The Oil Price Fall and the Impact on the Nigerian Economy:A Call for Diversification

Obasi Noble Ogochukwu
Associate Counsel; Dare Bejide and Co Chambers No 12 Ajilosun Street, Ado Ekiti, Ekiti State.Nigeria

Abstract
The impact of the oil price fall is felt all over the world and affected the world's financial market. Nigeria miraculous financial survival during the financial crisis was due to the dependence on the protection offered by its huge and enormous oil resources which was the source of its major wealth for foreign exchange earnings and revenue.[1] This came at a time when the oil price was lucrative at the international market, as against subprime mortgages which some countries largely engaged upon on which led to the financial burst. Conversely, the non-diversification of the Nigeria economy was also a reason while the aftermath of the financial crisis touched the Nigeria banking sector. In this recent time of falling oil prices, the impact is felt on the Nigerian economy through inflation, job loss and Naira depreciation. This is because; Nigeria is a mono economy, dependent on oil importation and exportation for its survival. Therefore, the oil price fall calls for an inward looking into the Nigerian economy and the need to shore up the non-oil sector to boost exportation of Nigerian products. In lieu of this, this article recommends diversification to some identified key sectors in the economy to prevent the economy from taking the hit caused by the falling oil price as a way forward, and a rigorous and holistic improvement in those sectors.
Keywords: Oil price fall, Banks, Economy, Financial crisis, Diversification, Economic policy

Introduction

The oil sector is a key sector in the Nigerian economy. This is because; the revenue from oil is the major growth factor in the Nigerian economy. Resources generated from it, fund virtually all capital expenditures in the Nigerian system. The oil sector is closely linked with the financial sector, because the financial sector in every country is the oil which fuels the economy of such country and the bedrock for the sustenance and continuity of the sovereignty of a country. The impact of the oil price fall is disastrous on the Nigerian economic system; consumers are feeling the hit through escalating price of goods and commodities, massive sack of workers in the labor force among others. Therefore, there is a need for the Nigeria state to look inwards amidst the abundance of its untapped natural resources to diversify the economy of the nation, and increase export with a view to checkmating the insidious impact of the oil price fall on the economy.

Literature Review

Recently, the world has yet witnessed a huge financial turnaround as the price for oil has nosedived. Olomola, [2] investigated the impact of oil price shocks on aggregate economic activity in Nigeria using quarterly data from 1970 to 2003, he discovered that contrary to previous empirical findings, oil price shocks do not affect output and inflation in Nigeria significantly. However oil price shocks were found to significantly influence the exchange rate. Habib and Kalamova, [3] also investigated the effect of oil price on the real exchange rate of three countries namely; Norway, Saudi Arabia and Russia. In case of Russia, a positive long run relationship was found between oil price and exchange rate and no impact of oil price on exchange rate was found for Norway and Saudi Arabia. Aliyu and Usman,[4] and Ricken, [5] believe that this is due to lack of strong institutions and total dependency on oil exports. Aliyu and Usman,[6] recommend larger divergence of the economy through the investment in top prolific sector to reduce the adverse effect of oil price shocks and the exchange rate volatility.
Be that as it may, the steady decline of oil price is affecting the Nigerian economy, leading to massive retrenchment of workers in the private sectors, nonpayment of salaries by state governments, inflation, high cost

---

[1] The Impact of the global financial crisis on Nigeria economy. Proshare Intelligent Investing, of November 28, 2013. http://www.proshareng.com/news/Nigeria%20Economy/The-Impact-of-the-Global-Financial-Crisis-on-the-Nigerian-Economy/21641. Assessed on the 21 st January 2016.
[2] Olomola, A, (2006). Oil Price Shock and Aggregate Economic Activity in Nigeria, African Economic and Business Review. Vol.4: 2, ISSN 1109-5609 .
[3] Habib, M., and Kalamova, M. (2007). Are There Oil Currencies? The Real Exchange Rate of Oil Exporting Countries, In European Central Bank. Working Paper 839.
[4] Aliyu, S., and Usman, R. (2009). Impact of Oil Price Shock and Exchange Rate Volatility on Economic Growth in Nigeria: An Empirical Investigation, Journal of International Studies .Issue 11, pp4-15.
[5] Ricken, J. (2009). Oil Price and Real Exchange Rate Volatility in Oil-Exporting Economies: The Role of Governance, IFN Working Research paper No. 810.
[6] Ibid 4, pg. 4-15.

of living, less money going into the foreign reserve, depletion of the excess crude oil account and high exchange rate (Adeoye and Atanda).[1] According to Sanusi,[2] the Nigeria reference crude, bonny light crude oil spot price FOB which was $95.16 per barrel in January 2008, rose to $146.15 per barrel in July 2008 before declining to $76.15 dollars per barrel by October 17 2008. This price trend has been unstable, in recent time, as at the 20 th January 2016; the oil is sold at the parallel market for less than $28 per barrel,[3] against the above $146.15 per barrel in the hay days of the oil boom. (A barrel of oil equals 200 liters). This dwindling oil price has made oil as a commodity so unattractive, if this recession trend is unchecked; it will have a rancorous impact on the economy because of its reliance on the oil product, for expenditures (Ogundipe M Oluwatomisin et all),[4] as it will portend yet another financial and economic recession for the Nigerian economy.

According to Umanhonlen and Lawani, [5] the pain of lack of adequate enforcement of existing regulations by the financial regulators is the harmful effect the oil crisis is causing the Nigerian economy. This is because; a strong financial institution in a country, is the fulcrum of such country's development. This article explored the impact of the oil price fall on the economy; it also outlined some key sectors for diversification and recommends diversifying the economy into such sectors to prevent the impact of the oil price fall to be disastrous on the Nigerian Economy and to prevent economic depression.

