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Nigeria

Country Economic Memorandum

Charting a New Course

Nigeria Country Economic Memorandum: Charting a New Course

Synthesis Report

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Cover credits: "**Contact" by Jimmy Nwanne**. This painting refers to man's curiosity and inquiry about the source of life. It speaks about the possibility of life beyond the walls of our world and planet. If we have life outside our world, how do we access this dimension in order to communicate? To become, we have to enter different states of consciousness.

Acknowledgements

The Nigeria Country Economic Memorandum (CEM) and the associated technical notes describe the main trends and drivers of growth and job creation in Nigeria covering the years 2000 to 2021; outline the key challenges and opportunities to accelerate growth and job creation, synthesizing the findings from recent analyses, and including challenges and opportunities in selected areas; and present actionable policy options to sustain an inclusive growth path. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Nigeria's evolving economy.

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Abbreviations and Acronyms

CBN	Central Bank of Nigeria
COVID-19	Coronavirus Disease 2019
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
HDI	Human Development Index.
IMF	International Monetary Fund
LMIC	Lower Middle-Income Country
MSMEs	Micro, Small, and Medium Enterprises
NNPC	Nigerian National Petroleum Corporation
OECD	Organisation for Economic Cooperation and Development
PIA	Petroleum Industry Act
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
US	United States
VAT	Value-Added Tax

Executive Summary

To rise to its potential, Nigeria needs to grow faster and create more jobs…

Nigeria has vast potential, but development has stagnated over the past decade. Nigeria is Africa's largest country, with over 210 million people, and Africa's largest economy, with a Gross Domestic Product (GDP) of around US$430 billion in 2021. With its abundance of natural resources, and a young and entrepreneurial population, Nigeria has the potential to be a giant on the global stage. But, despite this potential, Nigeria is struggling to keep pace with the GDP growth rates and economic transformation of its peers. As a result, its development outcomes have stalled since the early 2010s. For instance, GDP per capita dropped from US$2,280 in 2010 to US$2,097 in 2020, and the number of Nigerians living below the poverty line (using the national poverty line) rose from 68 million to about 80 million—the world's second-largest poor population after India. Moreover, Nigeria is one of the least-developed countries in the world, with a ranking of 161 out of 189 on the 2020 Human Development Index (HDI).

The country is characterized by strong spatial inequalities and a large north-south divide. The best-performing regions of Nigeria compare favorably with upper middle-income countries, while the worst-performing states are below the average for low-income countries. These differences are evident in the sectors driving growth and their linkages to job creation, poverty reduction, and government revenue generation. The emerging service economy (real estate, finance, telecommunications, etc.) is mostly concentrated in the south, especially Lagos, which has Nigeria's largest non-oil economy, accounting for up to 50 percent of the national economy. Moreover, the oil industry—which, although declining, remains the country's economic backbone—is an enclave sector whose production is centered in the Niger Delta and corporate activity in Lagos. By contrast, sectors such as agriculture, solid minerals, and manufacturing, which have not experienced rapid expansion, are the mainstays of the economy in northern states. Low growth has deepened regional gaps, and, at current growth rates, it will take 40 years for northern states to catch up with southern states.

Creating better jobs is a necessary condition for accelerating poverty reduction and economic transformation. It is estimated that 3.5 million Nigerians enter the labor market every year, a number that cannot be absorbed by a public sector-led economy. This large number represents 41 percent of the total new entrants in the labor market in West Africa and is bigger than the entire populations of Botswana, Namibia, and Qatar. However, even if job creation were to catch up with the expansion of the labor force, Nigerian workers would not fully benefit if other socio-economic conditions remain unchanged. A child born in Nigeria today will be 36 percent as productive in adulthood (the sixth-lowest percentage globally) as she could be if she enjoyed more and better-quality education and full health. A combination of limited job creation, booming demographics, and unfulfilled aspirations is pushing young Nigerians to emigrate abroad in search of gainful employment

As a result, Nigeria is at a critical historical juncture, with a choice to make. Even at the per capita GDP growth rate of 1.1 percent observed in 2021—which was partly a result of base effects following the 2020 recession—it would take about a decade for Nigeria to return to the level of GDP per capita seen in 2014, just before the oil shock. The current business-as-usual policy environment characterized by weak macroeconomic stability and reform slippages hinders prospects for economic growth and job creation, as they perpetuate

long-standing weaknesses in foreign investment, human capital development, infrastructure investment, and good governance. The choices that Nigeria faces are not easy, and they all entail risks. But the cost of not taking a decision is even higher. But, if Nigeria and its leaders choose to take the risk of moving on from the status quo and business-as-usual, then the next few years could see Nigeria rise to its full potential.

…by unlocking private investment, which is pre-conditioned on having a stable macroeconomy

Unlocking private investment is the only way to create more and better-quality jobs in a sustainable manner. The private sector is at the heart of any development process and has been critical in every sustained growth success story around the world. East Asia's progress since the late 1950s and early 1960s exemplifies how a private sector-led growth that is rapid and broadly shared can lift millions out of poverty with little or no increase in income inequality. Although policies varied from country to country, reflecting differences in initial political and economic conditions, the successful East Asian economies were able to attract high rates of private investment by maintaining macroeconomic stability and adopting policies in favor of trade openness, whereby they abandoned import substitution early on in favor of export promotion. In Nigeria, the private sector is responsible for an estimated 90 percent of GDP and 94 percent of jobs, and thus is the only option for creating job-enhancing growth. To make that possible, the Government has a critical role to play by creating a regulatory environment that will allow the private sector to take up that leadership role and by investing in human capital to sustain growth in the long-term.

But, attracting private investment requires solid macroeconomic foundations, which have weakened in recent years. The macroeconomy is the platform where all economic activities take place: from consumption to savings in households, from investment to production by firms, and from borrowing to lending in financial markets. The macroeconomic stability of Nigeria has steadily deteriorated over the past decade and reached an all-time low in 2021 due to several factors. First, an over-reliance on oil exports, which account for more than 90 percent of total exports, results in a high degree of external volatility. Second, a limited fiscal space that stems from very costly petrol subsidies, low tax rates, and weak tax administration hinders the various tiers of government to provide sufficient resources to deliver quality public services, including investments in human capital. Third, restrictive trade policies, weaknesses in exchange rate management, and the monetization of the growing fiscal deficit by the Central Bank of Nigeria (CBN) have led to double-digit inflation.

Since the return of democracy in 1999, Nigeria's developmental struggles stem from the pattern of its unequal growth trajectory

Nigeria was a rising growth star globally in the 2000s due to the implementation of several structural reforms in a context of increasing oil prices; yet this fast growth was not accompanied by robust job creation. Between 2001 and 2010, Nigeria ranked among the top 15 fastest growing economies in the world, with an average annual growth rate of 8.2 percent. In addition to the surge in oil prices, this period was characterized by sound macroeconomic policies that helped stabilize the economic environment and first-generation sectoral reforms (in banking and telecommunications), which instilled confidence for private sector development. As a result, GDP per capita almost quadrupled from US$568 in 2001 to US$2,280 in 2010. Nonetheless, this fast-growth period failed to translate into significant job creation. The expansion of non-farm jobs—a feature that characterized East Asia's growth in the 1980s and 1990s—was absent in Nigeria. In fact, the last World Bank Country Economic Memorandum from 2009 noted that Nigeria was facing an "employment crisis" despite a decade of sustained fast

growth. Sectors that grew quickly at the time, such as wholesale and retail trade, construction, and agriculture, were largely staffed by informal workers. Meanwhile, industries in the formal sector, such as financial services and hospitality, were either not very employment-intensive, or have added labor from a very low base, hence failing to make a significant difference in wage employment growth.

The hard-won income gains from the 2000s evaporated between 2011 and 2021, due to the lack of deeper structural reforms, global shocks, conflicting macroeconomic policies, and increased insecurity. Although external conditions were still favorable in 2011–2014 with high oil prices, a combination of weak institutions and a lack of deeper reforms prevented the country from sustaining the strong dynamics of the previous decade. Consequently, growth dropped to 4.4 percent in that period. As Nigeria failed to use its windfalls from natural resources efficiently to develop an enabling business environment that attracts private investments and creates quality jobs, the economy entered a period of sluggish economic activity where growth plummeted to 1.1 percent in 2015–2021—much lower than the 2.6 percent population growth. While external factors—the collapse in oil prices, heighted insecurity, and the COVID-19 pandemic—contributed to this economic deceleration, a worsening domestic macroeconomic policy environment—exchange rate mismanagement, trade restrictions, and weak fiscal policy—undermined economic stability and the country's growth potential.

This tale of two development paths has highlighted several characteristics of the Nigerian economy, which can be summarized in seven messages:

1. Macroeconomic stability and policy predictability have steadily deteriorated over the past decade, eroding growth potential and undermining macroeconomic foundations.
2. The growth performance across different periods is directly linked to the pace of reforms, which in turn are related to the strength of institutions and political economy dynamics.
3. Nigeria lacks large and mid-sized formal productive firms, pointing to a misallocation of labor.
4. As oil continues to dominate exports and is a major source of fiscal revenues, boom-and-bust oil cycles and low investment have hindered economic diversification.
5. Structural transformation and job creation have been slow, as the non-oil economy moved from low-productivity agriculture to low-productivity services.
6. Nigeria's chronic employment crisis has worsened in the past decade, amid declining private investment and demographic pressure.
7. In Nigeria, being in work does not guarantee a path out of poverty.

To chart a new and inclusive growth path, Nigeria needs macroeconomic and institutional enablers and investment accelerators

To catalyze private investment and offer more opportunities to the youth, the priority is to restore and preserve macroeconomic stability. To do so, it will be critical to improve the availability of FX, and the predictability and credibility of the exchange rate system to ensure a level playing field across all firms and individuals. In parallel, reducing inflation—which pushed an estimated 8 million Nigerians into poverty in 2020 and 2021—is another key priority to tackle. This can be done by adopting a single and market-driven exchange rate regime, fully re-opening land borders to trade, and enforcing the legal limit that prevents the federal government from borrowing more than 5 percent of the previous year's fiscal revenues from the CBN. There is also an urgent need to strengthen the macro-fiscal framework to provide sufficient resources to deliver quality public services, including investments in human capital, and maintain debt sustainability by: (i) eliminating the costly and regressive petrol (Premium Motor Spirit or PMS) subsidy (estimated at 2.7 percent

of GDP in 2022); (ii) increasing non-oil revenues by broadening the non-oil tax base efficiently and equitably; and (iii) improving the efficiency of spending.

Strengthening the rule of law and promoting market contestability and competition are also needed to foster a business-friendly environment that creates quality jobs. Given the diverse range of security threats that has impacted the Nigerian social fabric in recent years—as evident by the 200 percent increase in number of conflict events between 2018 and 2021—it will be important to build up social cohesion to enhance citizen participation and help restore government presence. In addition to strengthening the rule of law, a business-enabling environment is essential to support a more efficient allocation of resources and increasing firms' productivity. To that end, the Nigerian authorities are encouraged to reduce administrative burdens, reduce barriers to entry to strengthen market contestability and competition, and improve the transparency and management of land markets by enhancing land use planning and strengthening tenure security.

In addition to macroeconomic and institutional enablers, investment accelerators are critical to develop a more competitive private sector. Four binding constraints to private investment need to be addressed to revitalize the private sector. First, unreliable power supply is the biggest deterrent to private sector development in Nigeria, causing annual economic losses estimated at US$28 billion (5 percent of GDP). Second, Nigeria remains one of the of the world's least diversified countries, due to high trade and transport costs, a restrictive trade policy environment, and numerous constraints in the overall investment climate. The protectionist trade regime limits growth opportunities and raises production costs for the private sector. Third, low access to finance constrains the access of firms to varied sources of funding, in particular for micro, small, and medium enterprises (MSMEs). Only 11.4 percent of firms in Nigeria have access to finance, a lower share than the average of the region and of other middle-income countries. Fourth, Nigeria is capturing a fraction of its digital economy growth potential, as evident from the household penetration rate for fixed broadband, which was only 0.04 percent in 2018, below the African and global averages of 0.6 and 13.6 percent, respectively.

Moving from the "what" to the "how": the criticality of sustaining policy implementation to achieve success

While there is no silver bullet to accelerate growth, Nigeria can become a rising growth star again if it implements a comprehensive set of bold reforms in a timely manner. Skeptics may argue it is unrealistic for Nigeria to chart a new development trajectory and grow at around 7 percent per year instead of the current 2–3 percent, or to abandon the over-reliance on oil, together with its legacy of weak governance and poor track record of macroeconomic policies. But in 2000, skeptics would have dismissed the likelihood that Nigeria would become a lower middle-income country and quadruple its income per capita over the following decade. And yet this is nonetheless what it did. Hence, despite the current challenges, Nigeria can still chart a sustainable and inclusive growth path based on solid economic institutions with a sound macroeconomic environment that reduces regional disparities, strong human capital that will help children reach their full potential and acquire the skills needed for a modern economy, and productive firms that create more and better jobs. To do so, it needs to implement key first- and second-generation reforms that coalesce in timing in the areas presented in TABLE ES 1.

To implement this set of prioritized reforms, the authorities need to walk the talk and shift their focus from the "what" to the "how". Over the years, Nigerian governments have developed a plethora of development plans (Vision 2020 and Vision 2030) and sectoral strategies that analyzed, identified, and set targets for tackling various development challenges. Nonetheless, many of the ambitious targets set in these strategies were not achieved because of weak implementation. For

instance, Nigeria's per capita income was US$2,097 in 2020, almost half of the target set in Vision 2020 that was developed in 2009. To place a higher priority on effective implementation and prioritize interventions, the authorities could develop an institutional arrangement that promotes accountability and coordination and that focuses on improving results as measured by outcomes in a limited number of priority areas as indicated in TABLE ES1. To effectively coordinate policy implementation across tiers of government, any type of institutional arrangement should support a culture change that prioritizes the delivery of public services and meeting citizen's needs and should be anchored at the center of policymaking. Implementation is also the result of consensus among the political elite about the direction of policy, the allocation of fiscal resources, the role of the state and the space for private sector initiatives. Only with sustained implementation we can change the narrative from discussing Nigeria's potential and start discussing Nigeria's actuals.

TABLE ES 1. Key policy reforms for faster and more inclusive growth

*Time horizon**	*Macroeconomic and Institutional Enablers*	*Investment Accelerators*
Sprints	Adopt a single and market-reflective **exchange rate**	Facilitate **trade and boost domestic value added** by removing import and foreign exchange restrictions
	Increase **non-oil revenues** by raising VAT and excise rates and strengthening tax administration	
Medium distance runs	Eliminate the **petrol subsidy** by establishing a compact which also protects the poor and vulnerable	Increase **access to finance** by strengthening the institutional infrastructure for financial intermediation
	Contain **inflation** by reducing the federal government's recourse to CBN financing	
Marathons	Boost **competition** by embedding it into policy, enhancing enforcement, and simplifying rules to lower costs	Boost **power generation** by investing in infrastructure to reduce technical and commercial losses
	Reduce **insecurity** by strengthening the rule of law	Facilitate **transport connectivity** by reducing interstate transportation costs

Source: World Bank.
Note: *Sprints are stroke-of-the-pen reforms implementable within 1–3 months or less at no fiscal cost, given the political will. Medium distance runs are programs implementable within 18 months with tangible benefits for millions of Nigerians that can help make the sprints more bearable. Marathons are longer-term structural initiatives and institutional reforms that can be initiated and put on a firm footing in the next three years but will take longer to complete. Blue boxes are policies to be implemented at the federal level, while grey boxes are policies that require both federal and state level implementation.

Nigeria
Country Economic Memorandum

1. Setting the stage: Nigeria's potential and the need to unlock private sector-led growth

1.1. To provide opportunities for its growing population, Nigeria's economy has to grow faster and create more jobs

Creating jobs is key to fulfilling the youth's aspirations. Three and a half million Nigerians enter the labor market every year (World Bank, 2020a), equivalent to 41 percent of the total new entrants in the labor market in West Africa, and 15 percent of the new participants in the labor market in Sub-Saharan Africa (SSA).[1] This number cannot be absorbed by a public sector-led economy and the private sector needs to drive the creation of well-paying jobs. However, even if job creation does catch up with the expansion of the labor force, Nigerian workers will not fully benefit if wider socio-economic conditions remain unchanged. A child born in Nigeria today will be 36 percent as productive when she grows up as she could be if she enjoyed complete education and full health (World Bank, 2020b). She would also be expected to only live until the age of 55, compared with an average age of 70–75 in other middle-income economies. A combination of rising unemployment, booming demographics, and unfulfilled aspirations is pushing young Nigerians to emigrate abroad in search of gainful employment.

Creating better jobs is a necessary condition for accelerating poverty reduction. The private sector is responsible for an estimated 90 percent of GDP and 94 percent of jobs in Nigeria (IFC, 2020), and is thus the only option for creating job-enhancing growth. Better jobs are typically the result of economic transformation driven by firms that invest in and adopt better technologies, and of increased labor productivity enabled by better skills. The Government has a critical role to play, by creating a regulatory and institutional environment that will boost economic transformation and position the private sector to take up a leadership role, and by providing adequate health and education services.

Nigeria has vast potential…

Nigeria has the potential to be a giant on the global stage. Nigeria is Africa's largest country, with over 200 million people, which is expected to double by 2030. Nigeria is also Africa's largest economy, with a nominal gross domestic product (GDP) of around US$430 billion (2021). Nigeria is a multi-ethnic and diverse federation of 36 autonomous states, with an abundance of resources, a young and entrepreneurial population, and a dynamic private sector. The country has a large domestic market, entrepreneurs who are driving growth through digital technologies, and state governors with a high degree of autonomy, which offers opportunities for dynamic and progressive leaders to move ahead independently.

Between 2001 and 2014, Nigeria was a rising star in West Africa and one the world's 15 fastest-growing economies, with an average annual growth rate of 7 percent. Supported by a favorable global context of sustained high oil prices, Nigeria successfully implemented macroeconomic reforms that achieved

1 This report uses two set of benchmarks to assess Nigeria's performance: a regional benchmark, SSA, and, in some cases, countries such as Kenya, Ghana, Ethiopia, and South Africa; and economies that have successfully from low-income economies to lower middle-income and upper middle-income economies, such as Indonesia, India, Mexico, Malaysia, and Thailand.

substantial growth gains. Structural policies, such as large-scale privatization, reforms to the regulatory environment, the establishment of institutions tasked with combating corruption, and financial sector reforms, succeeded in reducing barriers to investment in Nigeria and promoted growth and job creation.

