growth forecast for the Nigerian economy upward to 3.4% (from its earlier projection of 2.7% announced in January 2022), citing increased policy support, rebounding oil prices and international financial assistance as major drivers. Whilst the IMF's estimates appear bullish relative to World Bank's 2.8% forecast, a look at growth expectations in ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) suggests that Nigeria needs to attain higher, self-generating growth.

Real GDP growth in ASEAN-5 economies											
Nigeria		Indonesia		Malaysia		Philippines		Singapore		Thailand	
FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022
3.4%	**3.1%**	**3.7%**	**5.4%**	**3.1%**	**5.6%**	**5.6%**	**6.4%**	**7.6%**	**4.0%**	**1.5%**	**3.3%**

Source: IMF, April 2022

We believe Nigeria need to achieve and sustain a 5% y/y real GDP growth for a period of at least five years to revitalise the production and consumption drivers of the economy. To achieve this, the country would require some new approaches to solving known pressing challenges. We have synthesized top five ideas that we believe could create some heavy lifting. These ideas are captured under the acronym SODDI: Security, Oil production, Disapora remittances, Digital entrepreneurship, and Incentives for Agric, Trade, ICT.

Fight and win the war against insecurity

Perhaps the most important and seemingly urgent issue to be addressed by the government is insecurity. Persistent security threats hamper investments, production, output and consumption across all sectors, and constitute a huge drag on GDP growth. The government must display strong leadership, political will and might; and communicate a game-changing, all-inclusive security strategy to the markets. An immediate to-do may entail an independent nationwide threat assessment, to determine the overall threat landscape, root causes, the actors, weaknesses, gaps and strengths. A comprehensive rejig of the country's security architecture, institutions and infrastructure is of utmost importance. The government must then demand accountability from the security agencies, political actors, community influencers and ethno-religious leaders; and must not fail to apply the rule of law where compromises are established. National security plays a central role in economic growth and development particularly through foreign investment and trade linkages. A secured Nigeria could reverse the declining trend of the Foreign Direct Investment net inflows (as a % of GDP) from the current 0.6% to a recent (2009) peak of 2.9%, which could translate to an extra $10billion to the GDP.

Immediately address oil theft and build reserves

Nigeria's dependence on the oil and gas sector is deep-rooted. The sector accounts for three-quarters (75.4% in 2020) of the country's total exports, and over 90% of foreign exchange earnings. Despite the 157% increase in crude oil price in Q1:2022, real growth of the oil sector was –26.04%, the 8th consecutive y/y quarterly decline. The oil sector now contributes 6.63% to the real GDP, compared to 9.5% in Q1:2020. Crude oil theft in Nigeria has risen to an unprecedented peak, described by stakeholders as an organised crime and a national disaster. It is estimated that the country lost about $3.2 billion in crude oil theft between January 2021 and February 2022. Activities of vandals and bunkerers have resulted to loss of over 80% of the daily oil production injected through major oil pipeline system. This is a national emergency which the government must immediately address. A multi stakeholder session comprising of the Nigerian National Petroleum Corporation (NNPC), Nigeria Upstream Petroleum Regulatory Commission (NUPRC), multinational and national oil companies and security agencies is pertinent to consider and propose best approach to ending this menace. Part of the solution must entail robust engagement with community leaders and reliable pipeline evacuations through a smart pipeline monitoring system to monitor real time distribution activities along the country's pipeline network.

Internal refinery and distribution capacity must also be strengthened to reduce FX spending on fuel importation and plug leakages. CBN estimates that fuel import accounts for about 24% of our annual import bill (2021 estimates) and depleting the country's FX reserves.

