

## NIGERIA'S SERVICES ECONOMY: THE ENGINE FOR FUTURE GROWTH

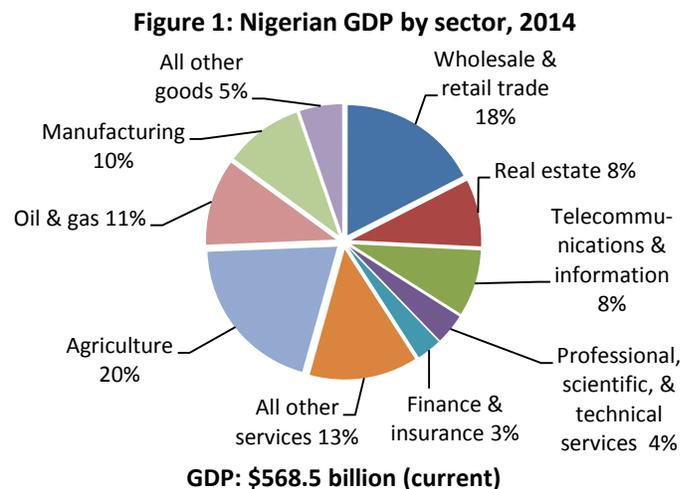
Erick Oh, Office of Industries

[erick.oh@usitc.gov](mailto:erick.oh@usitc.gov), (202) 205-3033

The Nigerian services sector has shown impressive gains amid tough economic circumstances. This program has been spearheaded by a number of services industries: retail and wholesale trade, telecommunications, banking, and motion pictures ("Nollywood").<sup>1</sup> Spurred by favorable government policies and increased foreign direct investment (FDI), growth in these industries has helped to diversify Nigeria's economy, which a major statistical rebasing three years ago revealed to be the largest in sub-Saharan Africa (SSA).<sup>2</sup>

### Estimates of the services sector's share of Nigerian output have increased following rebasing

- Services accounted for 54.8% of Nigeria's rebased gross domestic product (GDP) in 2014, up from 53.0% in 2013 and almost double the 28.7% recorded in 2009 (pre-rebasing). The country's economy has traditionally been dominated by oil and gas production (about 30–40% of pre-rebased GDP), but the rebasing revealed major growth in the services sector—including in telecommunications, banking, Nollywood, and the informal economy (which was previously unaccounted for in official statistics).
- Services industries that contributed large shares of Nigerian GDP in 2014 include wholesale and retail trade (17.6%), real estate (8.4%), and telecommunications and information services (8.3%) (figure 1).
- In 2014, Nigeria exported about \$1.5 billion in commercial services, while importing about \$22.5 billion, incurring a total services trade deficit of nearly \$21.0 billion. Transportation services accounted for the largest shares of both Nigerian exports and imports of commercial services in 2014, likely due to the oil and gas sector's needs.
- Nigeria is one of the most open services markets in Africa, receiving an overall score of 27.1 (virtually open)<sup>3</sup> on the Services Trade Restrictions Index (STRI) published by the World Bank even though it ranks very poorly in terms of infrastructure and ease of doing business.<sup>4</sup>



Sources: National Bureau of Statistics Nigeria; World Bank.

### Focus on reform has attracted increased foreign investment

- As part of its 2011–15 Transformation Agenda, the Nigerian government addressed chronic infrastructure constraints that have inhibited private sector growth.<sup>5</sup> The government sought to grow the value of Nigeria's core infrastructure stock from 35–40% of GDP in 2013 to 70% by 2043. Funding for this effort (about \$2.9 trillion over the next 30 years) will come from both federal budget increases and expanded public-private partnerships (PPPs). Several major PPPs are already being co-financed by China's Export-Import Bank.

<sup>1</sup> See the USITC's October 2014 Executive Briefing on Trade (EBoT), "[Nigeria's Film Industry: Nollywood Looks to Expand Globally.](#)" Nollywood accounted for approximately 1.1% of Nigeria's GDP in 2014.

<sup>2</sup> In April 2014, Nigeria's National Bureau of Statistics rebased its GDP calculation to the year 2010. The International Monetary Fund's standard practice is to update GDP numbers every five years to reflect changes in pricing patterns and an economy's structure, but Nigeria's GDP numbers had not been updated since 1990. As a result of rebasing, Nigeria became ranked as SSA's largest economy, surpassing South Africa.

<sup>3</sup> STRI scores compiled by the World Bank range from 1 (open without restrictions) to 100 (completely closed).