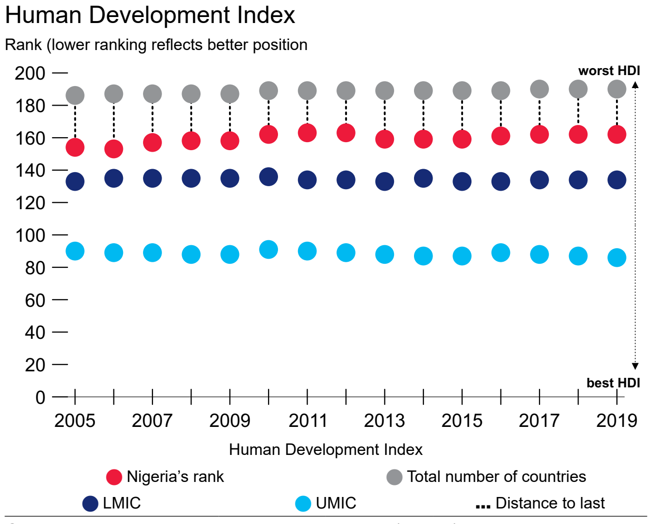
…but development has stagnated over the past decade

Nigeria's development has stagnated. The robust growth performance seen in 2001–2014 ended abruptly in 2015, as oil prices fell, the security situation deteriorated, macroeconomic reforms were reversed, and economic policies became increasingly unpredictable. In 2015 and 2020, Nigeria suffered slumping oil prices and in 2020, this was compounded by the adverse effects of the global COVID-19 pandemic. As a result, the annual GDP growth rate averaged just 1.1 percent between 2015 and 2021. As economic growth slowed, and population continued to grow at a fast annual pace of about 2.6 percent, gains in per capita income were reversed and the number of Nigerians living in poverty steadily increased.

After decades of uneven and non-inclusive growth, Nigeria remains a poor country marked by stark spatial disparities in social and economic outcomes. Nigeria is one of the least-developed countries in the world (United Nations, 2020), ranking 161st out of 189 countries on the HDI in 2020 (FIGURE 1). At the same time, with over 40 percent of its population living in poverty, Nigeria has the second-largest population of poor in the world. Between 2010 and 2020, the number of Nigerians living below the poverty line rose from 68 million to about 80 million—the world's second-largest poor population after India (FIGURE 2). The poverty rate for the north as a whole (pooling the North Central, North East, and North West zones) was 57.9 percent in 2018/19, compared with 20.3 percent for the south (pooling the South East, South South, and South West zones). Indeed, the poverty rate is almost 20 times higher in Sokoto—the state with the highest poverty rate, at 87.7 percent—compared to Lagos—the state with the lowest poverty rate, at 4.5 percent.

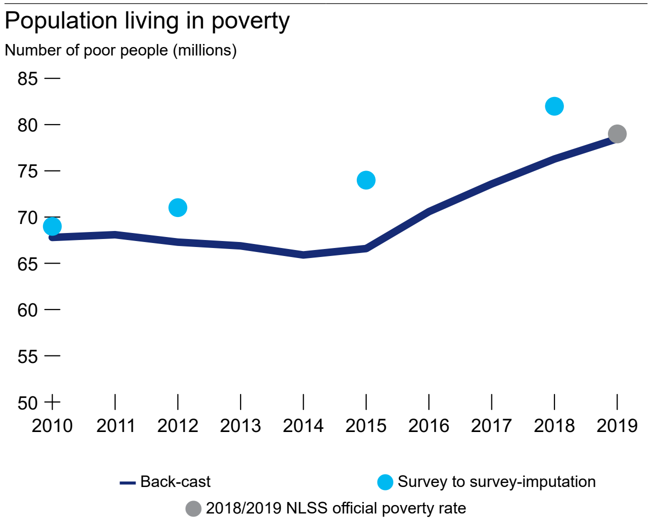
Stark differences in human development indicators are evident between the north and the south, and between globally connected urban centers and isolated rural areas. Households with large numbers

FIGURE 1. Nigeria's development has stagnated in recent years…



Source: United Nations Development Program (UNDP).

FIGURE 2. …and the number of poor people has risen rapidly as a result



Source: National Bureau of Statistics (NBS) and World Bank Poverty Assessment. Note: Estimates exclude Borno. Poverty rates are based on the national poverty line, with real consumption deflated temporally and spatially.

of dependents, limited access to infrastructure, and less-educated household heads are more likely to be poor. Of those Nigerians living below the national poverty line in 2018–2019, 84 percent lived in rural areas, and 76 percent lived in the North Central, North East, or North West regions. In human development indicators, for instance, the best-performing regions of Nigeria compare favorably with upper middle-income countries, while the worst-performing states are below the average for low-income countries.

Nigeria is at a critical historical juncture…

By the end of 2021, Nigeria's real per capita income had fallen to a level last seen in 1982. Even at a per capita GDP growth rate of 1.1 percent observed in 2021 (which was partly a result of base effects following the 2020 recession), it would take about a decade for Nigeria to return to the level of GDP per capita seen in 2014, just before the oil shock (World Bank, 2022b). Nigeria is one of the world's least-diversified oil producers and, while the country's growth rate and fiscal and external positions have historically improved during periods of high oil prices, this was not the case in 2021 or 2022. The decoupling of fiscal trends from the cycle of global oil prices will make it harder for Nigeria to benefit from the tailwinds generated by commodity booms.

Nigeria's revenues are among the lowest globally. Nigeria's revenues are not only low but have also followed a worrying declining trend over the past decade. Even during the commodity-price boom in 2012, Nigeria's revenue-to-GDP ratio was only 12 percent, compared with an average of 21.5 percent in SSA. Due to over-reliance on oil, the fall in international prices in 2014–2015, and the subsequent economic deceleration of the non-oil economy, revenues plummeted to 5.9 percent of GDP in 2016. Since then, Nigeria has failed to shore up its revenues and the country consistently ranked among the worst five globally in terms of revenue collection between 2015 and 2020. Nigeria's low level of revenues threatens fiscal sustainability and undermines the federal government's and state governments' ability to finance necessary expenditures in critical sectors, such as health, education, and security.

Spending more requires more resources and therefore the most critical aspect of meeting Nigeria's vast expenditure needs lies in raising more revenues. Public spending on human and physical capital is too low to equip Nigerians for productive lives. Just 17 percent of public spending goes to education and health, which prevents Nigeria from developing the human capital necessary to attract large-scale private investment outside the oil sector. Public spending is also fragmented across three tiers of government (federal, state, and local), which have overlapping and sometimes inconsistent expenditure mandates, and no effective coordination or reporting mechanism. The states are at the forefront of basic service delivery, but their spending allocations to the social sectors are too low to improve lives and livelihoods.

Despite the rebound in economic activity in 2021–2022, Nigeria is in a paradoxical situation whereby stronger growth is set against a deteriorating macroeconomic framework. Four factors explain this:

- **High inflation:** Inflation is arguably the key priority to be addressed in order to improve macroeconomic sustainability. Despite the urgency, the response from the authorities over the last two years has not been adequate, increasing inflation and fueling poverty and food insecurity. Between 2019 and 2021, Nigeria's high inflation stems from a lack of concerted actions to reform the mix of trade restrictions, exchange rate, monetary, and fiscal policies.

- **Decoupling between oil prices and oil revenues:** This phenomenon, which started in 2021 and intensified in 2022, is driven by lower oil production, higher consumption of petrol, and a rising petrol subsidy. Additionally, external reserves did not increase, and therefore did not reduce the need for external financing as was the case during previous episodes of high oil prices.

- **Insecurity:** Insecurity remains widespread in Nigeria, with more episodes of violent conflict events across the country.[2] Insecurity has not only affected millions of Nigerians, but also discouraged private investment and growth.

- **Uncertainty about the pace and direction of economic policy:** The perception of unpredictability of economic policy at the state and federal level has increased.

…with an important choice to make

The current business-as-usual policy framework hinders prospects for economic growth and job creation. Multiple exchange rates, trade restrictions and a protectionist policy stance, poor revenue mobilization, and financing of the public deficit by the Central Bank of Nigeria (CBN) continue to undermine macroeconomic stability and the business environment. These policies perpetuate long-standing weaknesses in foreign investment, human capital development, infrastructure investment, and good governance (World Bank, 2022d). Notably, in 2020 and 2021, when oil prices were much lower than today, the Government lost an opportunity to address a primary source of fiscal vulnerability by choosing to maintain the subsidy for Premium Motor Spirit (commonly known as petrol)—a subsidy that is unique, opaque, costly, unsustainable, harmful, and unfair.[3] Due to the petrol subsidy and low oil production, Nigeria faces a potential fiscal timebomb (World Bank, 2022b).

The choices that Nigeria faces today are not easy. The country's development challenges are numerous. But if Nigeria and its leaders choose to take the risk of moving on from the status quo and business-as-usual, then the next few years could see Nigeria rise to its full potential. Lifting at least 80 million Nigerians out of poverty will require swift and decisive action to address insecurity and conflicts, high levels of poverty, population growth, and youth unemployment, macroeconomic and fiscal challenges, long-standing governance issues, crises in power and water supply, bottlenecks to private investment and competitiveness, and poor human development outcomes. Although Nigeria faces serious structural challenges, reforms that lay the foundation for robust and inclusive growth through private investment and job creation could rapidly improve the welfare of its citizens and accelerate convergence with other middle-income economies. To free up space for the private sector and enable it to serve as the engine of growth and job creation, the priority is to restore macroeconomic stability through adequate fiscal, trade and monetary policy.

Nigeria has the potential and resources to accelerate growth and reduce poverty. In a context of weakened economic growth, widespread poverty, deepening inequality, and political turbulence, realizing the Government's ambition of lifting roughly 100 million Nigerians out of poverty by 2030 is challenging (FIGURE 3). For instance, the poverty gap index—a measure of the minimum cost of eliminating poverty if transfers were perfectly targeted—shows that eliminating poverty in Nigeria would cost almost ₦3.7 trillion per year (World Bank, 2022c), lower than the amount the country currently spends on petrol subsidies. Removing distortions will allow Nigerians to benefit from their country's immense wealth. With a total wealth of US$5.6 trillion in 2018,[4] Nigeria ranked 26th among the wealthiest countries in the world (World Bank, 2021a). Nigeria's total wealth has doubled in the past two decades, but it continues to be dominated by natural resources and not human capital.

2 For trends in conflict events in Nigeria, see the November 2021 edition of the NDU.

3 For a detailed analysis of Nigeria's petrol subsidy (e.g., how it is administered, how much it costs, who benefits from it, as well as its economic and social implications), refer to the November 2021 (World Bank, 2021b) edition of the Nigeria Development Update, "Time for Business Unusual".

4 A country's wealth includes: produced capital (buildings, machinery, and infrastructure); natural capital, such as agricultural land, forests, protected areas, fisheries, mangroves, minerals, oil, coal and gas reserves; human capital (broken down by gender and types of employment); and net foreign assets.

FIGURE 3. Nigeria has a choice to make

GDP per capita

Indonesia's GDP per capita

Nigeria's GDP per capita

Average GDP per capita growth 2002–2014: 5.1 percent

Nigeria: rising to potential

Nigeria: business as usual

Nigeria: things fall apart

Source: NBS and World Bank.

1.2. Unlocking private investment is the only way to create more and better-quality jobs in a sustainable manner

Unlocking private investment can generate economic opportunities for Nigeria's growing population, accelerating structural transformation, and promoting the diversification of its economy. Nigeria's structural transformation is yet to happen, and economic diversification away from dependence on oil remains a core challenge. Nigeria has a vibrant private sector, with some of the largest firms in Africa, and among the highest rates of entrepreneurial and start-up activity in the world (IFC, 2020). But a range of infrastructural, macroeconomic policy, and regulatory constraints has prevented the full potential of Nigeria's private sector from being realized. Infrastructure deficits—in particular, lack of reliable power and poor transport connectivity—have stifled private economic activity and hurt the competitiveness of Nigerian firms. Poor human capital outcomes also hinder the returns to private investment. Relative to its regional peers in SSA, Nigeria's performance is lagging in many key education indicators, affecting both the stock (working age adults) and the flow of human capital. The education system has not been able to achieve a high degree of inclusiveness: Nigeria has the highest number of primary out-of-school children in the world (World Bank, 2022b).

The public sector can shift from being a primary source of formal wage employment to an enabler of private sector investment and formal job creation. Nigeria can create opportunities for gainful employment by fostering an enabling environment in which private firms become more productive, by investing in human capital, and by enhancing resilience so that gains can be preserved. High compliance costs, as well as regulatory and governance-related hurdles to doing business, have been a major disincentive to formalization. And policy uncertainty and inadequacies, particularly in the realm of exchange rate, trade, and competition policy and management, have impeded growth of medium and large businesses and competitive clusters, which otherwise have considerable potential to further the transformation and diversification of Nigeria's economic base.

Private investment has been critical in every sustained growth success story around the world

Private sector investment—from farmers and microentrepreneurs to local manufacturing companies and multinational enterprises—is at the heart of the development process (World Bank, 2004). Private firms are critical actors in promoting growth and poverty reduction. Governments play a role in the security of property rights, approaches to regulation and taxation, the provision of infrastructure, the functioning

of finance and labor markets, and broader governance features, such as corruption mitigation. Improving government policies and behaviors that shape the investment climate drives growth and reduces poverty, but the ultimate decision to invest lies with the private sector.

East Asia's progress has come to symbolize how economic growth that is rapid and broadly shared can improve the lives of millions (World Bank, 2018). Since the late 1950s and early 1960s, a succession of economies has experienced the East Asian miracle—rapid economic growth that reduces poverty significantly, with little or no increase in income inequality. The development model that underpinned this success combined policies that promoted rapid labor-intensive growth with public spending on basic human capital—education, health, and family planning services. The initial success of the newly industrialized economies—Hong Kong SAR, China; the Republic of Korea; Singapore—spread in the 1980s to Indonesia, Malaysia, Thailand, and China. The poorer Southeast Asian economies of Cambodia, Lao PDR and Vietnam have followed suit since the early 1990s (FIGURE 4). Although policies varied from country to country, reflecting differences in initial political and economic conditions, the successful economies shared several policy and institutional characteristics:

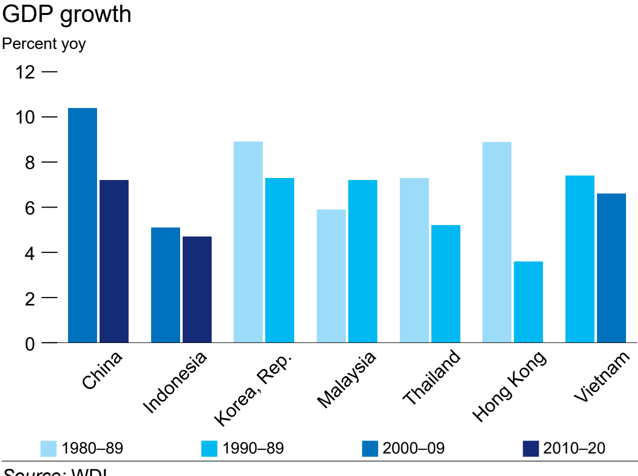
- First, most of these economies (particularly the early developers and the larger economies of Southeast Asia) were able to achieve high rates of private investment (FIGURE 5). Investment was promoted by establishing low tariffs for importing capital goods and increasing public investment in physical infrastructure, such as roads and power, which helped attract private investment by raising the returns to it.

- Second, a commitment to macroeconomic stability, a primary (but not exclusive) reliance on markets to allocate resources, and committed, credible and capable governance.

- Third, trade openness. In general, East Asian economies abandoned import substitution early on in favor of export promotion, in sharp contrast with Latin America up to the 1990s.

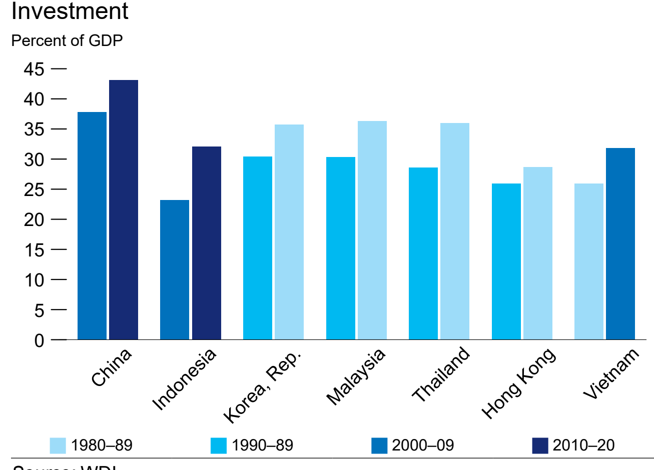
Building human capital is essential to boosting labor productivity. Investment rates by themselves are not the main drivers of growth. Capital accumulation brings more inputs to the production process, but there is a limit to how much this process can sustain growth because of the decreasing marginal impact of additional capital. Thus, the measure of success is not the quantity of investment, but its quality. Governments can play a role in enhancing the quality of investment by investing

FIGURE 4. East Asian economies experienced rapid economic growth…



Source: WDI.

FIGURE 5. …on the back of high investment rates



Source: WDI.

in human capital. A basic level of human capital, such as literacy and numeracy skills, is needed for economic survival. The growing role of technology in life and business means that all types of jobs (including low-skill ones) require more advanced cognitive skills (World Bank, 2019).

Private investment promotes economic diversification and job creation…

Private investment is the engine for growth and poverty reduction. It creates opportunities and jobs for people, and expands the variety of goods and services available, reducing their cost to the benefit of consumers. It also supports a sustainable source of tax revenues to fund other important social goals (World Bank, 2004). Sustained private investment encourages higher productivity by providing opportunities and incentives for firms to develop, adapt, and adopt better ways to organize production, distribute goods, and respond to consumers.

The trade and investment policy agenda lies at the heart of a strategy for economic diversification (OECD and World Trade Organization, 2019). The private sector accounts for more than 90 percent of jobs in developing countries (World Bank, 2005). Better job opportunities also enhance incentives for people to invest in their education and skills, thus complementing efforts to improve human development. Firms that are more productive can also pay higher wages and invest more in training. Hundreds of millions of poor people in developing countries make their living as microentrepreneurs, operating in the informal economy. Firms in the informal economy face many of the same constraints as formal firms, including insecure property rights, corruption, policy unpredictability, and limited access to finance and public services. Relieving these constraints raises incomes for entrepreneurs and allows them to expand their activities.

…and, attracting private investment requires sound macroeconomic and institutional foundations

The macroeconomic context has a paramount role in influencing the level of private investment. The macroeconomy is the platform where all economic activity takes place: from consumption to savings in households, from investment to production in enterprises, and from borrowing to lending in financial markets (World Bank, 2013). Sound macroeconomic management can provide an environment where households and enterprises are able to plan for the long term and undertake their own risk management. Business cycles are intrinsic to modern economies, and some degree of volatility in aggregate prices, output, and employment is normal. However, the effects of an unstable macroeconomic framework percolate throughout the economy—reducing employment, interrupting credit, and deferring investment—and produce losses that lead to a decline in long-term economic growth.