Incentivise Agriculture, ICT and Trade

Agriculture, ICT and Trade collectively accounts for 57.3% of Nigeria's GDP, remain the largest employer of labour, and the country's regional competitive advantage. Agriculture and Trade employs 35% and 25% of the Nigerian labour force respectively, whilst the ICT sector is strategically positioned as an enabler of innovation and growth across virtually all sectors. In addition to processing zones, it is high time the country implemented a wholistic value chain-based agriculture incentive programme that creates functional linkages between smallholder farmers, agrictech start-ups, research institutes, international funders and large agricultural conglomerates. To complement the current presidential fertiliser initiatives, the country must begin to gravitate away from subsistence agriculture and this may not be realised without the right land tenure system, policy support, funding, infrastructure and access to markets. Wholesale and retail trade is a strategic value creator given the demographics of Nigeria. Government must ease the institutional and market frictions (transport, maritime logistics, levies, taxes, etc.) that exist in the retail distribution chain in Nigeria. The recent exit of some multinational retailers from Nigeria offers a pivotal learning point for immediate policy intervention. On the ICT front, broadband appears the most promising intervention area given its correlation with digital economy and growth. According to a World Bank report, a 10% increase in broadband penetration levels in developing countries is estimated to lead to 1.38% GDP growth. The country must ensure religious implementation of initiatives that will ensure the achievement of the 90% broadband penetration targets (March 2022: 42%) set in the new National Broadband Plan (2020-2025).

Leverage diaspora remittances to grow forex inflows

Nigeria ranks 8th globally and first in Sub Sahara Africa in terms of diaspora remittance inflows. The World Bank's Migration and Development Brief 36 estimates that annual remittances to Nigeria increased 11.2% in 2021 to $19.2 billion. This is 4.4% of the country's GDP, 47% of the national (2022) budget and the second-largest source of foreign exchange inflow into the country, second only to crude oil earnings. Remittances to Nigeria is expected to remain on the increase, given the growing number of Nigerians in the Diaspora (particularly recent migrations to the UK, USA and Canada), and the anticipated economic stability of these economies. In the face of declining revenue from oil and non-oil exports, remittances can be leveraged to stimulate foreign currency supplies in the country. The CBN must collaborate with International Money Transfer Operators (IMTOs) to develop a roadmap that will increase inflow and reduce the cost of remittances to Nigeria to below 5% in the mid-term.

The average transaction cost of remittances to Nigeria is estimated at 7.1% in 2021 by the World Bank (Malaysia: 4.8%, Egypt: 4.9%). Widening gap between official and non-official rates is a disincentive to FX inflows through official channels and so the CBN must continue to review policy options to reduce the gap and incentivise inflows including the Naira for dollar scheme (N5 for every $1 remitted), and the CBN RT200 rebate scheme for non-oil exporters.

The country must also leverage the successes of the foreign investments in Fintechs and the recently introduced diaspora bond to mobilise more foreign currency investments into the country. Nigeria's first $300 million diaspora bond was issued in 2017 (maturing June 2022), and was oversubscribed by 130%. The trio of the Nigerians in Diaspora Commission (NiDCOM), the Ministry of Foreign Affairs (MFA), and the CBN need to strategize a policy framework that will facilitate growth of diaspora remittances and investment inflows as major contributors to national development.

Promote digital entrepreneurship

The jobs and wealth of the future will be driven by the digital economy. According to estimates from the African Development Bank, every $1 invested in ICT yields $20 in GDP growth. Nigeria is strategically placed to lead digital entrepreneurship in Africa, with positive implications for jobs, foreign direct investments, productivity, and innovation across all sectors. The digital entrepreneurship ecosystem in the country is rapidly evolving and calls for urgent government intervention to chart a sustainable growth path. Digital entrepreneurs require funding, and a conducive business environment to experiment and thrive, devoid of bureaucratic bottlenecks, epileptic infrastructure, policy ambiguities, multiple taxations, and levies, etc. Deliberate efforts must be made to create appropriate supporting ecosystems, trade facilitation, access to market, logistics and to address existing social-economic barriers. Government must deliberately nurture and protect early-stage digital start-ups through the institution of digital incubators, accelerators, and early-stage funding programs that will help to improve their competitiveness, attract investment, create jobs, and grow markets. With our youthful demographic and rising youth unemployment which is projected to be 53% in 2022, digital entrepreneurship presents an opportunity to turn a crisis into an advantage and to create talents and consumers that will fuel growth of the economy.