The Impact of oil price fall on the Nigeria economy.

The oil crisis has been around for sometimes, the two oil crises in 1973 and 1979 are evidences of its persistent prevalence. To forestall the oil crisis, Organization of the Petroleum Exporting Countries (OPEC) was formed in September 1960 to regulate oil pricing between member state signatories, which became effective in 1973.[6] Nigeria became a member of OPEC in 1971.[7] However, in recent times, they have been flurry of arguments as to the possible cause(s) of the oil price fall; some commentators had noted that it arose from US refinery maintenance, OPEC inaction, infiltration of global oil production by oil countries that are not part of OPEC,[8] and the untoward activities on some country members of OPEC. [9]

Clearly, blame games are being traded daily by the oil industry players and oil nations as to who is to blame for the price fall and the possible causes of the oil price fall, with the solution farfetched. However, what is glaring to the global economy is the fact that the oil price has fallen and still on a steady decline. Failure to come up with a timeous holistic approach to solve the global oil price fall can affect countries and put their economy in bad shape. This oil price fall has affected the Nigerian economy in a huge way.[10] To stem the tide of the oil price fall on the Nigeria economy, the current Central Bank of Nigeria (CBN)'s Governor, Godwin Emefiele, who was appointed in 2014, embarked on rigorous banking sector reforms to steady the economy. For example, to ensure an adequate regulation of the financial sector, the Central Bank of Nigeria in a report released on 30 October 2015, but reported on the 21th November 2015, [11] directed 3 commercial banks to recapitalize after they failed to hit the minimum capital adequacy rate of 10% before June 2016 or risk being liquidated.

[1] Adeoye, B. W. & Atanda, A.A. (2005). Exchange rate Volatility in Nigeria consistency, Persistency and Severity Analyses, CBN Journal of Applied Statistics Vol.2 No.2.

[2] Sanusi L Sanusi. (2010) Global financial meltdown and the reforms in the Nigerian banking sector. Central Bank of Nigeria Journal of applied Statistics, Vol 2 .No 1.Pg 97.

[3] Oil prices hits fresh 12 years' low, trade below $28 per barrel. As reported in Vanguard newspaper of the 22nd January 2016. Http: www.vanguard.com/2016/01/oil-prices-hit-fresh-12-year-low-trade-below-28-per-barrel/. Assessed on the 26th January 2016.

[4] Ogundipe, M, Oluwatomisin, et all. (2014) Oil prices and Exchange rate Volatility in Nigeria. IOSR Journal of Economics and Finance. E-ISSN 2321-5933.Vol 5, Issue 4, September – October 2014.

[5] Umanhonlen, O, Felix, and Lawani, I, Rebecca. (2015) Effect of Global financial meltdown on the Nigerian banking sector and economy. Scientific and academic publishing, management. Vol 5. (3) 63-89. page 72

[6] Kilian Lutz. Oil price shocks, causes and consequences. The Annual review of Resources Economics. http://www.annualreviews.org/doi/pdf/10.1146/annurev-resource-083013-114701. University of Michigan. Assessed on the 26 th January 2016. pg. 9.

[7] Ibid 10. pg. 3.

[8] 4 key reasons behind oil's latest price drop. As reported in the Market watch of the 11th September 2015. http://www.marketwatch.com/story/4-key-reasons-behind-oils-latest-price-drop-2015-09-11. Assessed on the 22nd January 2016

[9] Oil crisis caused by OPEC Countries. As reported in the RT Business newspaper of the 12 th February 2015, https://www.rt.com/business/230955-russia-oil-opec-policy/. Assessed on the 26th January 2016.

[10] Oil price decline will have severe impact on Nigerian economy in 2015. As reported in Thisday live newspaper of the 15 th April 2015 http://www.thisdaylive.com/articles/imf-oil-price-decline-will-have-severe-impact-on-nigerian-economy-in-2015/206847/. Assessed on the 12 th February 2016.

[11] Recapitalization: CBN gives 3 commercial banks June 2016 deadline. As reported in the Sun newspaper of the November 22nd 2016. http://sunnewsonline.com/new/recapitalisation-cbn-gives-3-commercial-banks-june-2016-deadline/ Assessed on the 26th January 2016.

The three commercial banks, where however not named to avoid bank rush on the current accounts of such banks. Furtherance to that report, the CBN also reiterated its commitment to monitor the re capitalization plans of the three commercial banks. This is a reasonable and ingenious approach, because naming the commercial banks could cause a stare at other banks as well and such attitude could have a chain reaction on the already tensed and volatile financial sector in Nigeria. Also, monitoring the implementation plans of the three banks are commendable and encouraged, because, only adequate reforms and enforcement of regulation can stabilize, strengthen and secure the Nigerian banking sector in the current oil price fall.

Similarly, financial scandals are also identified as one of the impacts of the oil price fall on Nigerian economy. This is because; companies will be looking to maintain their luxurious lifestyle during the oil price steady and also during the oil price crash era. This will encourage the directors and executives of such firms to carry out activities contrary to the firms' policies. Notable in Nigeria, is the recent one being the AFREN Oil and Gas Company which had led to the firm sacking its Executive Directors and subsequently being put into administration.[1] The oil price fall provides the leeway for such executives to fiddle with companies accounts, to assign huge bonuses to themselves and their cronies.

The oil price fall crisis incidence had in fact affected the Nigerian economy by causing paucity of funds for financial services. Recently, it was revealed by the banks, that several oil marketers owed some Nigerian banks to the tune of about ₦5 trillion. [2] This is disastrous to the financial balance sheets of the affected banks, and could subject them to credit crunch for engagement in core banking businesses and dearth of funds to pay their staff strengths, leading to retrenchment of their staffs and adding more unemployment into the already clustered Nigerian unemployed workforce.