Improving the opportunities and incentives for firms to invest—by reducing unjustified costs, risks, or barriers—requires a sound macroeconomic environment and solid institutions. Robust institutions promote job creation through their effects on firms and the efficiency with which they operate. Economic growth comes from an increase in the production and exchange activities undertaken by firms. Institutions, such as property rights and contract law, shape the regulatory and economic environment within which firms operate. They also influence a firm's internal decisions and its productivity (Syverson, 2011). Economy-wide productivity is optimized in a dynamic market environment that allows for and encourages firms to be created, grow or shrink depending on their productivity.

Institutions matter for job creation and economic transformation. Institutions include all formal and informal conventions that shape the political, economic,

and social behavior of the members of a society. They encompass not only basic institutions, such as social norms and the rule of law, but also more specific ones, such as governance arrangements for entities (including firms) and regulations applying to various markets (IMF, 2003). The quality of institutions influences the decisions of firms of all types: the decision of the farmer to sow more seed; the decision of the microentrepreneur to start a business; the decision of the local manufacturing company to expand its production line and hire more workers; and the decision of the multinational about where to locate its next global production facility (World Bank, 2005). Economic institutions matter for economic growth because they shape the incentives of key economic actors in society. In particular, they influence investments in physical and human capital and technology, and the organization of production (Acemoglu, 2005).

Growth within a poor investment climate and weak macro framework is possible, but unlikely to be sustained. For example, in the 1960s and 1970s, Brazil experienced strong growth while closing domestic markets to international competition and pursuing heavy public investment through state-owned enterprises. The initial results were impressive, but growth proved unsustainable. Protected firms lacked the incentives to enhance their productivity and fell further behind international best practices. Other firms had less access to new technologies and had to pay higher prices for inputs supplied by protected sectors. Public investment to sustain growth led to severe debt, and ultimately to a macroeconomic crisis. Subsequent efforts to improve the investment climate were initially met with cautious responses from firms (World Bank, 2004).

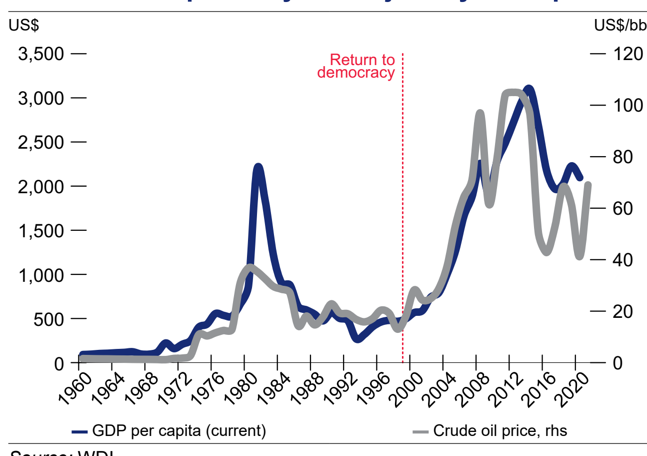
2. Nigeria's growth record since the return of democracy: A tale of two development paths

Learning from Nigeria's recent growth performance is critical to developing an effective and inclusive growth agenda that creates jobs and reduces poverty in the long term. Understanding what the drivers of growth are, what affects the quality of observed growth, and how well-positioned the country is to continue generating growth is important for three reasons. First, growth is an effective driver of poverty reduction. Without strong economic growth, the chances of reducing poverty are small. Second, the quality of growth matters. Nigeria not only has to create millions of jobs for its expanding labour force, but also needs them to be quality jobs that create added value if they are expected to lift people out of poverty. Third, time matters. A single year of poor economic performance has long-term consequences. As the COVID-19 pandemic has made evident, economic shocks can leave long-lasting scars on education and human capital. If no action is taken now, the income gap with other middle-income economies over the next decades will become insurmountable, and the chances that an average Nigerian will achieve the same living standards as in other middle-income economies will dwindle.

Nigeria is a federation made up of the federal government at the center, 36 state governments, a federal capital territory administration and 774 local government councils. Under the 1999 Constitution, the states enjoy significant autonomy, as certain critical laws and policies do not automatically apply to them unless expressly re-enacted. Federalism has emerged as a central institutional mechanism through which power is negotiated, resources are distributed, services are delivered, and conflict is managed. The degree of autonomy granted to states gives them considerable influence on their development trajectories. This poses a challenge to building national consensus in the areas of macroeconomic stability, prioritizing public resource allocation, and meeting minimal national standards for public administration, public financial management, and service delivery.

Oil has played a disproportionate role in the Nigerian economy as a source of export earnings and public revenues (World Bank, 2020c). Nigeria began producing oil in the late 1950s. As a result, oil inflows rose from 3 percent of the country's total merchandise exports in 1960 to 90 percent by 1974. From the 1970s up until 2012, the oil sector accounted for about 80 percent of total federation revenues. Income per capita has closely followed the trajectory of oil prices over the past 50 years (FIGURE 6). Given that oil prices are extremely volatile, so income per capita in Nigeria has become likewise. By undermining Nigeria's short-term macroeconomic stability, oil dependence has also eroded the conditions for sustainable long-term growth.

FIGURE 6. Per capita income levels in Nigeria follow almost perfectly the trajectory of oil prices

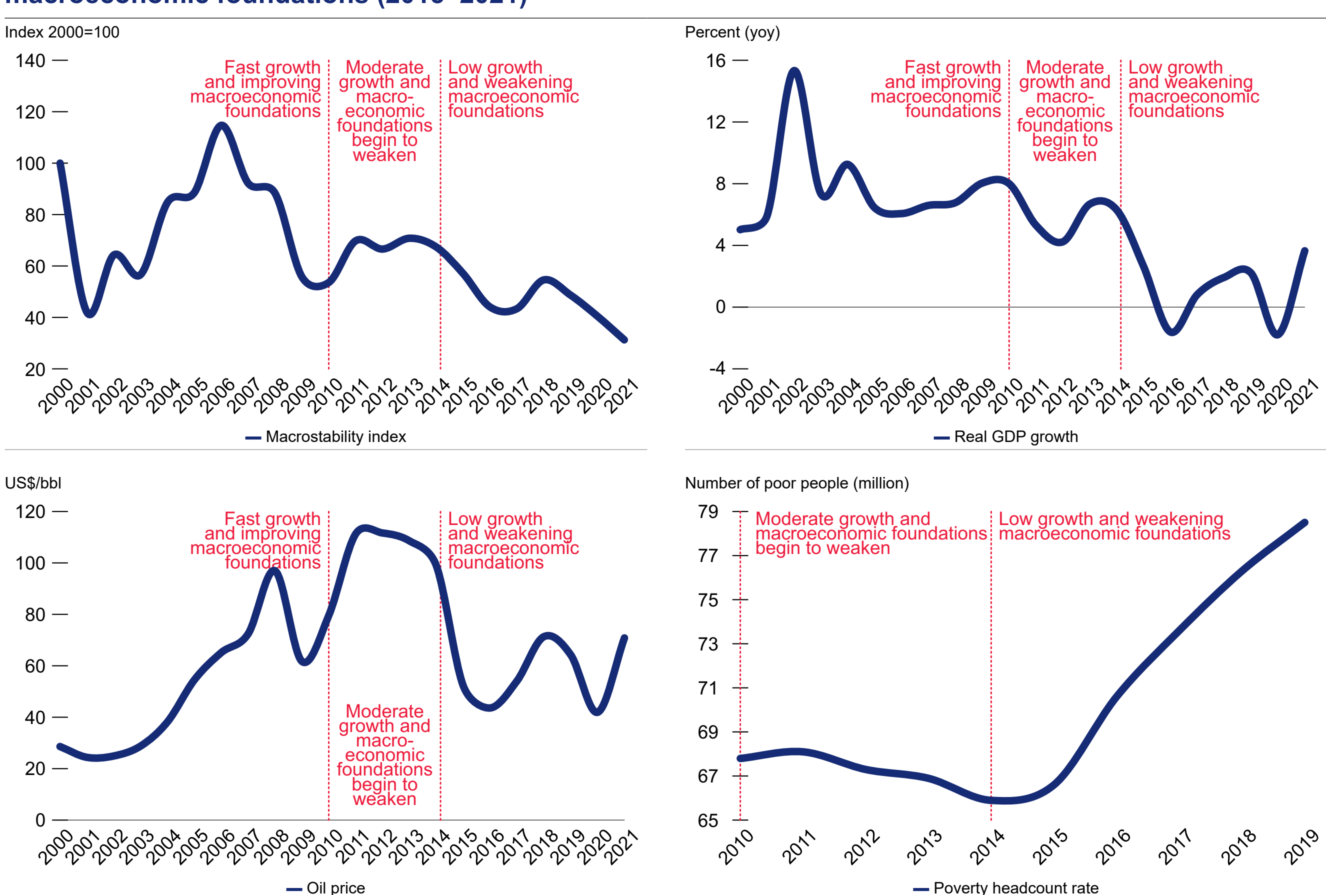


Source: WDI.

Nigeria achieved significant income gains in the 2000s. Between 2000 and 2010, Nigeria's GDP growth exceeded global performance in a context of rising oil prices (World Bank, 2020c). Moreover, Nigeria was one of the few countries that did not completely succumb to the 2008–2009 global financial crisis, largely because of a prudent counter-cyclical fiscal policy.[5] At the same time, the share of the oil sector relative to GDP contracted from 31 to 10 percent, thanks to strong private sector growth, especially in services. By the end of 2010, GDP per capita had reached US$2,280, up from US$568 at the start of 2001 (FIGURE 7).

However, hard-won income gains from the 2000s evaporated between 2011 and 2021. While GDP per capita continued increasing and reached a peak of US$3,099 by the end of 2014, since 2011, GDP growth started moderating and macroeconomic foundations began to weaken despite higher oil prices. When the shock oil price of 2015 hit the economy, Nigeria was in a worse position than in 2010 to face the crisis. Since 2015, the Nigerian economy has been facing substantial challenges, with a pronounced economic slowdown following the global shocks in oil prices in 2015 and 2020, as well as to the COVID-19 pandemic in 2020.

FIGURE 7. Nigeria's growth performance since the return of democracy can be divided in three periods: fast growth and improving macroeconomic foundations (2000–2010), moderate growth and macroeconomic foundations beginning to weaken (2011–2014), and low growth and weakening macroeconomic foundations (2015–2021)



Source: OAGF, NBS, World Bank.
Note: There are no consistent poverty estimates for the period 2000–2009. The macrostability index is a standardized composite index of inflation, current account, and overall fiscal balance, with 2000 as the base year.

5 However, the 2008–2009 crisis was not innocuous. Large capital outflows and withdrawal of US dollar-denominated assets from some banks eventually led to a depreciation of the Nigerian naira and the collapse of share prices and market capitalization on the Nigerian Stock Exchange in 2008.

The economy went into recession twice during this period (in 2016 and then again in 2020). Although the oil sector now only accounts for 10 percent of Nigeria's GDP, oil revenues still make up about half of general government revenue and 90 percent of goods exports. In this context, macroeconomic stability deteriorated because of multiple exchange rates, foreign currency restrictions, a pro-cyclical fiscal policy, trade restrictions, and high inflation. The economy recovered in 2021 but, paradoxically, macroeconomic stability deteriorated further (FIGURE 7). Even at the average per-capita GDP growth rate of 1.1 percent observed in 2021 (which was partly a result of base effects following the 2020 recession), it would take about a decade for Nigeria to return to the level of GDP per capita of 2014, just before the oil price shock.

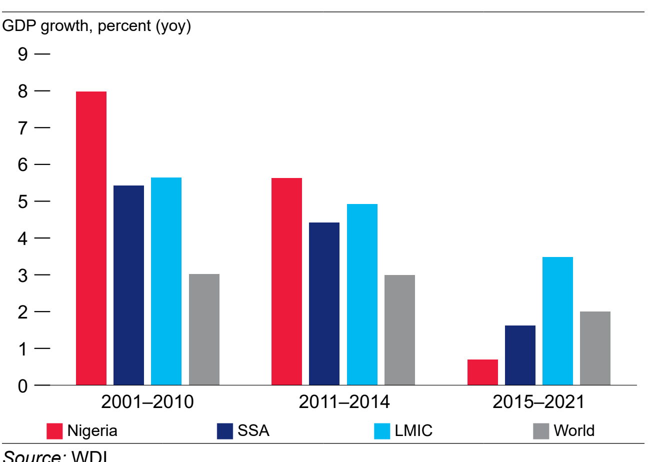
2.1. Fast growth in a context of favorable global conditions and improved macroeconomic foundations (2001–2010)

In the 2000s, Nigeria was one of the fastest growing economies in the world. Nigeria grew at an average of 8.2 percent per year between 2001 and 2010 (FIGURE 8), the strongest economic expansion since the country became independent. At an average of 5.6 percent, growth in GDP per capita was above the average of Nigeria's Sub-Saharan peers and other lower middle-income countries, and it placed Nigeria among the 15 fastest growing countries in the world. This growth was comparable to that experienced by East Asian economies during their own episodes of fast growth.

This long spell of sustained expansion benefited all sectors of the economy. This period was characterized by high oil prices, accompanied by macroeconomic and first-generation structural reforms that instilled confidence for private investment and FDI.[6] While non-oil growth averaged about 3 to 4 percent between 1990 and 2000, it more than doubled to over 8 percent between 2001 and 2010 (FIGURE 9). Despite the global financial crisis, the non-oil economy grew by more than 7 percent in 2009.

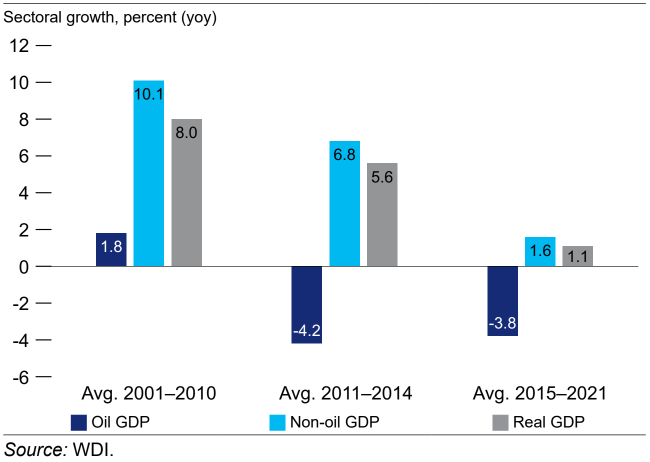
The rapid growth of the Nigerian economy stemmed from well-implemented macroeconomic reforms in a very favorable global context. Nigeria's strong growth performance during a period of rising oil prices reflected primarily two factors: (i) sound macroeconomic policy that created a more favorable environment for private investment; and (ii) sectoral policies. The goals of macroeconomic policy were to stabilize the economy,

FIGURE 8. Between 2001 and 2010, Nigeria was one of the fastest growing economies in the world…



Source: WDI.

FIGURE 9. …led by the expansion of the non-oil economy



Source: WDI.

6 For a more detailed overview, see World Bank (2010) Nigeria Country Economic Memorandum, Putting Nigeria to Work: A strategy for Employment and Growth.

improve budgetary planning and execution, and provide a platform for sustained economic diversification and non-oil growth. Sectoral policies, such as the banking consolidation exercise and the telecommunications reform, directly boosted growth in specific sectors of the economy. On fiscal management, a key reform was the introduction of the Excess Crude Oil Account in 2004, with the aim of stabilizing expenditures between periods of high oil prices and low oil prices. An oil price was benchmarked for the budget and any additional revenue due to higher international oil prices was parked in the Excess Crude Oil Account to help promote counter-cyclical fiscal policy when the need arose. This reform was successfully implemented between 2005 and 2008. Nigeria also successfully negotiated debt relief from the Paris Club in 2006 that eased debt servicing pressures and reduced its debt overhang (Okonjo-Iweala, 2012).

2.2. Moderate growth in a context of favorable global conditions but weaker macroeconomic foundations (2011–2014)

In the absence of sustained reforms, growth slowed between 2011 and 2014. Nigeria's strong growth performance had occurred despite poor physical infrastructure and a business environment that was not conducive to private investment. From 2011 to 2014, although growth remained high at 4.4 percent per year, the economy slowed down. External conditions were still favorable, and oil prices reached their highest level in 20 years, but weak institutions and a lack of deeper reforms prevented the country from sustaining the strong dynamics of the previous decade. Revenues declined in this period by almost 3 percentage points of GDP, despite oil prices remaining high, as oil production fell due to vandalism, and the Government's -subsidized domestic gasoline, reducing its net oil revenues. Attempts to rebuild the Excess Crude Oil Account buffers were unsuccessful and Excess Crude Oil Account declined to US$2 billion at the end of 2014, well-below the target of US$6 billion needed to withstand the oil price shock of 1 standard deviation (IMF, 2014).

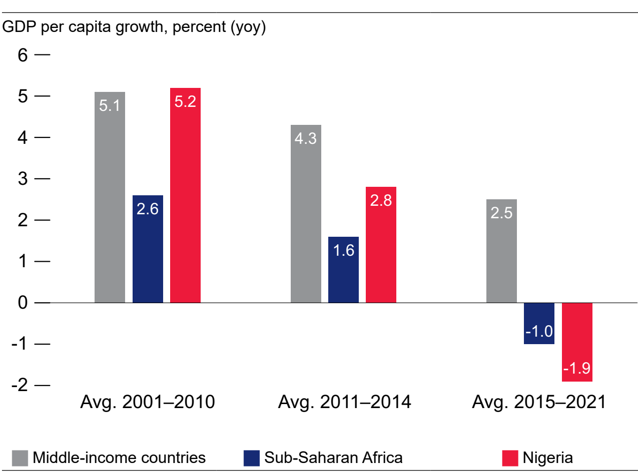
Growth during this period was not inclusive and the number of poor people remained stagnant. Gains from the period of high growth were relatively larger for richer Nigerians, and insufficient to lift people out of poverty. The welfare of relatively richer Nigerians was far more strongly linked to the country's growth than was the case for poor Nigerians. During this period, the number of poor people remained on average at 68 million (FIGURE 7).

2.3. Low growth in a context of unfavorable global conditions and worsened macroeconomic foundations (2015–2021)

Between 2015 and 2021, an oil crisis, the COVID-19 crisis, and conflicting macroeconomic policies set in motion a period of sluggish growth. Economic growth averaged 1.1 percent per year between 2015 and 2021, below the rate of population growth of 2.6 percent (FIGURE 10). Despite the fast expansion of the previous decade, the structure of the economy remained undiversified. The oil price shock of late 2014 and its aftermath pushed the economy into recession in 2016 and led to a major budgetary crisis due to the latent trend of weak domestic revenue mobilization. Nigeria was on a path to a sluggish recovery between 2018 and 2019, when the economy was hit hard by the COVID-19 pandemic in 2020. The decline in oil prices and weak domestic demand also affected the non-oil economy. The growth rate of Nigeria's GDP per capita was not only negative, but also lower than the average of other countries affected by similar shocks (FIGURE 11).