<sup>4</sup> For more information, see the USITC's July 2015 EBoT, "[World Bank Indicators Suggest that SSA Countries Are Open to Services Trade.](#)"

<sup>5</sup> Nigeria is ranked 133rd of 140 countries in terms of infrastructure in the World Economic Forum's *Global Competitiveness Report 2015–16* and 169th out of 183 economies in the World Bank's 2016 "Ease of Doing Business" index.

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- With hopes of expanding generation capacity, Nigeria has also initiated one of world's most extensive privatization efforts in the power sector—requiring about \$50 billion of investment capital by 2019.
- These infrastructure reform efforts and Nigeria's large consumer market have made the country very attractive to foreign investment. Nigeria was the continent's largest recipient of private inward FDI (\$7.1 billion in 2012, the latest year available), with the services sector accounting for about half of all new projects since 2009.

## Nigerian services industries are expected to drive future growth

### Retail and wholesale trade

- Retail and wholesale trade accounted for about 17.4% of Nigeria's GDP in 2014 and increased by an average annual rate of 7.7% between 2010 and 2013.<sup>6</sup> Informal markets remain the primary outlets for most products in West Africa, generally geared toward lower-income segments. As a result, formal retailing is still nascent in Nigeria, accounting for roughly 5% of the entire market. Moreover, local middlemen and petty traders make up a significant share of the wholesale market (about 40%).
- According to A.T. Kearney's 2015 African Retail Development Index, Nigeria is the fourth most attractive investment market for retailers in SSA, largely based on its volume of consumers and its growing middle class. (It is estimated that 35 million households will earn over \$7,500 per year by 2030.) Nigeria has attracted a wide range of foreign investors, including South Africa's Shoprite, the continent's largest supermarket chain, and U.S.-based KFC, which arrived in 2009. Nigeria has also become an important market for luxury goods retailers (e.g., Porsche, Hugo Boss). As acquiring land is reportedly the main obstacle to retail growth in Nigeria, some investors repurpose existing structures rather than navigate the many steps involved in opening a new space.
- Homegrown online retailing has also begun to take hold, with Jumia.com and Konga.com (which offer services similar to Amazon.com) leading the way. Notably, these domestic companies allow for cash-on-delivery payment, which caters to the still largely cash-based consumer base in Nigeria.

### Telecommunications

- Telecommunications accounted for about 8.5% of Nigeria's GDP in 2014, up from about 7.6% in 2013, and 1.1% in 2003. Over the past decade, Nigeria has become the largest telecom market in Africa,<sup>7</sup> with 140.8 million active telecom subscribers at the end of 2015 (up from 95.8 million at the end of 2011). Mobile phone subscriptions in 2015 accounted for 99.87% of the Nigerian market.
- The telecom industry also accounts for a considerable amount of FDI. Between 2001 and 2011, cumulative FDI into Nigeria's telecom sector was about \$15.8 billion, representing 35% of total inward private FDI during that period.
- Three of the four companies that dominate the Nigerian mobile market are foreign based. MTN (South Africa) accounts for about 44% of total mobile subscriptions, followed by Nigeria-based Globacom (21%), India-based Airtel (20%), and UAE-based Etisalat (15%).

### Banking

- The Nigerian financial sector, severely fragmented in the past, experienced significant consolidation and growth after reforms were introduced following the global economic crisis of 2008–09. The sector grew at an average annual rate of 18.6% during 2010–13, second only to Nollywood during that period (23.1%), and has become West Africa's largest banking market. Further, as only about 20% of the Nigerian population has bank accounts, both foreign and local investors see a vast, largely untapped market.
- Financial reforms have produced a financial landscape characterized by large and strong banks, an efficient payments system, and improved financial infrastructure. Nigeria-based banks such as Guaranty Trust Bank, United Bank for Africa, and Zenith Bank, among others, have a strong presence across the continent.
- Encouraging financial inclusion for the millions of unbanked low-income and informal earners has become a major priority for many Nigerian banks. Not only does this allow banks to diversify risk (largely concentrated to support oil and gas), but it also mitigates the high cost of operating primarily through cash transactions.

Sources: A.T. Kearney; African Development Bank; Donnelly, "Oil, Gas Play Second Fiddle to Nigeria's Services Sector," April 7, 2014; *Economist*, "How Nigeria's Economy Grew by 89% Overnight," April 7, 2014; Friedman, "How Nigeria Became Africa's Largest Economy Overnight," April 4, 2014; McKinsey; National Bureau of Statistics Nigeria; Oxford Business Group; World Bank; World Economic Forum; World Trade Organization.

<sup>6</sup> GDP percentages for retail and wholesale trade and telecom are slightly different from figure 1 due to the use of a third source.

<sup>7</sup> Nigeria is also the largest Internet market in Africa by volume, ranking 8th out of the UN's 212 member countries in 2014.

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