The impact of the oil price fall spills over to the banks in such a fluid manner, because activities in the oil sector are financed by the banks and a well-developed banking sector contributes to economic growth by mobilizing savings and efficiently allocating them among the competing investment projects and other demands for funds (Chris and Onyinye). [3] The falling oil prices cause serious financial problem for the oil sector and the capital market due to their link to the financial world and the Nigerian banks. Since, banks sit at a vantage position in the economy, failure to repay the loans advanced to the oil marketers left a bad effect on the banks' balance sheet, and such loans became bad loans, which is a strain on banks' capital adequacy. Hence, the oil price fall calls for several regulatory measures to be adopted to cushion the effect on the economy because, only a sustained and stable macroeconomic environment and a sound and vibrant financial system can propel the economy to achieve our national desire to become one of the 20 largest economies in the world by the year 2020 (Soludo 2007). [4]

Therefore, to curb the effect of the bad loan debts on the loan profile of some affected banks, the CBN through a circular directed all banks to restrict loan defaulters from further assess to loan facilities, some of the loan defaulters were oil marketers. [5] The CBN also engaged them in a rigorous manner to recover the money, such as through a circular directive to the banks, dated April 22 2015, [6] that the names of those who defaulted for a period of at least one year on the servicing of their loans facilities be published on 3 national dailies and shaming them, and that the exercise to be done every 3 months. The circular directive also banned them from participating in Nigerian foreign exchange market. [7] Although, it is a well calculated effort to recover loan debts and keep the affected banks in shape, however, care needs to be taken so that it does not erode confidence and confidentiality trust of investors who wants to borrow from Nigerian banks. The affected banks also sanctioned themselves and their erring staffs, who signed off on the loans and some of the banks stopped advancing loans to the energy sector.

Furthermore, Patti and Ratti, [8] noted that, oil price increase has a greater influence in the economy

[1] Finally, Afren plc goes into administration. As reported in Thisday live newspaper of the 4 th August 2015. http://www.thisdaylive.com/articles/finally-afren-plc-goes-into-administration/216506/. Assessed on the 26 th January 2016.
[2] 5 Trillion Energy sector Loan unsettles Nigerian banks. As reported in the Vanguard newspaper of the 7 th July 2015. http://www.vanguardngr.com/2015/07/n5trn-energy-sector-loans-unsettle-nigerian-banks/ .Assessed on the 26th January 2016.
[3] Chris, U, Kalu. and Onyinye, O, Mgbemena., (2015). Banking sector Reform in the Fourth Republic: A review of Evidence Journal of Economic and Sustainable development. Vol 6, No 6. Page 37.
[4] Soludo Chukwuma C. Strategic Agenda for the Naira. A lecture delivered at the Central Bank of Nigeria auditorium, on August 14 2007.
[5] A circular dated 30th June 2014 on prohibition of Loan defaulters from further access to credit facilities in the Nigerian banking system. http://www.cenbank.org/out/2014/bsd/untitled%20(7).pdf. Accessed on the 26 th January 2016.
[6] A CBN circular dated April 22 2015 to banks and discount houses on recovery of delinquent credit facilities. http://www.cenbank.org/out/2015/bsd/circular-%20recovery%20of%20deliquent%20facility%20.pdf. Assessed on the 26 th January 2016.
[7] Ibid 23.
[8] Patti and Ratti in Adeoye, B. W. & Atanda, A.A. (2005). Exchange rate Volatility in Nigeria consistency, Persistency and Severity Analyses, CBN Journal of Applied Statistics Vol.2 No.2 .Pg. 4

compared to an oil price decrease. Korhonen and Juurikkala,[1] argued that when oil price appreciates, there is a real exchange rate appreciation in oil exporting countries; this is because, they earn a significant amount of money from oil exportation. Therefore, when the oil price falls, oil dependent nation suffers exchange rate depreciation. Nigeria is renowned as being one of the major oil importer and exporter and it is experiencing oil price decrease. Flowing from this, it will be logical to state that when the price of oil falls, the exchange rate in Nigeria will depreciate. This translates to the depreciation of the Nigerian currency, the Naira as it goes to a steady decline. As at the 16th February 2016, the Naira had declined to ₦345 to the Dollars in the parallel market. [2] Although, it has been alleged that the sharp decline is due to the huge demand for the dollars, with no commensurate supply of the commodity. This made the few Bureau d Change operators to sell Dollars at astronomical prices. [3] This could be a factor; however, dominant as a prevailing factor, is the fact that the oil price has fallen and has hit the Nigerian capital market.

Furthermore, another impact of the oil price fall is currency depreciation induced inflation. Imimole and Enoma, [4] had stated that the effect of the depreciation of the Naira will be a high cost for the purchase of goods and services; this led to inflation in the Country. Inflation is so pronounced in Nigeria during the era of oil price fall. Prices of services, goods and commodities have increased and still on a steady increase, if this oil price fall menace goes unchecked. Importation becomes more expensive, because more Naira will be chasing the few available Dollars. This is not good for the Nigerian economy, which had been battling with cost related deficits. To curb this, efforts should be made to increase the volume of export product to make up for the extra demand that may be caused by the Naira depreciation. [5] The IMF president, had during her working visit to Nigeria, gave a pass mark to Nigerian banks and described it as strong and reliable, but however advised the banking sector to take cognizance of the effect of the high cost of goods occasioned by the oil price fall to improve their compliance regime and enhance collection efficiency.[6]