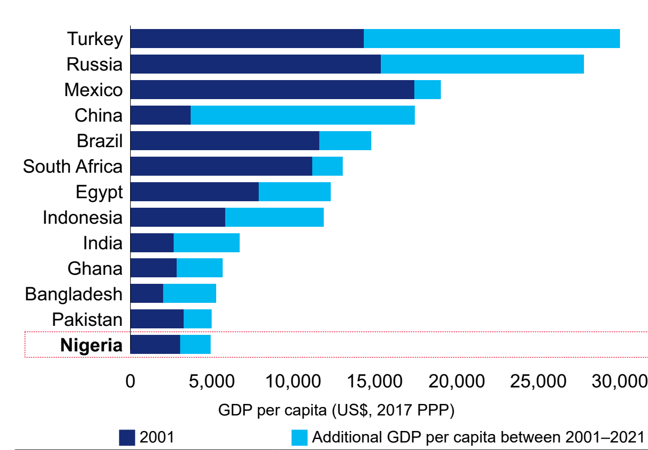
The Nigerian economy was not resilient enough to alleviate the impact of negative global shocks. In contrast to the 2008–2009 crisis, when the 2016 oil price shock occurred, the economy lacked adequate buffers and, as a consequence, expenditures collapsed, jeopardizing the delivery of public services. After the 2015–2016 oil price shock, the Government aimed to diversify its revenue base and also curtail expenditure to maintain fiscal stability. However, curtailing expenditures

FIGURE 10. GDP growth plummeted after the collapse of global oil prices in 2014–2015…



Source: WDI.

FIGURE 11. …and Nigeria's GDP per capita gains over the past two decades are the lowest among peers



Source: WDI.

in the early part of this period resulted in the build-up of significant arrears (both salary and contractor arrears), which had to be paid off during the period. This resulted in higher levels of debt, higher debt servicing, and higher levels of rigid expenditures that were maintained during the period (World Bank, 2022d). When oil prices started to recover from 2018 onwards and Nigeria exited its first recession, it faced the COVID-19 shock in 2020, which again led to declining revenues as economic growth globally slowed down. By the end of 2020, Nigeria's fiscal deficit stood at 5.4 percent of GDP, 1.4 percentage points higher than the legally mandated limit. In 2021, rising oil prices could have helped Nigeria recover its public finances, but the continuing petrol subsidy and falling oil production have led to declining net oil revenues.

3. What can we learn from Nigeria's growth record: Seven messages

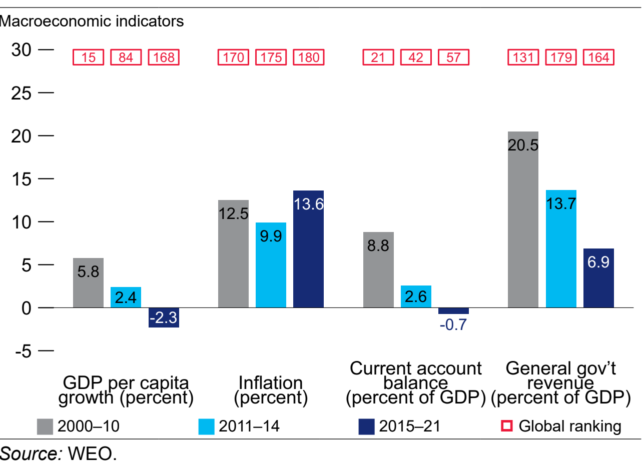
3.1. Message 1: The deterioration of the macroeconomic foundations has eroded growth potential

Macroeconomic stability and policy predictability have steadily deteriorated over the past decade. The volatility of Nigeria's GDP growth rate is above average for lower middle-income countries (BOX 1). Macroeconomic stability[7] has worsened significantly since 2014 (FIGURE 12) and, by 2021, it reached at an all-time low (FIGURE 13). Several factors have undermined macroeconomic stability.

- **An over-reliance on oil exports, resulting in high exposure to external volatility.** Over the past four decades, oil and gas has consistently represented more than 90 percent of Nigeria's total exports, exposing the economy to a high degree of external volatility. In each cycle, faltering oil exports weaken confidence in the economy, resulting in diminished or even negative net capital inflows, which intensifies pressure on the local currency (the Nigerian naira), and further discourages investment, in turn slowing growth. Low oil prices between 2015 and 2020, coupled with production problems in Nigeria's oil sector, affected the current account balance, which turned from a surplus of 3.7 percent of GDP in 2009–2014 to a deficit of 0.7 percent in 2015–2020.

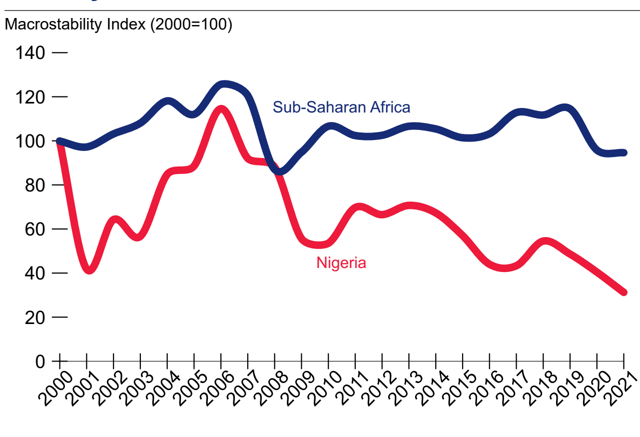
- **Limited fiscal space.** Nigeria's limited fiscal space reflects the country's low total revenues and heavy dependence on crude oil exports. Prior to the COVID-19 pandemic, a full 50 percent of general government revenue came from the oil sector; thus, much like the external balance, the federal budget is highly exposed to trends in commodity prices. Following the 2015 oil shock, Nigeria's already low general government revenue fell to an average of just 7 percent of GDP between 2016 and 2020—among the lowest in the world. Revenues from other sources, such as non-oil taxation, had stagnated at about 4 percent of GDP due to costly tax incentives, low tax rates, weak tax administration, and burdensome compliance requirements for taxpayers. In 2020–2021, Nigeria's fiscal position became increasingly precarious as the general government deficit reached

FIGURE 12. Most macro-fiscal indicators have significantly worsened…



Source: WEO.

FIGURE 13. …and Nigeria's macroeconomic stability reached a low in 2021



Source: World Bank staff calculations based on WEO.

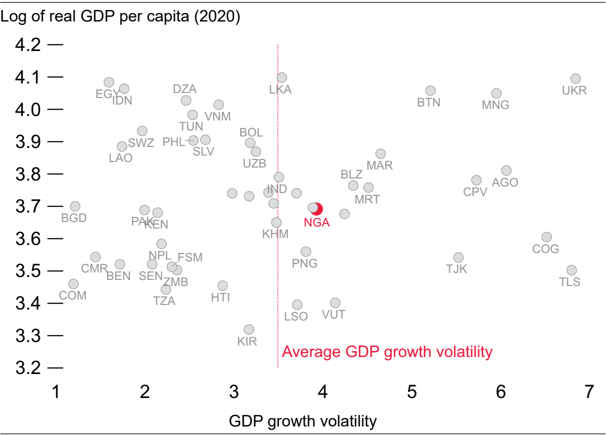
7 Measured by a standardized composite index of inflation, current account, and overall fiscal balance, with 2000 as the base year.

BOX 1. Volatility harms growth

Growth in Nigeria is more volatile than in the average middle-income economies (FIGURE B1). Volatility is driven largely by external terms-of-trade shocks and the country's reliance on oil-export earnings. Expenditure volatility has resulted in low-quality government spending, often marred by incomplete capital projects. Macroeconomic instability has also hindered long-term planning by the private sector and resulted in a concentration of economic activity in short-term arbitrage opportunities, rather than productive long-term investments. Volatile fiscal spending also tends to cause real exchange-rate volatility.

Growth volatility, even with high growth rates, affects long-term growth prospects. Adverse consequences may arise from two channels: first, unsteady revenue flows tend to reduce the quality and productivity of government expenditures; and, second, private investments tend to shrink in a volatile environment. Macroeconomic volatility is a source of short-term concern and an impediment to achieving long-term development goals. Beyond regular business cycle fluctuations, volatility disrupts households' and firms' saving, investment, and production decisions. It reduces the ability of the financial system to transform liquid financial instruments into long-term capital investments, as agents in the economy become reluctant to enter long-term contracts. Greater output volatility—especially when accompanied by crisis episodes—stifles long-term growth. Increasing output volatility by 1 standard deviation leads to a 1.3-percentage-point reduction in growth per capita. This decline is even more sizable (2.2 percentage points) during times of crisis (World Bank, 2014).

FIGURE B1. Growth volatility in Nigeria is above the average of other LMIC economies



Source: WEO, NBS.

5.2 percent of GDP, breaching the 3 percent statutory ceiling for the federal government established in the 2007 Fiscal Responsibility Act.[8]

- **A pro-cyclical fiscal position.** The Government's dependence on volatile oil revenues, very low non-oil revenues, and depleted fiscal buffers have shifted its fiscal policy stance from counter-cyclical between 2008 and 2014, to pro-cyclical between 2015 and 2021 (World Bank, 2022d). Pro-cyclical fiscal policies have amplified economic fluctuations, further discouraging new investment, exacerbating unemployment, and weakening debt sustainability. The debt to GDP ratio surged from 13.1 percent in 2014 to 35.3 percent in 2021, and the federal government's debt-service-to-revenue ratio has risen to critical levels in recent years.

- **Inconsistent monetary policies.** Nigeria's monetary policies are not helping reduce inflation. Since 2018, the CBN has increasingly financed the federal government, heightening inflationary pressures. Moreover, the CBN's policy goals are conflicting, as the central bank aims to stabilize the de facto exchange rate, promote economic growth, and contain inflation simultaneously. Partly due to

8 In line with the 2007 Fiscal Responsibility Act, 34 of Nigeria's 36 states have limited their fiscal deficits.

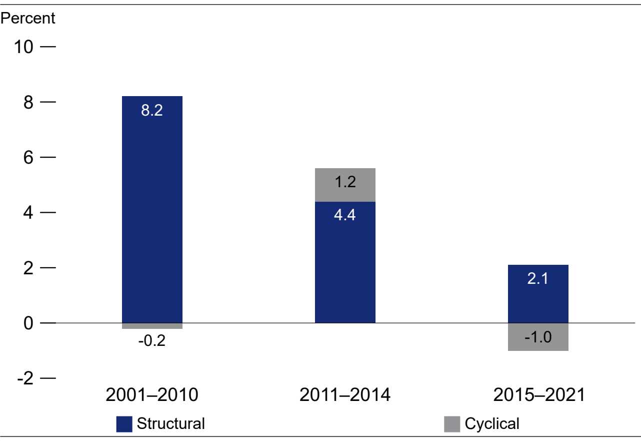
weak fiscal management, since 2015 the CBN has increasingly focused on directly promoting growth and industrial development. Meanwhile, high inflation has worsened poverty and depressed economic activity. Between 2020 and 2021, for instance, the inflation shock pushed an estimated 8 million Nigerians into poverty.

- **Unpredictable exchange-rate policies.** Exchange rate policy aims to maintain an artificially stable exchange rate through continued foreign exchange (FX) restrictions and administrative measures. The CBN supplies FX to four FX windows at different rates, while maintaining a complete restriction on FX for a group of 45 products and limiting its supply for most other imports. In the drive to create jobs and foster economic diversification through import substitution, the CBN has imposed foreign-currency restrictions aimed at boosting the supply of credit to priority sectors, while also directly supporting industrial and agricultural development through subsidized financing. These policies have hurt investor confidence: foreign direct investment inflows have fallen significantly, and domestic producers have curtailed production due to limited access to imported raw material. They have also created a large premium between the official and parallel rates.

- **Restrictive trade policies.** Unpredictably enforced import prohibitions, cumbersome customs procedures, and a dearth of publicly available compliance information increase trade costs and erode Nigeria's non-oil export competitiveness. Although the Government has significantly reduced tariffs in recent decades, the tariff regime remains restrictive. In 2016, Nigeria's weighted average tariff for most-favored nation (MFN) trade partners was twice the SSA average, 5.5 times higher than in Indonesia, and 9 times higher than in Mexico.

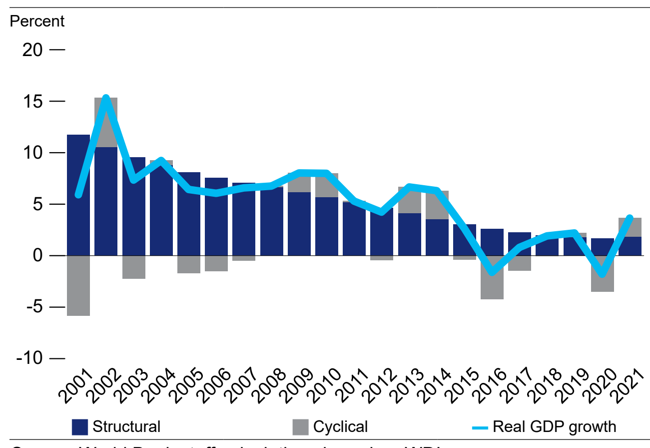
As a result, Nigeria's potential output—the level of real GDP that can be sustained over the long term—is below population growth. Potential output, measured through the structural component of growth, is a measure of what an economy can produce when operating at maximum sustainable employment (IMF, 1997). Potential growth has declined from an average of 8.2 percent in 2000–2010, to 4.4 percent in 2011–2014, and further to 2.1 percent in 2015–2021 (FIGURE 14). With potential economic growth below population growth, Nigeria relies on cyclical growth (positive exogeneous shocks) to sporadically generate positive GDP-per-capita growth, exacerbating the country's vulnerability to external volatility. This is well captured by the pattern of growth in 2021 (3.6 percent), when structural GDP growth remained at the same level

FIGURE 14. Structural GDP growth has steadily declined over the past decade…



Source: World Bank staff calculations based on WDI.

FIGURE 15 …and it is currently below population growth



Source: World Bank staff calculations based on WDI.

as in 2020 (1.7 percent), while cyclical GDP growth accounted for more than 50 percent of the observed GDP growth (FIGURE 15).

3.2. Message 2: The sectoral growth performance across different periods is directly linked to the pace of reforms

Oil-price shocks and mounting fiscal pressures have repeatedly spurred reform but sustaining these efforts has proven difficult (FIGURE 16). Periods of macroeconomic crisis, such as at the start of the COVID-19 pandemic, have led to diversification and fiscal consolidation measures both at the federal and state levels (World Bank, 2022d). However, reforms that impose costs on vested interests (e.g., reducing subsidies) have met significant resistance and have lacked consensus among the elite. Moreover, once the initial crisis subsides, reform efforts tend to lose momentum (Usman, 2022). This pattern was observed during the period of structural adjustment in the 1980s, after the accumulation of debt in the 1990s, and during the period of low oil prices and declining production volumes between 2015 and 2020. After the 2020 recession, the Government has kept a "business-as-usual" policy stance that hinders prospects for economic growth and job creation (World Bank, 2022b). Multiple exchange rates, trade restrictions, and financing of the public deficit by the CBN continue to undermine the business environment. These policies augment long-standing weaknesses in revenue mobilization, foreign investment, human capital development, infrastructure investment, and governance (FIGURE 17 and FIGURE 18).

Nigeria has a track record of successful sectoral reforms that have achieved substantial growth gains. Structural policies, such as large-scale privatization, reforms to the regulatory environment, the establishment of institutions tasked with combating corruption, and financial sector reforms, have succeeded in the past in improving the supply response of the economy (FIGURE 19). Improvements in aggregate domestic demand underlying the strong growth performance were the result of: (i) higher foreign direct investment (FDI), notably in the oil and gas and telecommunications sectors; (ii) increases in remittances from Nigerians living abroad; and (iii) higher credit to the private sector (Treichel, 2010). FDI and remittances responded directly to important changes in macroeconomic policies and structural reforms. Most notably, sound macroeconomic policies helped stabilize the economic environment, and reduce inflation and real interest rates.

FIGURE 16. Fiscal deficits track oil prices and consolidation measures have not been sustained

Consolidated government, percent of GDP
Bonny Light, US$/bbl
2012 Successful reduction of fuel subsidy obligations
2014 ECA depleted to US$2 billion
2014–2015 Recession caused by low oil prices
2015–2019 Nigeria's revenue collection among the lowest in the world
2017–2018 Significant increase in NNPC deductions
2020 Recession caused by COVID-19 and oil prices shock
2021 Decoupling of oil prices and fiscal position due to large petrol subsidy deductions
Fiscal deficit, lhs
Oil price, rhs

Source: OAGF, NBS, World Bank.