The International Monetary Fund (IMF) forecasts that real GDP growth for Nigeria will be 3.4% and 3.1% respectively for 2022 and 2023. The World Bank expects the country's fiscal deficit to reach 5.7% of GDP by end-2021, its highest level in over a decade. More than ever before, Nigeria needs to achieve and sustain an inclusive real GDP growth in the excess of 5% for at least 5 years. There are some urgent bold steps the government must take to rekindle hope and encourage other economic actors to help create this desired growth and future. Insecurity is the biggest of all challenges that must be addressed by the government, using all possible means. Similarly, crude oil theft is a major culprit for the current weak fiscal position and must be addressed wholistically. Some other low hanging growth enablers that must be explored include digital entrepreneurship, diaspora remittances and right incentives for Agriculture, ICT and Trade.

Verraki's Advisory Practice provides digitally transformative services to the African market, leading the charge to deliver cutting-edge innovation solutions to organisations – unleashing their growth potential. Talk to one of our experts today to learn more.

Authors

Olaniyi Yusuf
Managing Partner
olaniyi.yusuf@verraki.com

Niyi is the Managing Partner at Verraki and leads the Social Sector practice. He served as the Country Managing Director for Accenture in Nigeria and was responsible for all aspects of the firm's strategy, team and operations. Niyi holds a combined honours degree in Computer Science and Economics from Obafemi Awolowo University and worked at Accenture, Arthur Andersen and JKK in a career spanning over 30 years. Niyi has played critical roles in the establishment of industry infrastructure for the Nigerian banking industry including establishment of Interswitch, CRC Credit Bureau and Shared Service platforms.

Chigozie Muogbo
Research Lead
chigozie.muogbo@verraki.com

Chigozie leads the Research and Intelligence function at Verraki. He is an economist and business analyst with over a decade experience in economic research, investment research and market intelligence within the Nigerian financial services sector, cutting across reputable organizations such as Afrinvest, Access Bank and UBA Plc. Chigozie holds a BSc in Economics (first class honours) from Obafemi Awolowo University, MSc in Economics from University of Lagos, and an MPhil in Development Finance (distinction) from University of Stellenbosch Business School.

About Verraki

Verraki is a proudly African company partnering with enterprises and governments to accelerate the development and transformation of Africa by providing business solutions designed for Africa. We build and implement technology solutions for seemingly intractable challenges, provide advisory services to drive the capacity and motivation for change, and curate innovative ventures to unlock new sources of growth across our continent.

A fusion of two words: 'Versorium' (Latin for Turn Around) and 'Meraki' (Greek word used to describe the action of doing something with soul, creativity, pouring oneself into a task), Verraki aptly captures the essence of our company; to turn around African enterprises and governments via smart, future-focused solutions and business insights, new growth opportunities, helping to unleash their potential, turnaround their performance and achieve the seemingly impossible, with the sole goal of creating a better future for Africa.

We are committed to enabling the African (start-up) story by supporting high-impact socially-conscious entrepreneurs and catalysing self-sustaining enterprises and governments within the continent to deliver affordable services across critical sectors.

Our Growth Optimisation Offering

The contemporary business environment is dramatically different from what it was ten years ago, and it continues to evolve at an increasing rate. Consumer trends, macroeconomic shifts, technological advances, changing competitive dynamics, climate change, supply chain disruptions, digitalisation and pandemics are accelerating the pace of change, leaving many businesses struggling to grow amidst the turbulence.

At Verraki, we understand client needs and provide innovative new approaches that help enterprises and governments to explore new market opportunities including expansion into new regions, identification of new channels, targeting of new customer segments, or even the creation of new product categories in a way that moves them from "surviving" to "thriving." Verraki develops and delivers the practical tools, frameworks, and organizational capabilities required to gain competitive advantage, and achieve sustainable growth, utilising customer insights, big data, and proprietary knowledge to achieve a deeper understanding of demand, customers, competitors, and opportunities.

Our seasoned executives and team have a broad range of multibillion-dollar P&L experience delivering long-term growth and optimisation vision, strategies, and management at global Fortune 500 companies.

Important Disclaimer

verraki

Business Solutions for Africa

Contact

OFFICE ADDRESS
4th Floor, Mansard Place,
Plot 927/928 Bishop Aboyade Cole Street,
Victoria Island, Lagos, Nigeria.

NUMBER
+234 (1) 453 7151,
0901-VERRAKI

EMAIL
info@verraki.africa

WEBSITE
www.verraki.africa

verraki
Business Solutions for Africa