To this effect, the Nigeria Deposit Insurance Commission (NDIC)'s Managing Director/Chief Executive Officer, Umaru Ibrahim, reminded 'the banks of the need to entrench sound risk management practices to forestall a recurrence of the crisis that rocked the country's financial system few years back.' [7] This inventive and novel approach is acceptable, and the Nigerian banks are weary of the activities and control of the Central Bank of Nigeria and the Nigeria Deposit Insurance Commission, and hence the total compliant with the CBN's instructions on lending. As a result, the CBN was quick to place a benchmark on lending to the oil sector to mitigate its effect on the economy. In December 10 2014, the Central Bank of Nigeria through a circular took a step further by putting a capital cap on the lending portfolio of all banks carrying out their services in Nigeria, towards specific hot flag sectors, such as the oil and gas sector to forestall exposure of their balance sheet to financial crisis. [8]

Supporting the CBN's directive, The Chief Executive Officer of Skye bank, Mr. Timothy Oguntayo, further noted that banks are wary of advancing loans to oil marketers and that Skype bank has cut its lending to the oil sector, due to its been unsure of the policy direction of the present Nigerian Government. [9] This is a welcome development, because it would create a balance and equilibrium in lending, so that more money would not be given to a sector to the detriment of the other sectors of the economy. Similarly, since the oil price is unstable in the international market, and been an international concern, adequate implemented regulatory framework is needed to checkmate its effect and a clear market oriented economic policy direction is encouraged by policy makers during the oil price fall to mitigate the effects on the Nigerian economy. Economic policy direction will suffice to give the Nigerian financial economy a clear picture of the actions, plans and direction of the Nigerian government towards improving and building infrastructural and developmental projection of the

---

[1] Korhonen, I. and T. Juurikkala (2007). Equilibrium exchange rates in oil-dependent Countries, BOFIT Discussion Papers 8/2007, Bank of Finland, Institute for Economies in Transition.

[2] Naira falls to ₦345 in parallel market. As reported in the Vanguard newspaper of February 16th 2016. http://www.Vanguardngr.com/2016/02/naira-fall-to-n345-in-parralel-market-2/. Assessed on the 17th February 2016.

[3] Ibid 27.

[4] Imimole, B, and Enoma, A. (2011). Exchange rate depreciation and Inflation in Nigeria (1986-2008) Business and Economic Journal. Vol 28. 2011. http://astonjournal.com/bej. Pg. 9.

[5] Ibid 29.pg 29.

[6] IMF presses for end to subsidy. As reported in the Guardian Newspaper of the 7th January 2016. http://www.ngrguardiannews.com/2016/01/imf-presses-for-end-to-subsidy/. Assessed on the 26th January 2016.

[7] 5 Trillion Energy sector Loan unsettles Nigerian banks. As reported in the Vanguard newspaper of the 7th July 2015. http://www.vanguardngr.com/2015/07/n5trn-energy-sector-loans-unsettle-nigerian-banks/ .Assessed on the 26 th January 2016.

[8] A CBN Circular dated December 10th 2014 to banks on Oil and Gas industry credit risk mitigation. file:///C:/Users/PAVILION/Desktop/journals/oil%20and%20gas%20industry%20credit%20risk%20mitigation.pdf .Assessed on the 26 th January 2016.

[9] Why banks are not lending to oil marketers. As reported in the Leadership Newspaper of the 8th June 2015. http://leadership.ng/news/439199/why-banks-are-not-lending-to-oil-marketers. Assessed on the 27th January 2016.

Nigerian's economy, such as in the areas of trade policy, regulatory policy, money supply, industrial policy and diversification. The major goal of the economic policy direction being for infrastructural and policy development of the Nigerian economy, for the good of its populace.

Had there being an initial robust implementation of the regulation for the advancement of loans to the oil and gas sector, perhaps, jobs would not be lost as a result of the falling oil prices, as seen in the massive sack of workers in the Nigerian oil and gas sector,[1] and the subtle mass sack in the banking sector. This is coupled with the impending nationwide sack of 18500 workers by Shell and Chevron, which the labor union of Nigeria Union of Petroleum and Natural Gas workers (NUPENG) had appealed to the Nigerian Government to intervene on the issue and stop Shell and Chevron from applying the massive sack to the Nigerian nation.[2] The bad effect of the oil subsidy scam and the free falling price of oil has been an eye raiser for the Nigerian regulators, such as the CBN and NDIC to step up their penetrating light to that sector and be proactive in its risk management policies and to other nascent sectors of the economy as well.

The need for diversification of the Nigerian economy

Although, the oil price fall crisis may not persist always, however, since the Nigerian economy is renowned to be oil dependent, there is a need to look inwards for a re alignment of priorities for the economy to be viable, and forestall any present or future oil price fall crisis on the economy, thus a call for a shift from the oil sector into areas that were neglected or not paid rapt attention. The Cry for diversification of the Nigerian economy has been long overdue and overwhelming. Considering the harsh economic realities the falling oil price had shown on the economy, the have been series of renewed calls for the diversification of the Nigerian economy by various individuals.[3] This is because of the prevailing urgency of the effect of oil price fall on the Nigerian economy, which is frying the Nigerian economy. Diversification is seen as a panacea for stabilizing the Nigeria financial economy and taking it away from oil price fall implications. This is because, in other climes battling with oil price fall, the impact is not severe, due to the non-reliance on the oil sector. Focus and energy was dedicated to other non-oil sectors, for example, China and South Korea are known for manufacturing of commodities, India is known for Information technology infrastructures; these countries' economies are sustained and blooming in this oil price fall era. [4]