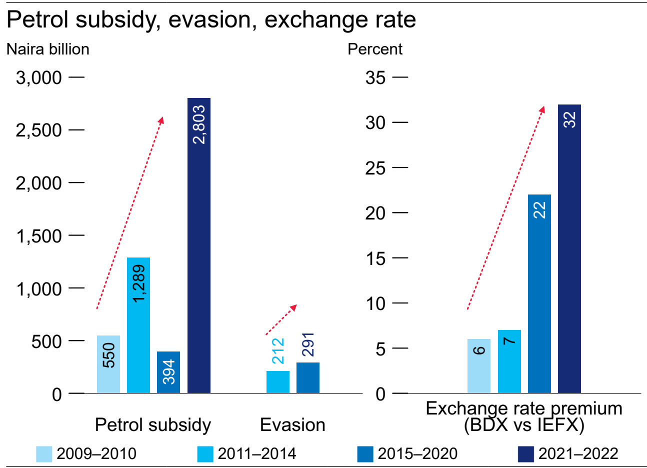
TABLE 1. Sectoral reforms

A successful reform: Telecommunications
Context
NITEL, the government-owned company in charge of providing services in the sector, was plagued with a list of complaints, including ineffective services, high cost of operations, inefficient billing systems, and a call completion rate of less than 50 percent. In 2001, there were about 400,000 phone lines in Nigeria, roughly 1 per 440 inhabitants, the lowest telephone density in the world.
Reform
The Nigerian Communications Act in 2003 aimed to privatize the sector. The Act was to facilitate the entry of private players into the market, create an enabling regulatory environment, promote fair competition, and market efficiency, as well as expansion of telecommunications in rural areas.
Result
By 2021, over 8.5 million Nigerians had access to phones, and Nigeria recorded about 187 million registered mobile connections. The reform has yielded significant benefits, allowing entry and competition into the sector. The success of the reform has been attributed to several factors, including the availability of a large tech-savvy market, appropriate technology, timely decision-making by the Government, and effective regulation by the Nigeria Communications Commission.
A successful sequential reform: Banking sector
Context
Nigeria suffered from a low capital base (on average, US$19 million), a large number of small banks (roughly 70) with relatively few branches, poor rating of some banks, weak corporate governance, non-compliance with regulatory requirements, and huge non-performing, insider-related credit. Furthermore, there was over-dependence on public sector credit.
Reform
The CBN led on banking sector reforms in 2004, which continued until 2010, to usher in a sound banking system able to facilitate economic development and provide a platform for robust monetary policy implementation. The reforms included: consolidation through mergers and acquisitions; a risk-focused, rule-based regulatory framework; zero tolerance for weak corporate governance, misconduct and opacity; promotion of the enforcement of dormant laws; accelerated completion of the Electronics Financial Analysis and Surveillance Systems (e-FASS); and strict enforcement of the contingency planning framework for systemic banking distress.
Result
The reforms improved banking infrastructure, strengthened the regulatory and supervisory framework, and addressed impaired capital and provision of structured finance. The minimum capital requirement was raised from about US$19 million to US$190 million. To meet new capital requirements, many of the existing 89 commercial banks merged with larger and financially more robust banks, resulting in the emergence of 25 commercial banks that were more solid. Another factor deepening the financial system was the reform of the pension fund, essentially the replacement of the pay-as-you-go system by a fully funded pension system. The new system allowed an end to the accumulation of arrears and had a catalytic effect on the capital markets. Since the banking consolidation, credit to the private sector has more than doubled as a percentage of GDP.
An incomplete reform: Power
Context
The Government owned and operated a vertically integrated company, the National Electric Power Authority (NEPA). NEPA was established to exercise unilateral control over generation, transmission, and distribution of electricity in Nigeria. The sector faced shortages of electrical power supply to meet ever-increasing demand; non-payment of utility bills by a large percentage of consumers; loss of already insufficient power due to dilapidated, obsolete, and poorly maintained infrastructure; shortage of gas supply for thermal stations and low water levels for hydro stations; high operating costs; and the recurring vandalism of power installations.

TABLE 1. Sectoral reforms (continued)

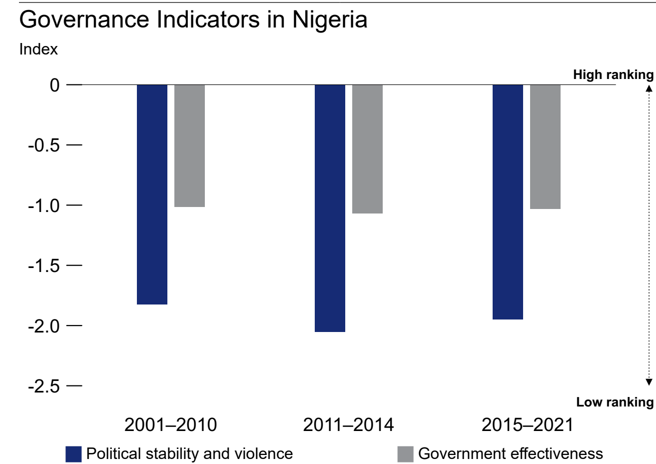
Reform
In 2013, the formal handover of NEPA's successor companies to private investors took place, covering six generation companies (GENCOs) and 11 distribution companies (DISCOs), and the Transmission Company of Nigeria (TCN) was established.
Result
Despite the reform, Nigeria is only able to supply about 3,000 to 4,000 Megawatts daily, a level insufficient for a country of more than 200 million people. One reason is the incomplete nature of the reform, as the Government was unable to complete the development of planned gas-powered plants. Also, the transmission company was not privatized, meaning that ownership of the transmission infrastructure remains with the federal government. In addition, most distribution companies do not receive sufficient electric power for on-sale to consumers and are unable to recover costs incurred from upgrading or improving electricity distribution infrastructure and equipment. The Government implemented the Power Sector Recovery Program in 2017 to resolve many longstanding issues in the sector, in particular around the financial sustainability of the generation and distribution companies. As of 2021, this program has been successful in reducing subsidies and improving the financial sustainability of the sector, but more needs to be done to improve access to reliable power.
A failed reform: Oil and gas
Context
The Nigerian oil and gas sector is composed of numerous players and institutions across three segments: (i) an upstream segment, with several companies involved in the exploration and production of oil and gas; (ii) a midstream segment, with companies that store, treat, and transport oil and gas; and (iii) a downstream segment, which includes refiners, bottling plants for liquefied petroleum gas, filling stations, and trucking companies. The sector's production has declined consistently over the past two decades due to inefficiencies and the accumulation of large payment arrears for joint-venture cash calls in the 2010s. Due to uncertainties about future regulatory and fiscal frameworks, Nigeria has not held a licensing round for oil blocks other than marginal fields since 2007. New production has been limited to drilling new wells in existing license areas. In 2021, less than one-fifth of oil and gas lifted by the Nigerian National Petroleum Company was eventually transferred to the Federation Account—the petrol subsidy accounted for 42 percent of oil and gas lifted by the NNPC, by far the largest component (World Bank, 2022d).
Reform
Since 2000, the Oil and Gas Sector Reform Implementation Committee (OGIC) has attempted to draft and pass a law that would effectively reform the oil and gas sector, specifically to allow the sector to become profitable and attract more investments, and to reduce the fiscal burden of the petrol subsidy. After more than two decades in the making, the Petroleum Industry Act (PIA) was enacted on August 16, 2021, and it aimed to reform the oil and gas sector in Nigeria. It transformed NNPC into a limited liability quasi-commercial enterprise (with shares held by Ministries of Petroleum Resources and Finance) and transferred many powers of the Ministry of Petroleum Resources to two new regulators: (i) a Commission for oil and gas exploration and production; and (ii) the Authority for activities downstream of oil and gas production. The PIA also introduced a new fiscal framework for the oil sector, aimed at increasing oil profits at the expense of taxes.
Result
As of June 2022, Nigeria has not removed the petrol subsidy. Oil production remains below the average production level of the last decade due to high costs, high security risks, the inability of the Federation to pay fully and on time for its share of costs in joint-venture operations, and in the past uncertainties about the future fiscal terms, now set out in the PIA. Despite the passage of the PIA, confusion remains regarding the management and governance of the oil sector. Multiple entities are acting as fiscal agents, with the Commission collecting upstream petroleum revenues, and the Federal Inland Revenue Service continuing to collect downstream revenues. The PIA does not explicitly eliminate in-kind payments and leaves the discretion to the Commission. In contrast to internationally accepted best practice, the PIA excludes all ministers and vests in the Commission the exclusive authority to decide how fiscal payments are to be made or when and how to conduct licensing rounds.

FIGURE 17. The appetite for reforms has decreased…



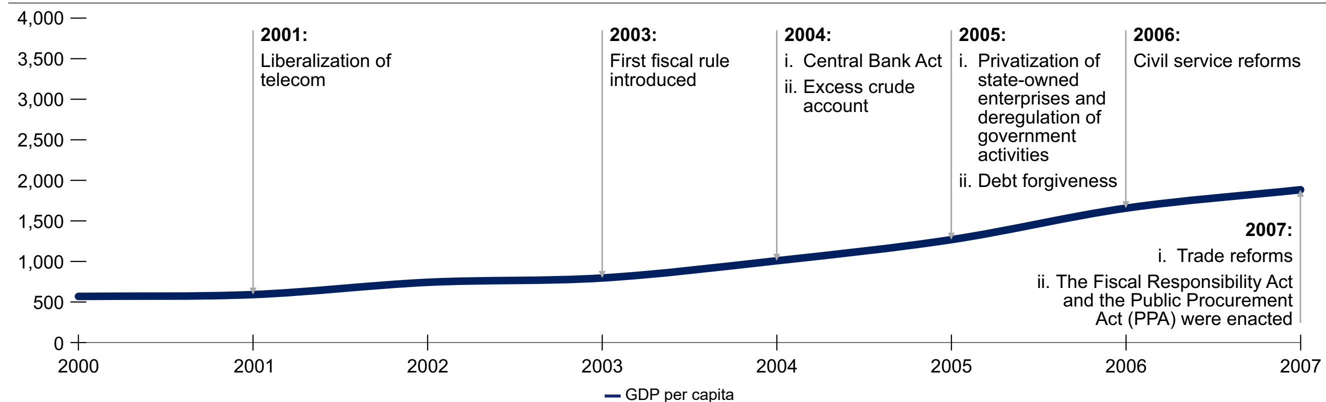
Source: NBS, CBN, NNPC, NCS.
Note: Evasion corresponds to tariff evasion induced by the introduction of foreign exchange restrictions.

FIGURE 18. …amid institutional weakening



Source: NBS, Worldwide Governance Indicators (WGI).

FIGURE 19. Yet in the past Nigeria has shown that bold reforms are possible, as in 2001–08



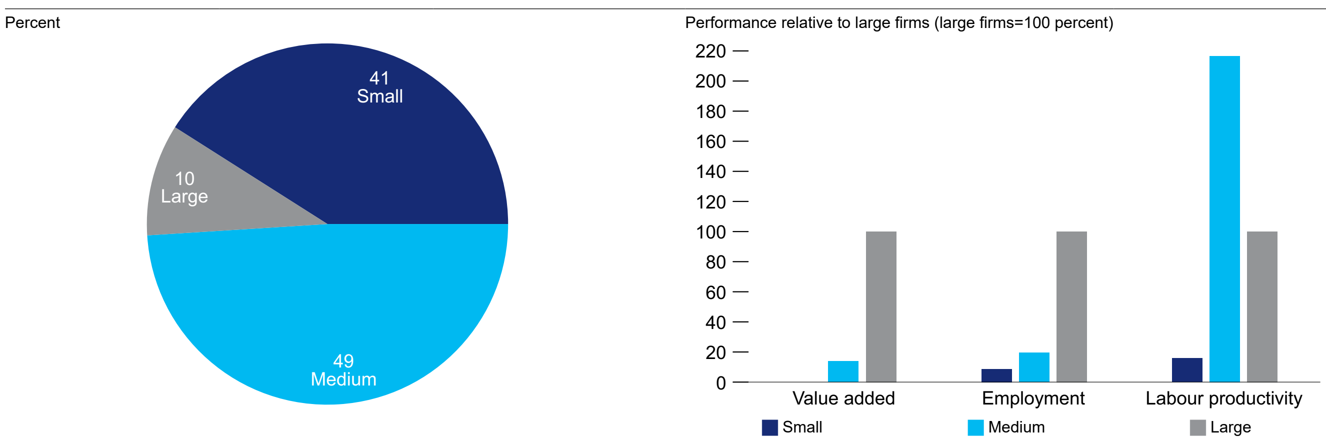
Source: NBS.

3.3. Message 3: Nigeria lacks large and mid-sized formal productive firms

Mid-sized productive firms are important for economic growth, poverty reduction, and job creation. Mid-sized firms generate the bulk of good jobs in most upper middle-income economies, especially in the manufacturing and services sectors, and they are usually enablers of economic transformation. They also serve to transfer technology, with spillovers from larger firms being usually captured by mid-sized firms, thus increasing the overall productivity of the economy. Mid-sized firms are essential for diversification: they have the right size to export, start new production lines, and complement the value chains of larger firms. No country has diversified its economy without the creation of mid-sized firms.

Small firms represent 40 percent of the total number of firms in Nigeria and report the lowest productivity. Large firms are concentrated in telecommunications, oil production, and the financial sector. They are the most productive but have not been able to generate productivity spillovers. In 2014, smaller firms reported having more workers compared with 2009, but larger firms have higher levels of productivity and can create jobs faster (FIGURE 20).

FIGURE 20. Small firms dominate the business landscape but report the lowest productivity

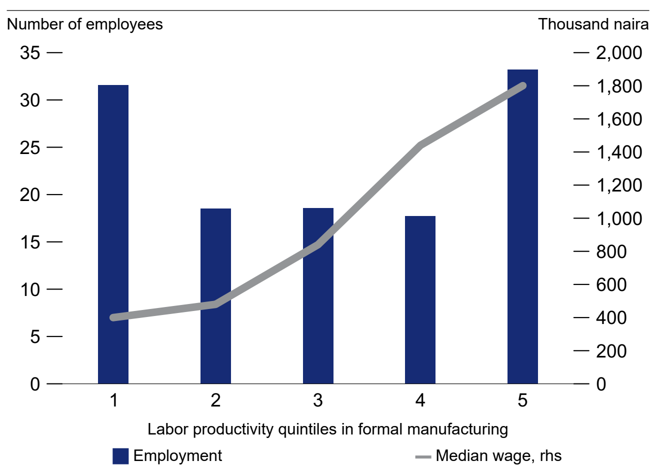


Source: Enterprise Survey 2009 and 2014. The sample is restricted to a balanced panel of firms that responded to both surveys.

FIGURE 21. More productive firms in Nigeria pay higher wages…

Number of employees
Thousand naira
30
25
20
15
10
5
0
1,400
1,200
1,000
800
600
400
200
0
1
2
3
4
5
Labor productivity quintiles in manufacturing
Employment
Median wage, rhs

FIGURE 22. …but there appears to be a missing middle



Source: NBS, MSME National Survey (2017).
Note: Labor productivity measured as sales per worker.

FIGURE 23. Informality is prevalent across all regions…

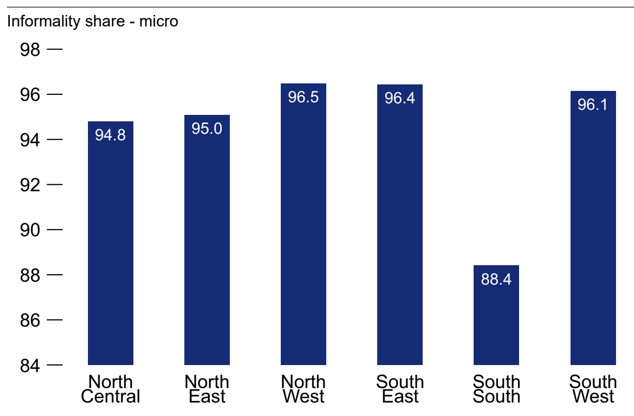
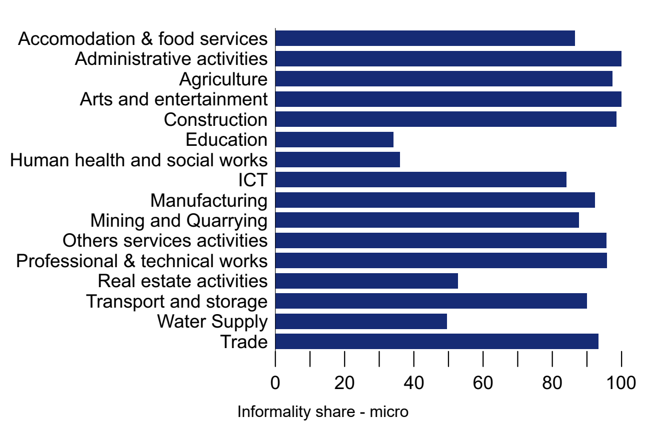


FIGURE 24. …and across all sectors



Source: NBS, micro sample of the MSME National Survey (2017).
Note: Informal firms are defined as those not registered with the Corporate Affairs Commission (CAC).

There is a dual economy featuring large concentrations in employment among the most- and least-productive firms, even in the formal sector. The more-productive firms in Nigeria pay higher wages and the most-productive firms employ the most people, making productivity growth crucial to creating more and better jobs. However, there appears to be a missing middle, as the least-productive firms are the second-biggest employers (FIGURE 21 and FIGURE 22). This dual economy is not driven by informality, as the same pattern holds when focusing only on formal firms. The missing middle, whereby there is a negative relationship between employment and productivity between the first and fourth quartiles, points to a misallocation of labor. This is because, ideally, labor should be allocated to the most-productive firms, and a generally positive relationship would be expected between employment and productivity.

Informality is prevalent across all regions and most sectors. Among micro firms, the informality[9] rate across regions ranges from 88.4 percent in the South-South to 96.5 percent in the North West (FIGURE 23). With the exception of the South-South, micro informality is above 95 percent in all regions. Furthermore, informality among micro firms is most widespread in private sector services, such as administration and support, or arts, entertainment, and recreation (FIGURE 24). The lowest informality rates for micro firms are in public sector services (e.g., education, human health, and social works).

Informality is a potential source of labor misallocation. Among micro firms, informal firms are only one-third as productive as formal ones. However, informal businesses comprise 93.8 percent of all micro firms (FIGURE 25), and employ over three times more workers than formal micro businesses. Such widespread informality indicates that a large share of labor is misallocated toward less-productive firms, and that informality may be a potential source of labor misallocation (FIGURE 26). However, informality is often a symptom of underlying economic weaknesses that cause a self-selection of less-productive firms into informality (see, for example, La Porta and Shleifer, 2014). Hence, measures to improve productivity can naturally reduce informality over time, which in turn can reduce misallocation and further increase productivity.

FIGURE 25. Less than 10 percent of firms are formal

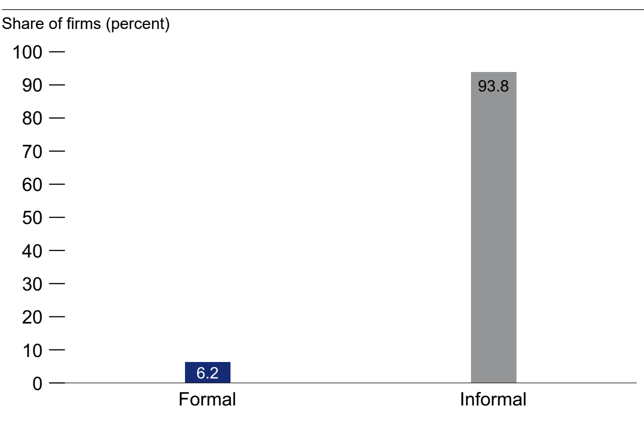
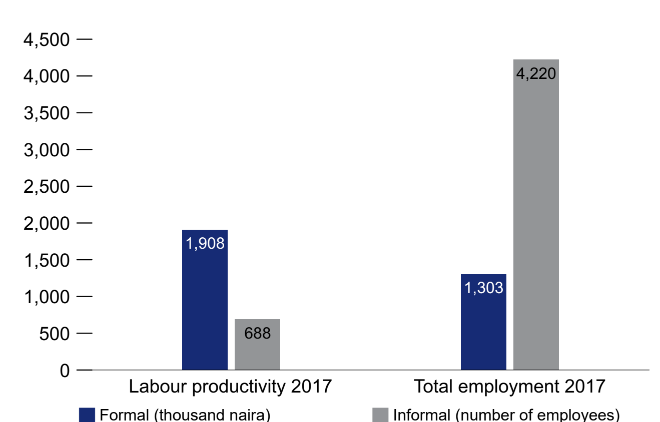


FIGURE 26. A large share of labor is employed in informal firms with low productivity



Source: NBS, micro sample of the MSME National Survey (2017).
Note: Labor productivity measured as sales per worker. Informal firms are defined as those not registered with the Corporate Affairs Commission (CAC).