The Nigerian financial environment is not left out, as they were calls on the need for diversification of their lending portfolio and re focus of their lending priorities to other areas and sectors of the economy. For example, in the area of Small and Medium Scale Enterprises (SME)'s, Duru and Kehinde,[5] had argued that 'Small and Medium Scale Enterprises' (SME)'s play important roles in the process of industrialization and economic growth, apart from increasing the per capita income and output, SME's create employment opportunities; enhance regional/ sectoral economic balance through industrial dispersal and the promotion of resource utilization.' To inspire this idea, the CBN directed Nigerian banks to diversify and increase their lending portfolio to other sectors of the economy in ways that would re jig the production wheel and fuel economic activities in the country. [6]

In December 2015, [7] the CBN governor had lamented on the less attention paid to the SME's sector. He noted that less than 50 percent of the ₦220 billion of the Micro Small and Medium Scale Enterprises (MSME)'s loan has been assessed since its creation in 2012, despite the sum of ₦40.3 billion been disbursed to state government, commercial banks, microfinance banks and financial cooperatives. Also, to support lending to the SME's, in December 2015, the CBN Governor and commercial banks under the aegis of the banker's committee, at a 2 days seventh banker's committee retreat in Lagos, Nigeria, titled; creating an enabling environment for SME's growth, had mandated commercial banks to lower their risk rating for SMEs or lose their cash reserves ratio (CRR). [8] The cash reserve ratio (CRR) is a portion of the banks 'deposit kept with the CBN as reserves at Zero Interest rates.

[1] More oil workers lose jobs as glut takes its toll on Nigeria. As reported in the nation newspaper of the 30th July 2015. http://thenationonlineng.net/more-oil-workers-lose-jobs-as-glut-takes-its-toll-on-nigeria/. Assessed on the 30 th January 2016.
[2] NUPENG ask FG to stop Chevron, Shell on moves to sack 18500 workers. As reported in the Vanguard newspaper of the 22nd January 2016. http://www.vanguardngr.com/2016/01/603402/. Assessed on the 26th January 2016
[3] Oil Price Slide; Diversification to the rescue. As reported in the Nation newspaper of the 23th December 2014. http:// the nationonlineng.net/oil-price-slide-diversification-rescue/ Assessed on the 27 th January 2016.
[4] Dahlman Carl. Technology, globalization and international competitiveness: Challenges for developing countries. http://www.un.org/esa/sustdev/publications/industrial_development/1_2.pdf. Assessed on the 16th February 2016. Pgs. 44-59.
[5] Mike, Duru, and Lawal, M, Kehinde. (2012) Financial sector reforms and the growth of the Small and Medium scale enterprises (SMES) in Nigeria. Universal Journal of management and Social Science. Vol 2 No 8. August 2012. Page 86.
[6] CBN to Banks: Fund SME's or lose CRR refunds. As reported in the Nation newspaper of the 11th December 2015 http://thenationonlineng.net/cbn-to-banks-fund-smes-or-lose-crr-refunds/ . Assessed on the 26th January 2016.
[7] Ibid 40.
[8] Ibid 40.

Furthermore, Mr. Emefiele had said; 'we need the support of the commercial banks to lower the risk acceptance level for SMEs. If they refuse, we will take the money they should have got through the CRR and lend them out to the SMEs, we cannot continue to give you money that you can go and buy treasury bills.'[1] The intention of this directive arouse from the decision of the Monetary policy committee (MPC)'s to harmonize the CRR on public and private sector deposits at 20 percent from 25 percent, which is expected to add over ₦2 trillion to banks' available deposit and enhance ready cash for lending.

Going from this, the CBN incentive is commended. However, there is a need for proper awareness and sensitization by the CBN and the relevant financial bodies on the availability of such funds for access for the growth and encouragement of SMEs in the country. Complimentary efforts by Government are also needed. Adequate economic and environmental support should be given to the local manufacturing industries in Nigeria to burgeon and flourish by the Government. Though, some indigenous manufacturing companies are flourishing such as Innoson, Dangote, and Ibeto to mention a few. These companies have grown and been a source of massive employment for the Nigerian economic environment.

Though, the Government had been encouraging the growth of made in Nigeria products through its awareness and sensitization programs. However, such indigenous companies' economic activities should be massively encouraged since; it in turn translates to massive revenue for the Government, as those companies will remit their taxes to the government coffers. Government could further assist these companies to grow by implementing favorable fiscal economic growth policies for them, such as tax reduction or rebate, lower interest rate in assessing funds and enabling business environment. Government should also encourage these growing Nigeria Companies by patronizing its range of products and services and further encouraging its drive in the Nigerian economy. For example, cars for those manufacturing cars and making such cars, its official carrier or adding it as part of its official carrier as done in some advanced countries, where Government use the product of local manufactures in its official activities.

Also, while recognizing the lacuna the oil crisis will create on the financial economy and the need for diversification to stabilize the economy, the CBN and Commercial banks in Nigeria, in that same December 2015 retreat agreed to increase lending to the agricultural sector to the tune of ₦300 billion in 2016.[2] This is a fresh lending and a proactive move by the CBN and commercial banks to support the existing agricultural support platform of the CBN under the commercial agriculture credit scheme, which has been providing financial aids for farmers to develop the industry. This assistance by the Central Bank of Nigeria (CBN) to agriculturist is extolled. However, robust disbursement platforms should be built to ensure that the aims of the disbursed funds such as increased mechanized farming, increasing agricultural products and massive growing and production of export crops are achieved. If this agreement is properly implemented, and the aims are achieved, the effect of the free fall of the oil price might not affect the economy in later years, for the reason that the Agricultural sector will improve the economy and create employments for the unemployed populace and boost exports.

This is because before the oil boom in Nigeria in the 1970's, Agriculture was Nigeria's main export. Nigeria was known as a huge destination for agricultural products, such that some countries came to Nigeria to tap from its rich Agricultural resources to develop its countries. Their present agricultural self-reliant stance is a telltale of how efficient and self-reliant Nigeria could have been if Agriculture was rigorously and efficiently managed as a blooming sector. However, it is disheartening to see that agriculture which is known as the occupation of the hardworking and rich in advanced countries of the world had been consigned to the job of the lazy and less privileged in Nigeria.

Therefore, supporting indigenous agricultural products growth, in a mechanized way as opposed to the crude method applied, such as in Cocoa crops in the western region, groundnut crops in the Northern region, Palm oil and rubber crop in the Eastern region of Nigeria will increase economic activity and develop such crops into potential cash crops for export, which would generate revenue for the Nigerian economy.

Another key area that needs to be encouraged for lending is the real sector, this is because, the real sector will help stimulate and grow the financial economy by the massive manufacturing and production chain that will be involved in the sector, such as the producers, manufacturer' and the consumers, because it is the engine of the country's economic transformation. [3] This sector is cyclical, because, it is never exhausted as people would consistently engage in production and consumption of goods and services. To lend support to this view, the CBN encouraged banks by lowering their CRR from 25% to 20% to support this real sector; this was announced at a circular to all banks. [4] They have been other CBN intervention funds to the real sector

[1] Ibid 40.

[2] Banks target 300bnagric lending in 2016. As reported in the Punch Newspaper of the 14th December 2016. http://www.punchng.com/banks-target-n300bn-agric-lending-in-2016/. Assessed on the 26th January 2016.

[3] Charles, N, Mordi. et all.(2013) Modeling the real sector of the Nigerian economy. A publication from the research department of the Central Bank of Nigeria.Pg. v

[4] A Central bank of Nigeria circular dated on the 20th January on Reduction in Cash Reserve Requirement to enhance banks'

development. [1] Also, to encourage the involvement of stakeholders in the real sector, the International Monetary Fund (IMF) President Christine Lagarde during her 3 days working visit to Nigeria on the 4th January 2015, also advised the Nigerian Government to engage rigorously in the real sector, to cushion the effect of the dwindling oil prices.

Furthermore, the lack of consistent power supply in Nigeria has been epidemic; any serious economic activity in that sector needs to be encouraged. Therefore, a diversification of the economy to focus on the generation of a sustainable and efficient power sector would create massive employment, because, the power sector is the fulcrum of production, and, virtually all human endeavors and services rely on power to project its service. This sector is quint essential to human health survival, because the health care survival is dependent on its stability as well. Power is the key. The Government needs to continue to push through with the implementation of the Power roadmap and show the will to make the additional changes needed for the power sector to deliver. The Nigerian economy can only reach its potential when power supply is stable.[2]

Nigeria is a nation endowed with enormous solid mineral deposits which could generate massive income and employment into the economic revenue. According to Obasi and Isife, [3] 'Nigeria has many discovered and proven solid minerals, but a very small portion of them is exploited.' Ekiti State alone has about 10 deposits of mineral resources, which is untapped and unexploited. If Ekiti State, a small state with a land mass of 5887.890sq km, [4] could have such amount of mineral deposits, how much more of mineral resources deposits would other 36 states in Nigeria, including the federal capital territory would have, which is unexploited.

Realistically, these untapped mineral deposits translate to fewer jobs and less resources for Nigerians, because there is no serious economic activity in that sector, which would create millions of jobs and attract revenues to the Nigerian nation if properly tapped and harnessed. Therefore, if banks could channel certain percentage of their income to this sector, to encourage its growth and development, massive economic activities will be witnessed which would shore up the nation's financial economy and make the impact of the falling oil price minimal on the economy.

Another sector that needs to be developed is the science and technology sector. This is because, this sector is a trusted sector for economic boom as witnessed in Japan, China and India where the science and technology sector is giving them an edge in world domination and has created millions of jobs to the teeming over populated residents in China and India.[5] During a working visit of a commissioner from Taraba state, one of the states in North Eastern Nigeria, to the Nigeria Minister of Science and Technology, Chief Ogbonnaya Onu, in 2016, the Honorable Minister noted that, Nigeria cannot diversify the economy without the application of science and technology and innovation.[6] This assertion is true, because science and technology is the bedrock of development, and development breeds economic prosperity.

Economic diversification will require significant foreign investment; these investment opportunities will come from both the private sector and from development finance institutions. These efforts will generate enough alternative goods and export certified products out of the shores of Nigeria. Nigeria needs to encourage economic diversification and ensure that it is an attractive destination; this will require unrelenting work on issues like security, transparency, anticorruption, infrastructure and having the right regulations in place.

Conclusion and the way forward

Conclusively, the impact of the oil price fall is greatly affecting the Nigerian economy, causing inflation, unstable economy, Naira crash and loss of jobs. Though the prevailing oil price fall may be momentarily, however, the efforts of regulators such as the Central Bank of Nigeria and the Nigeria Deposit Insurance Commission toward stemming the impacts of the oil price fall are appreciated. There is an urgent need for the government to initiate tailored policies to take care of this menace and save the Nigerian economy; hence the call for diversification of the economy is fundamental to keeping the economy momentarily and permanently stable,

liquidity for real sector financing.http://www.cenbank.org/Out/2016/FPRD/CRR%20Reduction%20Circular%20Jan%202016.pdf. Assessed on 26th January 2016.

[1] Ibid 8. pg. 104.

[2] Economy Watch, Managing the declining of oil prices. An Article by Price Water Coopers (PWC) November 2014 https://www.pwc.com/ng/en/assets/pdf/economy-watch-december-2014.pdf .). Assessed on the 27 th January 2016.

[3] Obasi, R .A, and Isife, F.A. (2000) Manpower needs and the solid mineral sub sector in Nigeria: A critical Overview. African Journal of Business and Economic Research Vol 1, No 2, 171-173.