9 Informal firms are defined as those not registered with the Corporate Affairs Commission (CAC).

3.4. Message 4: Boom-and-bust oil cycles and low investment have hindered economic diversification

In Nigeria, the contribution of investment to growth has been small, due to limited fiscal space and a weak business environment. Economies that have diversified their sources of growth over the past decades have done so off the back of investment growth. Diversification involves learning about innovative products, new technology, and uncharted markets. It requires steady financing through public investment—mainly in the form of better infrastructure—and private investment. Until 2014, Nigeria's growth relied heavily on private consumption. From 2001 to 2014, Nigeria enjoyed a long period of growth in private consumption, driven by a favorable cycle of relatively high oil prices. Macroeconomic and structural reforms instilled greater confidence among the business community, and boosted FDI and remittances from Nigerians living abroad, raising aggregate demand. Growth was also sustained by an increase in oil exports.

Conversely, public consumption has been the primary driver of growth for the past five years. When oil prices collapsed, consumption and investment also declined. Because the economy had not diversified its sources of growth, apart from in certain areas such as telecommunications and financial services, the negative oil price cycle had negative spillovers across the economy. Thus, from 2015 to 2020, the economy relied heavily on public consumption, especially in 2016 as a reaction to the 2016 recession, and in 2020 as a response to the COVID-19 crisis. (FIGURE 27).

As a consequence of muted investment growth, Nigeria has remained far more dependent on oil exports than the average of other oil-rich countries. Since the 1970s, Nigeria's economy has become heavily focused on oil production, and formerly robust non-oil sectors have atrophied. Previously, Nigeria exported a broad range of primary commodities, including a substantial share of the world's cocoa, palm oil, groundnuts, cotton, hides, skins, rubber, and coffee, as well as coal, tin, and other minerals. Over the past decades, oil has instead consistently represented more than 90 percent of Nigeria's total exports (FIGURE 28). This overwhelming dependence on oil exports has left Nigeria's terms-of-trade and balance-of-payments highly vulnerable to shocks.

Despite repeatedly experiencing the adverse consequences of the lack of diversity in its export base, Nigeria has made little progress in reducing its dependence on oil. Regional comparators such as Uganda and Benin, and global comparators such as the

FIGURE 27. Investment has played a limited role in economic growth

Contributions to GDP Growth

	2000–2010	2011–2014	2015–2020
Real GDP	7.9	5.6	0.7
Imports	-1.4	-1.3	0
Exports	2.0	1.1	0
Change in inventories	0	0.1	0
Gross fixed capital formation	0.1	0.6	0
Public consumption	0.4	-0.3	0.5
Private consumption	5.6	2.8	0.1

Percentage points

Source: NBS.

FIGURE 28. Oil exports continue to dominate the exports basket in Nigeria

Nigeria | Indonesia | Egypt, Arab Rep.

Oman | Ecuador | Mexico

Percent (0–100); periods: 1981–1985, 1986–1990, 1996–2000, 2001–2005, 2006–2010, 2011–2015, 2016–2020e

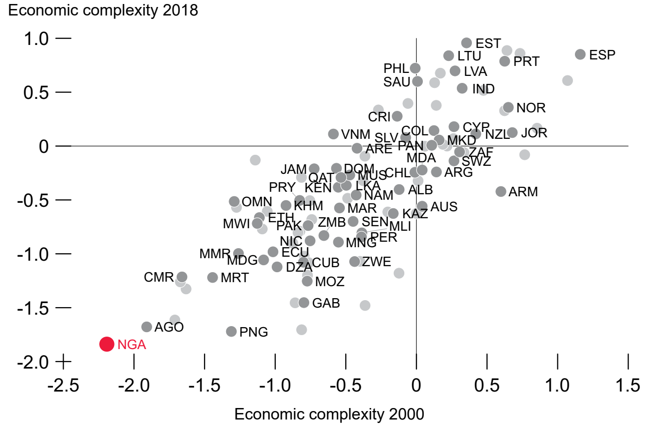
■ Oil exports ■ Non-oil exports

Source: WDI and CBN.

United Arab Emirates and Oman, have reduced their dependence on commodity exports by broadening their portfolio of manufactured goods.

As a result of low investment in non-oil industries, Nigeria is among the seven least-complex economies in the world. Over the past 20 years, Nigeria's economy has become relatively less complex, moving from the 127th to the 133rd position in the Economic Complexity Index ranking (FIGURE 29). Low growth and slow structural transformation have contributed to this outcome—the pace of structural transformation of the domestic economy of the 2000s has not been sustained over a sufficiently long period.

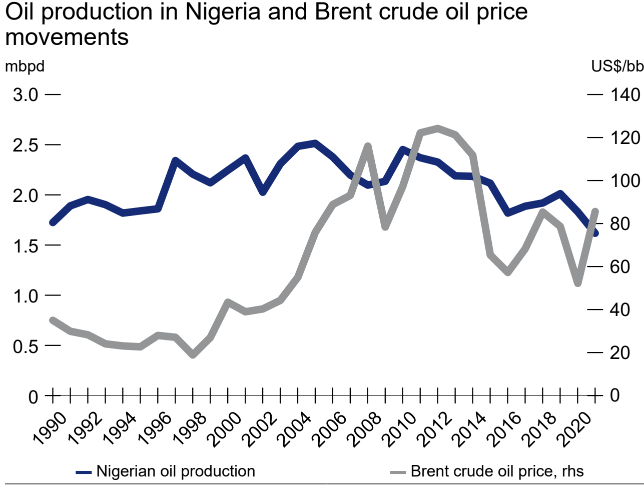
FIGURE 29. Nigeria has remained one of the least-complex economies in the world for the past 20 years



Source: ???

FIGURE 30. In 2021, oil produced was the lowest in three decades

Oil production in Nigeria and Brent crude oil price movements



Source: World Bank staff calculations based on NNPC annual statistical bulletins for oil production from 1990 to 2019, government oil production reports for 2020 and 2021, and World Bank commodity annual prices for Brent crude oil.

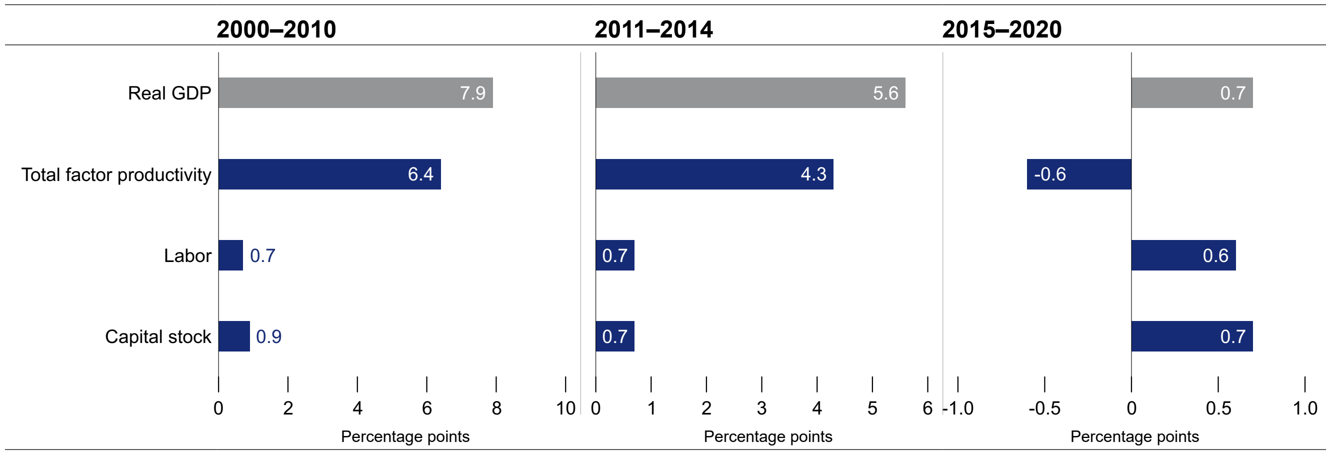
Despite being an oil exporter, Nigeria is benefiting less than before from cycles of higher oil prices (World Bank, 2022b). Oil production has been declining steadily for the past two decades and is not expected to recover to its prior levels. The Federation's failure to finance production of its share of equity oil has plagued Nigeria's oil production for many years. After rising above 2 million barrels per day (b/d) in 1997, oil production fluctuated between 2 and 2.5 million b/d before falling below 2 million b/d in 2016, due to an unusually high number of attacks on oil production infrastructure that year. After recovering modestly, in 2021 production fell to the lowest level since 1988 (FIGURE 30).

Nigeria has limited exploration for many years and has not held an exploration licensing round since 2007. In the absence of new exploration, production in Nigeria has tended to stagnate and then fall, as production from existing fields naturally declines to the tune of 10–15 percent a year. With the exception of a marginal round in 2020, the federal government has not conducted an exploration licensing round since 2007. This was partly because industry players were waiting for the new PIA, which was enacted in August 2021 and has made fiscal terms more attractive to investors. Attacks on oil production infrastructure, work stoppages, and disturbances in oil-producing communities have led to the suspension of oil production on numerous occasions (see the June 2022 Nigeria Development Update).

3.5. Message 5: Economic transformation and job creation have been slow, as the non-oil economy moved from low-productivity agriculture to low-productivity services

Nigeria's periods of expansion have been accompanied by improvements in total factor productivity (TFP). Between 2001 and 2011, growth was accompanied by

FIGURE 31. The decline in structural GDP growth has been accompanied by a decline in TFP growth



Source: NBS.

a sizable rise in TFP (FIGURE 31).[10] This coincided with important sectoral reforms that boosted output and job creation in the financial sector and ICT. Sound macroeconomic policies helped stabilize the economic environment and curb inflation and real interest rates, while sectoral reforms included large-scale privatization, reforms to the regulatory environment, the establishment of institutions tasked with combating corruption, and financial sector reforms (Treichel, 2010) As the reform impulse slowed after 2010, economic growth and TFP's contribution to growth also slowed.

From 2015 to 2020, Nigeria's TFP growth contracted. The end of the commodities boom, combined with heightened insecurity and an inadequate macro-financial policy response, led to a sharp decrease in TFP growth during the 2016 recession. However, TFP growth had started decelerating since 2011 as investment declined. Few productivity improvements occurred in the employment-intensive sectors of the economy, such as manufacturing. As a result, infrastructure constraints became more binding in such sectors, limiting progress in their productivity, competitiveness, and ability to generate employment. With oil receipts dominating fiscal revenue and exports, the economy was hit hard by low oil prices, a significant fall in oil production, and inadequate policy implementation. Investor confidence gradually eroded, as macroeconomic conditions worsened, with inflation doubling, distortions in the foreign exchange market dampening activity, and risks growing in the banking sector.

From 2000 to 2020, the contributions of labor and capital to growth have remained constant. These facts reflect three trends. First, growth in Nigeria has not been investment-driven, and capital accumulation has been slow. Even during the episodes of high oil prices, most growth came from exports and consumption. Second, industries driving growth, such as ICT, telecommunications, and financial services, have not created enough jobs. The employer of last resort, agriculture, has been the only sector constantly employing people, but its growth has not increased in the past two decades. Third, oil dominance: with rents from the oil sector dominating fiscal and external revenues, the space for diversification in non-oil industries that could have boosted labor and capital stock has been severely constrained.

Structural transformation has been slow, and the non-oil economy has shifted from low-productivity agriculture to similarly low-productivity services. Sector-specific contributions to growth can be conceived as the result of two underlying mechanisms: (i) changes in per-worker productivity in a given sector; and (ii) reallocation of workers across sectors. The latter can be split in two subcomponents: (i) a dynamic productivity gain, from labor moving to sectors where labor productivity increases; and (ii) a static productivity gain, when workers move to sectors with higher productivity, regardless of its growth.

- Between 2000 and 2014, within-sector productivity growth and the reallocation of labor across sectors reinforced each other in promoting growth in Nigeria (FIGURE 32). However, productivity growth was largely driven by within-sector productivity growth followed by transitions to more-productive sectors.

- Agriculture and services exhibited noticeable growth in within-sector productivity. Productivity growth in agriculture (within-sector) generated three-quarters of the aggregate productivity gain in this period. In services, within-sector productivity growth was relatively more modest, but nonetheless positive (FIGURE 33). Labor reallocation from agriculture, and to a limited extent manufacturing, toward the services sector drove the main across-sector dynamics throughout the 2000s. However, reallocation effects remained limited compared with productivity dynamics within each sector.

10 Measured by the residual of capital and labor accumulation, and not only technological innovation.

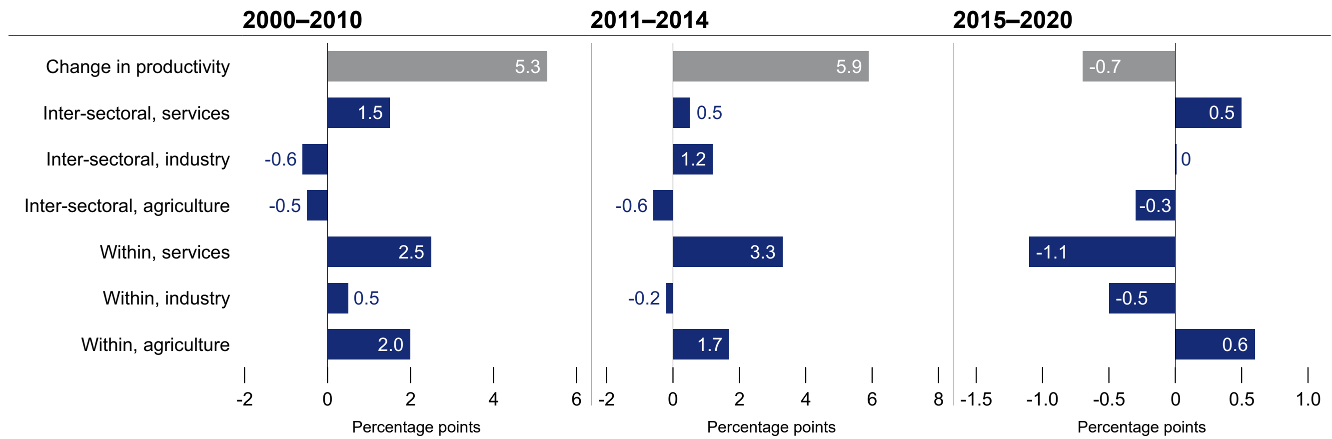
FIGURE 32. The contraction in within-sector productivity has led the decline in per-capita value added…

	2000–2010	2011–2014	2015–2020
Total per capita value added	5.3	2.5	-1.7
Demographic change	-0.1	0	0.2
Participation rate	0	-3.0	-0.1
Employment rate	0	-0.3	-1.1
Dynamic reallocation	0.2	-0.1	-0.1
Static reallocation	0.2	1.2	0.3
Within-sector productivity	5.0	4.8	-0.9

Percentage points

Source: WDI.

FIGURE 33. …driven by decreases in productivity in industry and services



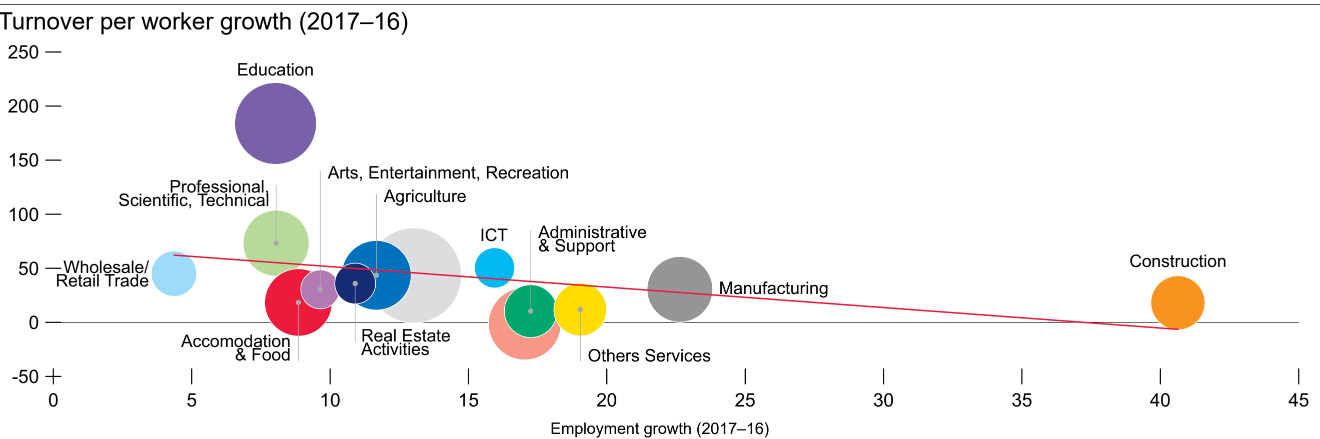
Source: WDI.

- Between 2015 and 2020, productivity declined due to within-sector productivity contractions and an increase in unemployment. The within-sector productivity contraction was shared across services and industry. The contraction in productivity growth within industry and services was significant and drove the overall decline in TFP. Despite decreasing productivity in agriculture, both industry and services lost employment shares to the agriculture sector. That is, given lack of opportunities elsewhere and low entry barriers in agriculture, the latter became the absorbing sector for new labor entrants despite low productivity and earnings. These effects were further exacerbated by the COVID-19 pandemic.

Employment growth did not always occur in subsectors with the highest labor productivity growth, thereby dragging down aggregate productivity through misallocation. The subsectors with the highest growth in employment between 2016 and 2017 were mostly those with low labor productivity growth (FIGURE 34).[11] This implies that labor has been flowing to increasingly less-productive sectors. Although the relationship between employment growth

11 There are two caveats to this result. First, the data come from an MSME survey that excludes large firms. Second, productivity is measured as sales per employee. Sales data are influenced by the prices that firms can charge, and potentially reflect more factors than productivity differences alone (e.g., price-setting power, quality differences).

FIGURE 34. Employment growth did not always occur in sectors with the highest labor productivity growth



Source: NBS, MSME National Survey (2017).