[4] Ekiti State Government Website. https://ekitistate.gov.ng/about-ekiti/overview/. Assessed on the 16 th February 2016.

[5] B2b International. The growth debate- China and India. https://www.b2binternational.com/publications/growth-china-india-research/. Assessed on the 16 th February 2016.

[6] Nigeria can't diversify the economy without Science and Technology. As reported in the Vanguard Newspaper of the 28th January 2016. http://www.vanguardngr.com/2016/01/why-we-need-science-tech-ministry-in-every-state-onu/. Assessed on the 16th February 2016.

immune and sustainable amidst prevailing and future oil price falls, because such sectors will produce alternative goods and goods that can be exported to make up for the yearning or deficit for imported goods.
Thus, it is recommended that whilst encouraging diversification to the above listed and other non-oil sectors, the Government should give a clear economic policy direction to develop and assist key financial industry players in stabilizing the financial economy. Also, the budget should be built based on the prevailing economic realities occasioned by the oil price fall to ensure prudency and accountability and to discourage wasteful allocation of the meager resources to non-productive expenditures. Therefore, diversification can only thrive where there is a clear economic policy direction in a country. This article is not exhaustive of this topic as criticisms are appreciated.

References

Journals

Adeoye, B. W. & Atanda, A.A. (2005). Exchange rate Volatility in Nigeria consistency, Persistency and Severity Analyses, CBN Journal of Applied Statistics Vol.2 No.2.

Aliyu, S., and Usman, R. (2009). Impact of Oil Price Shock and Exchange Rate Volatility on Economic Growth in Nigeria: An Empirical Investigation, Journal of International Studies .Issue 11, pp4-15.

Charles, N, Mordi. et all. (2013) Modeling the real sector of the Nigerian economy. A publication from the research department of the Central Bank of Nigeria.Pg. V

Chris, U, Kalu. and Onyinye, O, Mgbemena. (2015). Banking sector Reform in the Fourth Republic: A review of Evidence Journal of Economic and Sustainable development. Vol 6, No 6. Page 37.

Habib, M., and Kalamova, M. (2007). Are There Oil Currencies? The Real Exchange Rate of Oil Exporting Countries, In European Central Bank. Working Paper 839.

Imimole, B, and Enoma, A (2011). Exchange rate depreciation and Inflation in Nigeria (1986-2008) Business and Economic Journal. Vol 28. 2011. http://astonjournal.com/bej. Pg. 9.

Korhonen, I. and T. Juurikkala (2007). Equilibrium exchange rates in oil-dependent Countries, BOFIT Discussion Papers 8/2007, Bank of Finland, Institute for Economies in Transition.

Mike, Duru, and Lawal, M, Kehinde. (2012) financial sector reforms and the growth of the Small and Medium scale enterprises (SMES) in Nigeria. Universal Journal of management and Social Science. Vol 2 No 8. August 2012. Page 86.

Obasi, R .A, and Isife, F.A. (2000) Manpower needs and the solid mineral sub sector in Nigeria: A critical Overview. African Journal of Business and Economic Research Vol 1, No 2, 171-173.

Ogundipe, M, Oluwatomisin, et all. (2014) Oil prices and Exchange rate Volatility in Nigeria. IOSR Journal of Economics and Finance. E-ISSN 2321-5933.Vol 5, Issue 4, September – October 2014.

Olomola, A, (2006). Oil Price Shock and Aggregate Economic Activity in Nigeria, African Economic and Business Review. Vol.4: 2, ISSN 1109-5609.

Patti and Ratti in Adeoye, B. W. & Atanda, A.A. (2005). Exchange rate Volatility in Nigeria consistency, Persistency and Severity Analyses, CBN Journal of Applied Statistics Vol.2 No.2 .Pg. 4

Ricken, J. (2009). Oil Price and Real Exchange Rate Volatility in Oil-Exporting Economies: The Role of Governance, IFN Working Research paper No. 810.

Sanusi L Sanusi. (2010) Global financial meltdown and the reforms in the Nigerian banking sector. Central Bank of Nigeria Journal of applied Statistics, Vol 2 .No 1.Pg 97.

Soludo Chukwuma C. Strategic Agenda for the Naira. A lecture delivered at the Central Bank of Nigeria auditorium, on August 14 2007.

Umanhonlen, O, Felix, and Lawani, I, Rebecca. (2015) Effect of Global financial meltdown on the Nigerian banking sector and economy. Scientific and academic publishing, management. Vol 5. (3) 63-89. pg. 72

CBN Circular

A CBN circular dated 30th June 2014 on prohibition of Loan defaulters from further access to credit facilities in the Nigerian banking system. http://www.cenbank.org/out/2014/bsd/untitled%20(7).pdf. Accessed on the 26 th January 2016.

A CBN circular dated April 22 2015 to banks and discount houses on recovery of delinquent credit facilities. http://www.cenbank.org/out/2015/bsd/circular-%20recovery%20of%20deliquent%20facility%20.pdf. Assessed on the 26 th January 2016.

A CBN Circular dated December 10th 2014 to banks on Oil and Gas industry credit risk mitigation. file:///C:/Users/PAVILION/Desktop/journals/oil%20and%20gas%20industry%20credit%20risk%20mitigation.pdf .Assessed on the 26 th January 2016

A Central bank of Nigeria circular dated on the 20th January on Reduction in Cash Reserve Requirement to enhance banks' liquidity for real sector financing.http://www.cenbank.org/Out/2016/FPRD/CRR%20Reduction%20Circular%20Jan%202016.pdf. Assessed on 26th January 2016.

Websites

The Impact of the global financial crisis on Nigeria economy. Proshare Intelligent Investing, of November 28, 2013. http://www.proshareng.com/news/Nigeria%20Economy/The-Impact-of-the-Global-Financial-Crisis-on-the-Nigerian-Economy/21641. Assessed on the 21 st January 2016.

Oil prices hits fresh 12 years' low, trade below $28 per barrel. As reported in Vanguard newspaper of the 22nd January 2016. Http: www.vanguard.com/2016/01/oil-prices-hit-fresh-12-year-low-trade-below-28-per-barrel/. Assessed on the 26th January 2016.

Kilian Lutz. Oil price shocks, causes and consequences. The Annual review of Resources Economics. http://www.annualreviews.org/doi/pdf/10.1146/annurev-resource-083013-114701. University of Michigan. Assessed on the 26 th January 2016. pg. 9.

Dahlman Carl. Technology, globalization and international competitiveness: Challenges for developing countries. http://www.un.org/esa/sustdev/publications/industrial_development/1_2.pdf. Assessed on the 16th February 2016. Pgs. 44-59.

4 key reasons behind oil's latest price drop. As reported in the Market watch of the 11th September 2015. http://www.marketwatch.com/story/4-key-reasons-behind-oils-latest-price-drop-2015-09-11. Assessed on the 22nd January 2016

Oil crisis caused by OPEC Countries. As reported in the RT Business newspaper of the 12 th February 2015, https://www.rt.com/business/230955-russia-oil-opec-policy/. Assessed on the 26th January 2016.

Oil price decline will have severe impact on Nigerian economy in 2015. As reported in Thisday live newspaper of the 15 th April 2015 http://www.thisdaylive.com/articles/imf-oil-price-decline-will-have-severe-impact-on-nigerian-economy-in-2015/206847/. Assessed on the 12 th February 2016.

Recapitalization: CBN gives 3 commercial banks June 2016 deadline. As reported in the Sun newspaper of the November 22nd 2016. http://sunnewsonline.com/new/recapitalisation-cbn-gives-3-commercial-banks-june-2016-deadline/ Assessed on the 26th January 2016.

Finally, Afren plc goes into administration. As reported in Thisday live newspaper of the 4 th August 2015. http://www.thisdaylive.com/articles/finally-afren-plc-goes-into-administration/216506/. Assessed on the 26 th January 2016.

5 Trillion Energy sector Loan unsettles Nigerian banks. As reported in the Vanguard newspaper of the 7 th July 2015. http://www.vanguardngr.com/2015/07/n5trn-energy-sector-loans-unsettle-nigerian-banks/ .Assessed on the 26th January 2016.

Naira falls to ₦345 in parallel market. As reported in the Vanguard newspaper of February 16th 2016. http://www.Vanguardngr.com/2016/02/naira-fall-to-n345-in-parralel-market-2/. Assessed on the 17th February 2016.

IMF presses for end to subsidy. As reported in the Guardian Newspaper of the 7th January 2016. http://www.ngrguardiannews.com/2016/01/imf-presses-for-end-to-subsidy/. Assessed on the 26th January 2016

Why banks are not lending to oil marketers. As reported in the Leadership Newspaper of the 8th June 2015. http://leadership.ng/news/439199/why-banks-are-not-lending-to-oil-marketers. Assessed on the 27th January 2016.

More oil workers lose jobs as glut takes its toll on Nigeria. As reported in the nation newspaper of the 30th July 2015. http://thenationonlineng.net/more-oil-workers-lose-jobs-as-glut-takes-its-toll-on-nigeria/. Assessed on the 30 th January 2016.

NUPENG ask FG to stop Chevron, Shell on moves to sack 18500 workers. As reported in the Vanguard newspaper of the 22nd January 2016. http://www.vanguardngr.com/2016/01/603402/. Assessed on the 26th January 2016

Oil Price Slide; Diversification to the rescue. As reported in the Nation newspaper of the 23th December 2014. http:// the nationonlineng.net/oil-price-slide-diversification-rescue/ Assessed on the 27 th January 2016.

CBN to Banks: Fund SME's or lose CRR refunds. As reported in the Nation newspaper of the 11th December 2015 http://thenationonlineng.net/cbn-to-banks-fund-smes-or-lose-crr-refunds/ . Assessed on the 26th January 2016.

Economy Watch, Managing the declining of oil prices. An Article by Price Water Coopers (PWC) November 2014 https://www.pwc.com/ng/en/assets/pdf/economy-watch-december-2014.pdf .). Assessed on the 27 th January 2016.

Ekiti State Government Website. https://ekitistate.gov.ng/about-ekiti/overview/. Assessed on the 16 th February 2016.

B2b International. The growth debate- China and India. https://www.b2binternational.com/publications/growth-

china-india-research/. Assessed on the 16 th February 2016.
Nigeria can't diversify the economy without Science and Technology. As reported in the Vanguard Newspaper of the 28th January 2016. http://www.vanguardngr.com/2016/01/why-we-need-science-tech-ministry-in-every-state-onu/. Assessed on the 16th February 2016.

Obasi Noble Ogochukwu is an Associate Counsel at Dare Bejide Chambers, Ado Ekiti, Ekiti State, Nigeria. He was called to the Nigerian bar in 2015, he has attended several local at International seminars of Law, governance and Management in London, Germany and Nigeria. He graduated from the University of Warwick United Kingdom in 2014 with a Master's degree in International Corporate Governance and Financial Regulations. He also has degrees in Law and English and Literary Studies from the University of Coventry, United Kingdom, and the University of Ado Ekiti, Ekiti State, Nigeria. He is currently writing articles on financial regulation and syndicated loans in Nigeria.
Special recognition to Dr R. A Obasi, an Associate Professor of the Department of Geology, Ekiti State University, Ado Ekiti, Ekiti State for his academic contributions.