FIGURE 35. Nigerian manufacturers are less efficient than the average LMIC manufacturer

Industry value added per worker

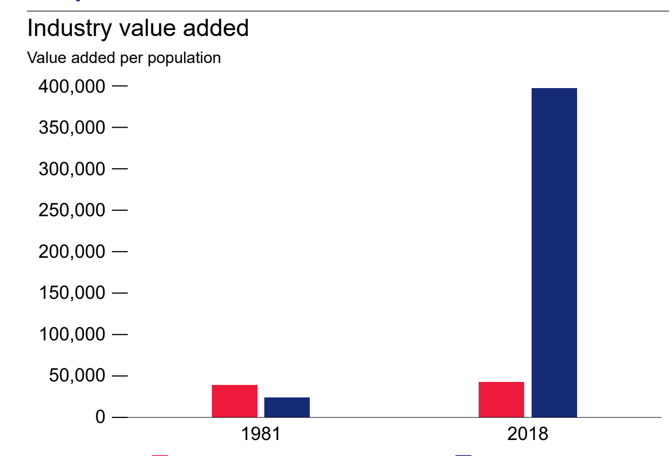
US$

7,000
6,000
5,000
4,000
3,000
2,000
1,000
0

2001–2010
2011–2014
2015–2018

Nigeria
Lower middle income countries

FIGURE 36. Nigeria's labor productivity in the manufacturing sector has not changed much over the past four decades

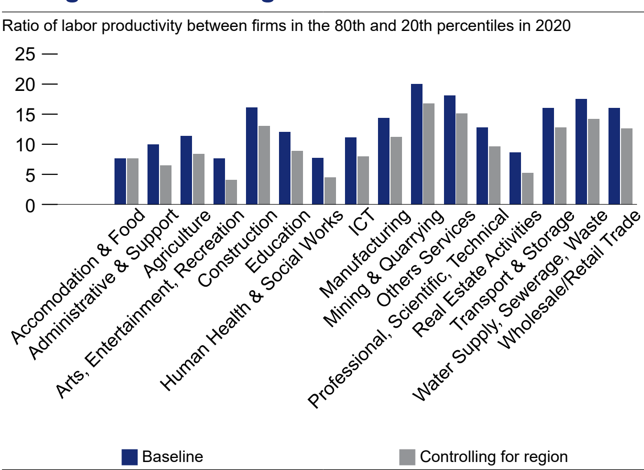


Source: The Economic Transformation Database 2021. Figures are adapted from Serbia's CEM 2019. LMICs available in the dataset include Bangladesh, Bolivia, Cambodia, Cameroon, Egypt, Ghana, India, Kenya, Nepal, Lao DPR, Lesotho, Morocco, Myanmar, Nepal, Nigeria, Pakistan, the Philippines, Senegal, Sri Lanka, Tanzania, Tunisia, Vietnam, and Zambia.

and productivity growth can be ambiguous,[12] it is ideally expected to be positive (Cusolito and Maloney, 2018). Labor should be allocated to more productive sectors, where it can generate the most value, thereby increasing aggregate productivity. In that case, we would see a strong positive relationship between employment and productivity growth. Therefore, a negative relationship, whereby sectors with decreasing productivity receive more employment, means that misallocation across sectors may be on the rise. Industry, the sector that has been typically the driver of structural transformation, remains subdued. A Nigerian manufacturer needs almost one and half times more workers than the average LMIC firm to produce the same level of output. Despite having a big manufacturing sector in the early 1980s, nowadays Nigeria's labor productivity is below the level of its peers. (FIGURE 35 and FIGURE 36)

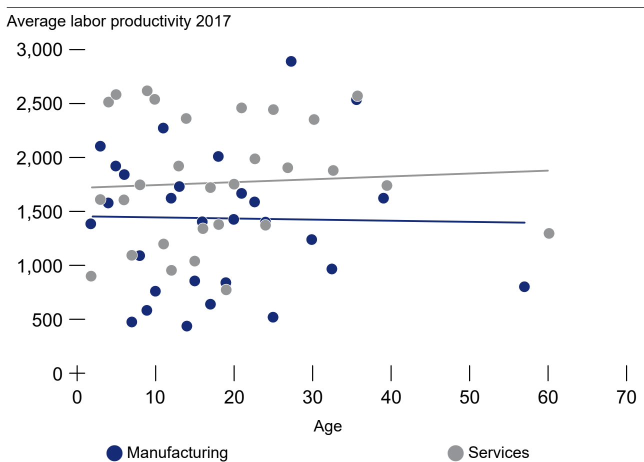
12 The relationship can be negative when productivity rises because jobs have been cut, e.g., by shedding superfluous workers or switching to technologies that require less labor; or it can be positive when more-productive firms expand.

FIGURE 37. Less-productive firms can survive into old age without being eliminated over time…



Source: NBS, MSME National Survey (2017).
Note: Labor productivity measured as sales per worker.

FIGURE 38. …and firms are not becoming more productive as they age



Source: NBS, MSME National Survey (2017).
Note: Labor productivity measured as sales per worker.

Micro data show considerable dispersion of labor productivity across firms, further highlighting significant levels of misallocation. FIGURE 37 shows the ratio of labor productivity between firms in the 80th and 20th percentiles in 2020 by sector, with and without controlling for region. The 80–20 ratios range from 4 to 20, implying huge differences in firms' productivity within each industry. In advanced economies such as the United States, top firms are only twice as productive as those in the bottom percentiles. Hence, within the same sector, and even the same region, firms with vastly different productivity levels co-exist in Nigeria. Part of this dispersion can be explained by factors such as firm capabilities and mark-ups (Cusolito and Maloney, 2018). However, the presence of both productive and unproductive firms can signal misallocation, as less productive firms that should have been outcompeted take up resources from more productive ones. The magnitude of dispersion indicates large potential gains from moving factors, particularly labor, to more-productive firms.

Older MSMEs are not more productive than younger firms, implying a lack of efficient market forces and learning effects, which contributes to misallocation. In both the manufacturing and services sectors, the relationship between labor productivity and firms' age is very flat. Hence, it appears likely that less-productive firms can survive into old age without being eliminated over time. (FIGURE 38). This points to a lack of efficient market forces that would cause less-productive firms to be outcompeted. Furthermore, these results may indicate that firms are not becoming more productive as they age, implying a lack of ability or incentives for learning. Overall, this implies that resources are not being allocated to the most productive firms, which is a sign of misallocation that reduces aggregate productivity (Hsieh and Klenow, 2009). A notable caveat, however, is that large firms are missing from the sample considered for this analysis.

Agricultural productivity indicators, such as plot yields and labor productivity, as well as TFP, reveal that agriculture in Nigeria has grown more slowly than in other countries (FIGURE 38, FIGURE 39 and FIGURE 40). Agricultural workers are the most disadvantaged economic group in Nigeria, with a large disparity in consumption levels between agricultural and other workers, especially in remote areas of the country. The lack of progress on TFP is mainly explained by: (i) the significant underinvestment in agriculture research that is required to generate high-yielding and climate-resilient crop varieties and livestock breeds; and (ii) weak farmer extension and advisory services,

FIGURE 39. The average yield of cereal grains in Nigeria is below regional peers

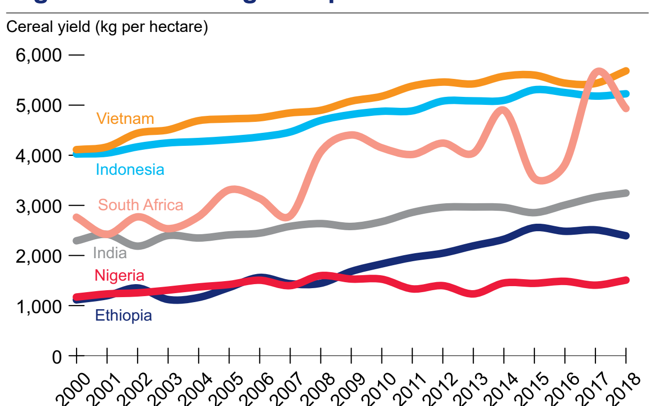
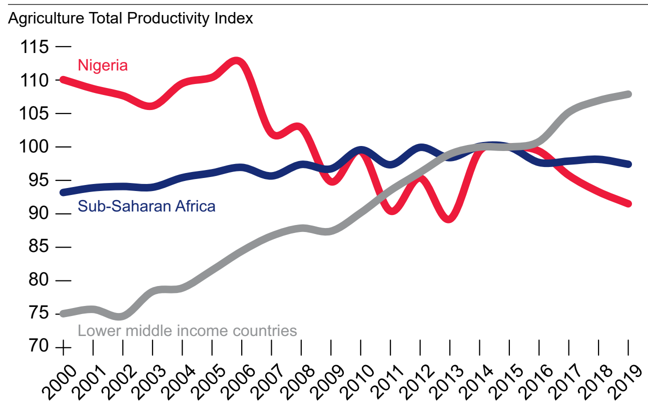


FIGURE 40. Agricultural productivity has declined over the past 20 years



Source: WDI and U.S. Department of Agriculture.

which are required to disseminate crop and livestock management practices enabling the efficient use of existing technologies. Nigeria's investment in agricultural research has been falling—as a share of agricultural GDP, it fell from an already low 0.4 percent in 2008 to 0.2 percent in 2017. In comparison, Ghana's share is 1 percent and South Africa's is 2.8 percent. Current policies that protect the sector through subsidized lending and trade barriers have not been able to increase the average productivity of the sector significantly—on the contrary, agricultural productivity is lower than in 2001–2010.

3.6. Message 6: Nigeria's chronic employment crisis worsened in the past decade, amid declining private investment and demographic pressure

Finding jobs for the millions of young Nigerians that enter the labor market every year is crucial to reaping the country's demographic dividend and accelerating structural transformation. More than two-thirds of Nigerians are under 30; the age distribution has remained largely unchanged since at least 2000 and is projected to persist through 2030. Although the share of young people in the working-age population is high across SSA, it has peaked in some countries—such as Ghana, Ethiopia, and Kenya—where fertility rates have declined, but not in Nigeria.

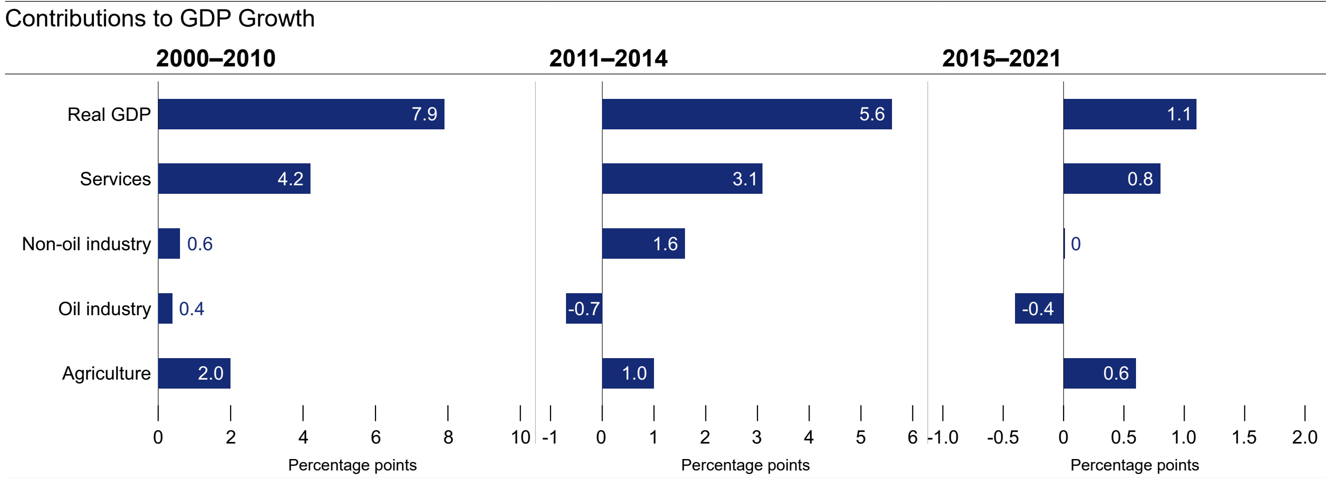
Not enough jobs are being created for the 3.5 million young Nigerians coming of working age every year. In Nigeria, agriculture has long served as an employer of last resort; family farms absorb excess labor during economic downturns. However, the periodic influx of displaced urban workers into the rural economy keeps agricultural wage rates depressed and generates uncertainty that discourages investment in productive capital (World Bank, 2020a). The informal services sector also provides employment, but it typically offers low wages and limited job security or labor protection. In addition to their negative economic consequences, rising levels of unemployment and underemployment are both a cause and a consequence of conflict and insecurity.

Even during the period of high growth between 2001 and 2010, growth did not translate into job creation and unemployment did not fall materially (Treichel, 2010). The fastest-growing period in Nigeria's history, from 2001 to 2010, was driven by growth in the non-oil economy. The oil sector was no longer the major contributor to GDP in terms of value addition or employment, but it remained the main source of exports and fiscal revenues. This strong economic performance was accompanied by rising productivity, but it was a jobless growth: the expansion of non-farm jobs, a

feature that characterized East Asia's growth in the 1980s and 1990s, was absent in Nigeria. Sectors that grew quickly, such as wholesale and retail trade, construction, and agriculture, have been largely staffed by informal workers. Industries in the formal sector, for example, financial services and hospitality, are either not very employment-intensive, or have added labor from a very low base, failing to make a significant difference in wage employment growth.

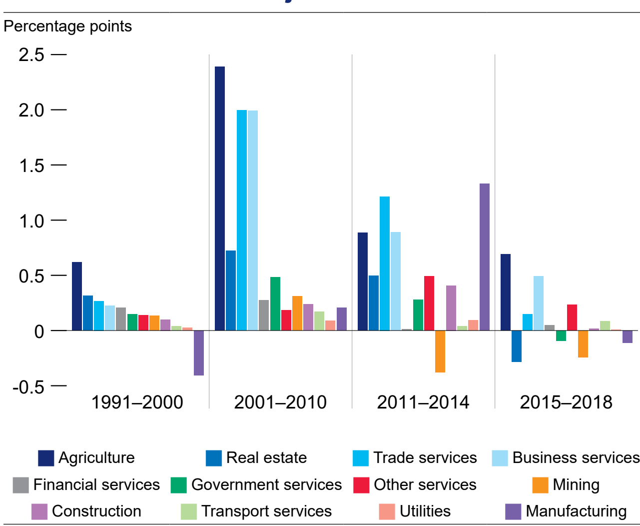
Agriculture has been the primary driver of growth and employment over time. While services subsectors, such as trade and business services, increased their contribution to growth significantly between 2000 and 2014, agriculture has remained the main driver of growth and job creation (FIGURE 41 and FIGURE 42). In the labor market, this has been reflected in a shift of employment into family agriculture. Moreover, the considerable growth of employment in agriculture is consistent with the absence of improvement in agricultural productivity. Nigeria's growth path has been

FIGURE 41. Growth has deteriorated over the past two decades across all sectors



Source: NBS.

FIGURE 42. Agriculture has contributed the most to the creation of new jobs



Source: ILO and NBS.

FIGURE 43. The move out of agriculture into other sectors has generally increased productivity

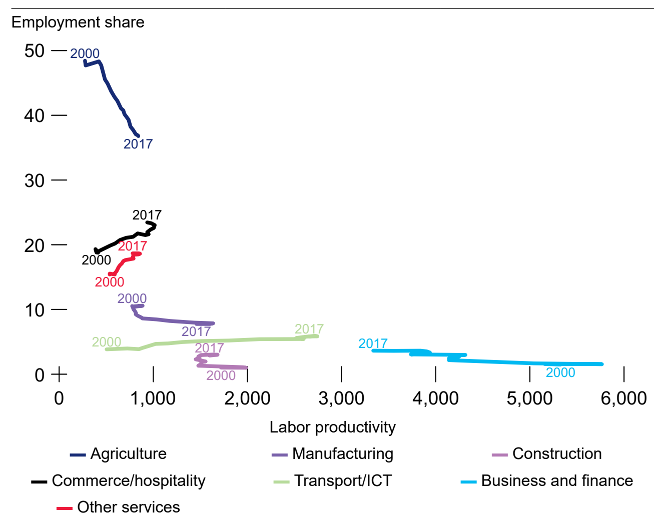


FIGURE 44. The share of employment in the more-productive "global innovator" services remains low

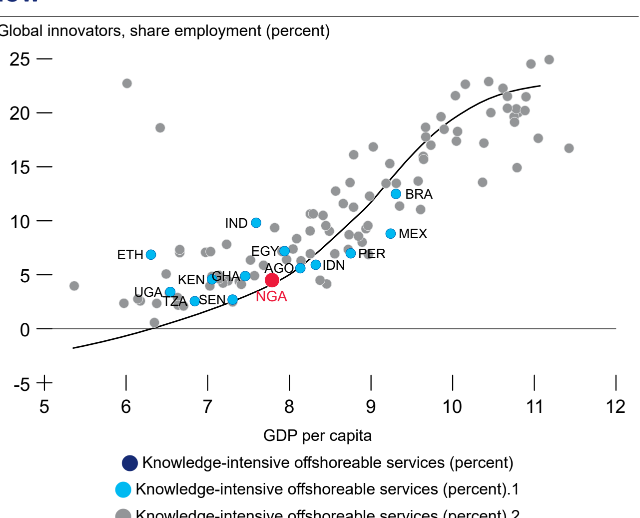
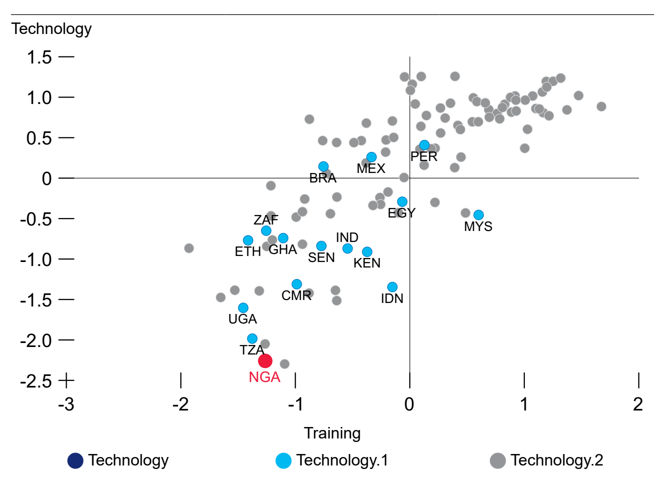


FIGURE 45. Nigeria underperforms in policy areas relevant to service development



Source: Enterprise Survey 2014.

distinct from that of other middle-income economies such as India or Indonesia, whose strong performance relied extensively on the services and manufacturing sectors. In Nigeria, by contrast, over the period of high growth of 2001–2010, the contribution of agriculture to GDP declined only marginally.

There has been a slow reallocation of labor toward retail and other services. From 2001 to 2010, retail and agriculture were the primary drivers of job creation. From 2011 to 2014, the main contributors to employment growth were business services, manufacturing, other services, and retail. From 2015 to 2018, business services made the largest contribution to growth, alongside agriculture, other services, and manufacturing. Consistent with the notion that changes in oil prices drove employment trends, the share of agricultural employment increased and employment in retail trade decreased as oil prices fell. The move out of agriculture into other sectors has generally enhanced productivity (FIGURE 43). The transportation and ICT sectors have seen notable productivity increases. Productivity in commerce and hospitality, as well as in other services, is generally not far from that in agriculture; thus, growth in these sectors has not particularly enhanced overall productivity. Moreover, productivity gains from growth in services will remain modest, if the bulk of job creation occurs in services that are not connected to global markets (FIGURE 44), and if policies to promote technology adoption and training remain limited (FIGURE 45). (World Bank, 2022)

3.7. Message 7: The economy is not generating enough pathways out of poverty due to the lack of economic transformation

Regional and global poverty reduction depends on Nigeria, the country where around one in five of all the poor in SSA lives. Although estimating the largest contributor to global poverty is difficult due to data constraints in India, estimates suggest that almost two-thirds of the global poor live in SSA. In 2018, some 18.5 percent of people living on less than US$1.90 (at 2011 PPP) per person per day in SSA lived in Nigeria. Thus, lifting Nigerians out of poverty is vital to moving the needle on both regional and global poverty.

Most poverty in Nigeria is in-work, and working in any job does not guarantee a pathway out of poverty (World Bank 2022). Around 11.7 percent of Nigerian

FIGURE 46. Employment in agriculture is more prevalent among the Nigerian poor

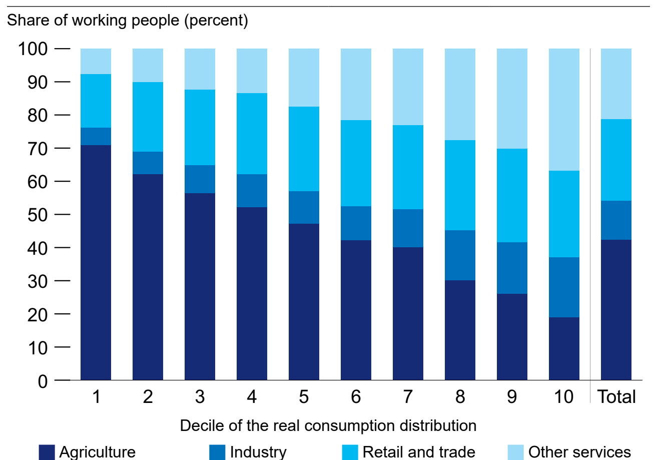
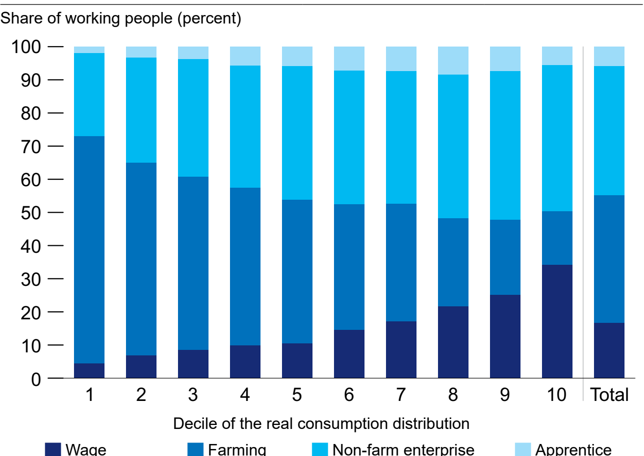


FIGURE 47. Only 16.7 percent of Nigerians have a wage job



Source: 2018/19 NLSS and World Bank estimates.
Note: Sample restricted to individuals of working age (aged 15–64) who were working. Primary job refers to the job that individuals spent the most hours on during the previous week.

workers were primarily engaged in jobs in industry in 2018/19, compared with 42.4 percent in agriculture and 45.9 percent in services (including retail and trade and other types of services). Employment in agriculture is far more prevalent among Nigeria's poor: some 60 percent of workers from the bottom 40 percent of the consumption distribution were primarily engaged in agriculture, compared with 33.1 percent of those from the top 60 percent (FIGURE 46 and FIGURE 47).

Wage employment accounts for just a sliver of jobs in Nigeria, especially among the poor. Around 16.7 percent of working Nigerians held wage jobs in 2018/19, with the remainder mostly split across farming (38.4 percent) and non-farm household enterprises (39 percent). The lack of wage jobs may have severe implications for poverty reduction, given that wage employment tends to offer lower earnings risk, the potential for better working conditions—such as paid overtime, paid leave, and social insurance—and the foundation for careers with a longer-term commitment to the labor market and clearer pathways for advancement.

Work in farm and non-farm enterprises is very small in scale and may not generate the income required to lift households out of poverty. Among those working primarily in farming in 2018/19, around 36.5 percent produced farm outputs that were only or mainly for sale, and this share was higher for those in the top 60 percent of the consumption distribution (40.7 percent) than for those in the bottom 40 percent (32.2 percent). This resonates with previous evidence from Nigeria that suggests commercialization of agricultural activities may not be widespread (Ecker & Hatzenbuehler, 2021). Similarly, non-farm enterprises were unlikely to employ people from outside the household: just 16.5 percent of non-farm enterprise workers engaged employees from outside their household, with this share being even lower for those from the bottom 40 percent of the consumption distribution.

Intergenerational mobility to more-productive sectors is limited, and access to jobs is hindered by a lack of skills throughout the lifecycle. Nigeria's low rate of educational attainment prevents workers from moving into more-productive sectors that require sophisticated skills, an issue that persists over generations (FIGURE 48). Educational attainment is lower in the North, especially for women, and people are more likely to be engaged in low-productivity activities, such as agriculture and livestock farming. Moreover, educational mobility is lower for children whose father reported lower education levels. Compared with men, women in northern regions are less likely to obtain post-secondary education and more likely to remain outside the labor force.

FIGURE 48. Intergenerational mobility to more productive sectors via education is limited

Transitions in educational attainment for heads of household and their children

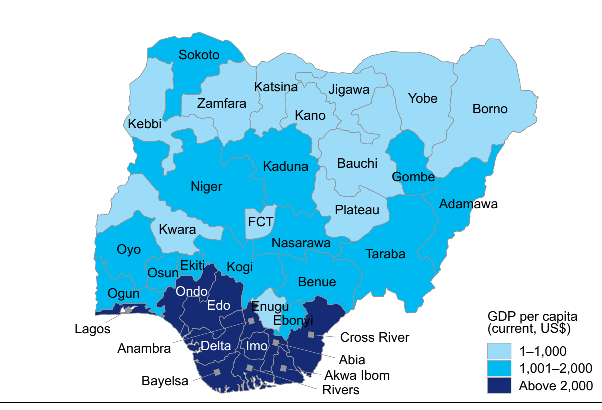
Source: 2018/19 NLSS and World Bank estimates.

Compounding macroeconomic frailties, shocks and uncertainty may blight Nigeria's progress on poverty reduction, while climate change and conflict events could intensify shocks, further limiting opportunities to spread the proceeds of growth. Many non-poor Nigerians are only one small shock away from falling into poverty, while those who are already poor could be pushed into even deeper deprivation. Climate-related shocks—such as floods and droughts—are particularly harmful because they threaten the rain-fed agricultural and pastoral activities that are common among households living below or just above the poverty line. Uncertainty about when such shocks may hit, combined with a lack of coping or insurance mechanisms, can trap households in poverty by discouraging the adoption of high-risk, high-reward technologies or investment in human and physical capital (see, for example, Dercon [2002]). Alongside increasing climate shocks, conflict events have proliferated, displacing populations, disrupting markets, and wreaking havoc on Nigerians' livelihoods. The knock-on effects on forced displacement have been sizable: for example, across the Lake Chad region (including Nigeria, as well as Cameroon, Chad, and Niger), the Boko Haram insurgency had already left 2.5 million people as refugees or internally displaced by 2016, cutting off their access to livelihoods and income (World Bank and UNHCR, 2016). Growing evidence from within Nigeria also documents how agricultural markets, and in turn food security, have been disrupted by conflict events (Awodola & Oboshi, 2015; Van Den Hoek, 2017; Jelilov, Ozden, & Briggs, 2018; Blankespoor, 2021). Thus, in line with global evidence, conflict is a severe constraint to poverty reduction in Nigeria (Corral, Irwin, Krishnan, Mahler & Vishwanath, 2020).

BOX 2. Mind the gap: Regional convergence

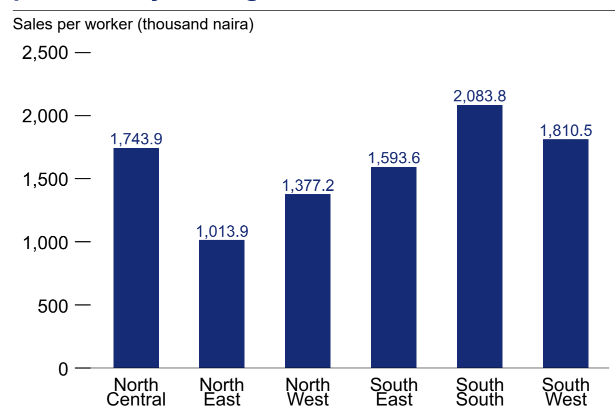
Low growth has deepened regional gaps, and, at current growth rates, it will take 40 years for northern states to catch up with southern states. These differences are evident in the sectors driving growth and their linkages to job creation, poverty reduction, and government revenue generation (FIGURE B2). The emerging service economy (real estate, finance, telecommunications, etc.) is mostly concentrated in the south, especially Lagos, which has Nigeria's largest non-oil economy. It accounts for up to 50 percent of the national economy, and attracts over 60 percent of Nigeria's FDI. For instance, 20 of the country's 21 commercial banks are headquartered in Lagos. Moreover, the oil industry—which, although declining, remains the country's economic backbone—is an enclave sector whose production is centered in the Niger Delta and corporate activity in Lagos. By contrast, sectors such as agriculture, solid minerals, and manufacturing, which have not experienced rapid expansion, are the mainstays of the economy in northern states.

FIGURE B2. GDP per capita is higher in the South…



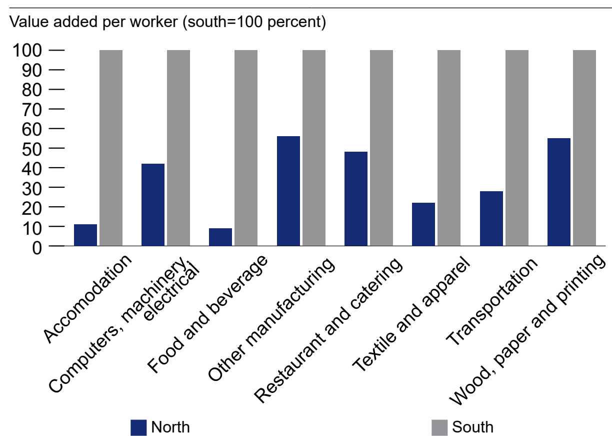
Source: NBS.

FIGURE B3. Regional disparities in labor productivity are high…



Source: NBS, MSME National Survey (2017) and World Bank Enterprise Survey (2014). Sales expressed as thousands of naira.

FIGURE B4. …across all sectors



Source: NBS, MSME National Survey (2017) and World Bank Enterprise Survey (2014). Sales expressed as thousands of naira.

Southern states have a lower incidence of poverty than northern states. In fact, between 2004 and 2010, poverty may have increased in northern states, while simultaneously declining in southern states. Disparities in both job creation and the incidence of poverty have a strong impact on the ability of states to generate diversified and non-oil internal revenue.

Regional disparities in labor productivity are high. Among MSMEs, labor productivity (measured as sales per worker), ranges from about ₦1 million in the North East to just over ₦2 million in the South South (FIGURE B3). Similarly, among formal firms with more than five employees, labor productivity (measured as value added per worker) in the North is about 2 to 10 times lower than in the South (FIGURE B4).

4. What it will take: Enablers and accelerators to drive faster and more inclusive growth

To offer more opportunities to the next generation of Nigerians, the first priority is to restore and preserve macroeconomic stability. Providing macroeconomic sustainability, marshaling fiscal resources, and building the transparency, accountability, and effectiveness of public institutions are prerequisites to promoting inclusive development and building trust across society. Nigeria, however, features several economic policy anomalies—such as multiple exchange rates, foreign exchange restrictions, and pro-cyclical fiscal policies—that are partly explained by the dominance of the oil sector. Trade protectionism is also widespread, leading to a sub-optimal allocation of resources within productive sectors. As a result, many investors have concluded that Nigeria's macroeconomic management is weak and have therefore declined to invest more fully in the country's economic transformation. Further inhibiting this transformation is the "yo-yo" effect of workers shifting back and forth between agriculture and services, in response to changes in the oil price (World Bank, 2020a).

The second priority is to build a new, more inclusive economic growth model, with a view to achieving sustained growth by investing in human development and poverty outcomes. The jobs available to most Nigerians today cannot lift them out of poverty. The insufficient outcomes of the current oil-driven growth model, in terms of poverty reduction and shared prosperity, make a more inclusive growth model essential.

The frontier for skills is moving rapidly, bringing both opportunities to accelerate investments in human capital. There is mounting evidence (World Bank, 2020b) that unless countries strengthen their human capital, they cannot achieve sustained, inclusive economic growth, because they will not have a workforce prepared for the more skilled jobs of the future and will not be able to compete effectively in the global economy. In the case of Nigeria, investing in people is critical to tapping into the country's abundant human resources. This entails refurbishing the education system to improve people's skills, as well as enhancing access to basic services to ensure a healthy labor force. Maximizing the potential contribution of women is especially important, with a particular focus on the health, education, and life chances of adolescent girls.

A lack of concerted policies across economic institutions, agents, and sectors prevents permanent solutions to the current economic situation in Nigeria. The fractured policy space among the elites and structural characteristics of the economy, such as wide regional differences in endowments and unequal distribution of income in a federal policy framework, have considerably reduced the consistency and accountability of economic policy. As a result, the main economic actors at the different tiers of government are isolated or weakly connected, unable to make the best use of their capabilities and resources. This has resulted in a high degree of inefficiency and loss of opportunities for growth and employment. A lack of policy cohesion underpins many of Nigeria's anomalous economic outcomes: weak job demand, poor educational outcomes, frail macroeconomics, stagnant productivity, and wide regional disparities. This also means, however, that Nigeria can rebound and set itself on a trajectory to higher growth through strategic interventions in the short to medium term.

Nigeria's past growth performance offers valuable lessons about what to prioritize. Tapping into the extensive analytical work of the past decade and ongoing engagements, the World Bank has identified a set of opportunities to accelerate economic transformation. These are organized around three pillars to deliver better jobs for more people.

4.1. Macroeconomic enablers: Ensuring macroeconomic sustainability as a fundamental condition for catalyzing private investment

Improving the availability of FX and the predictability and credibility of the exchange rate system

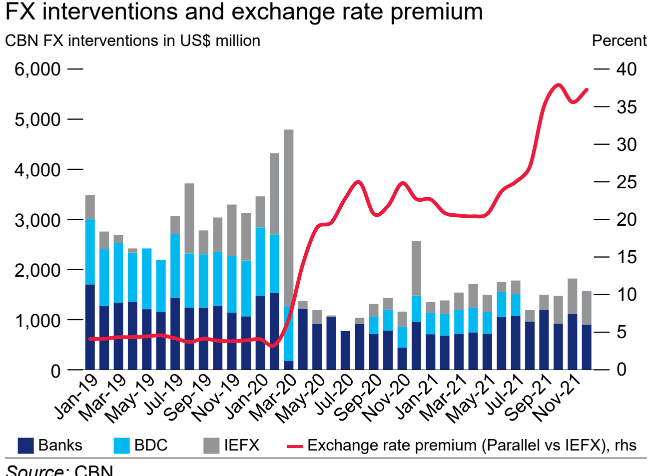
Why the urgency? The CBN's exchange rate management policies continue to discourage investment and fuel inflation. Exchange rate stability is a key CBN objective; to preserve its external reserves, the CBN continues to manage FX demand and limit the supply of FX to the market (FIGURE 49). Although the CBN has raised the nominal official exchange rate three times since 2020 (by 15 percent in March 2020, 5 percent in August 2020, and 7 percent in May 2021), FX management remains too rigid to effectively respond to external shocks.

Opportunities: Adopting a single, market-driven exchange rate regime, and clearly communicating the exchange-rate management strategy will build credibility and improve the availability and accessibility of FX. To achieve this goal, it is critical to re-establish the US dollar interbank market and re-enable commercial banks to trade FX on their own behalf and not solely to fill client orders.

Reducing inflation through a sequenced and coordinated mix of trade, monetary, and fiscal policies

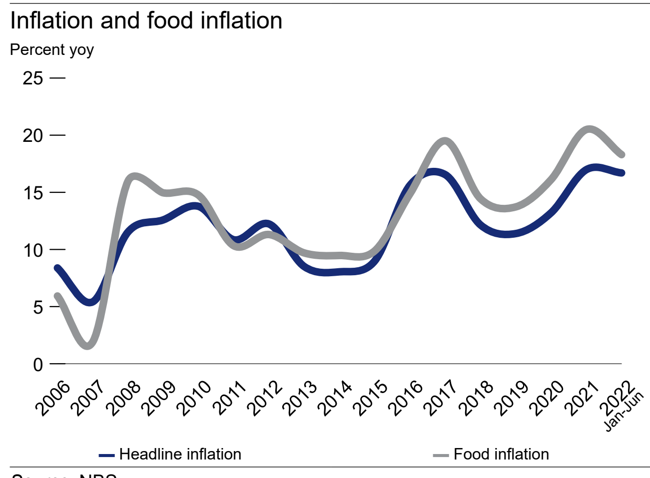
Why the urgency? Inflation in Nigeria has been chronically high (FIGURE 50) and among the highest in the world. Inflationary pressures from supply shocks are compounded by policy distortions, in particular: (i) a lack of flexible foreign exchange (FX) management; (ii) trade restrictions; and (iii) conflicting monetary policy goals. Nigeria's monetary policy is not helping reduce inflation. In particular, FX management and development finance at subsidized rates have reduced the effectiveness of the monetary policy. Since 2018, the

FIGURE 49. The CBN's current FX management has reduced the supply of FX and increased the premium between the official and parallel rates



Source: CBN.

FIGURE 50. For most of the past 15 years, inflation in Nigeria has been above the CBN's goal of 9 percent



Source: NBS.

CBN has increasingly financed the federal government, heightening inflationary pressures. Moreover, the CBN's policy goals—stabilize the de facto exchange rate, promote economic growth, and contain inflation—are at odds with each other. Partly due to weak fiscal management, since 2015 the CBN has increasingly focused on directly promoting growth and industrial development. Meanwhile, high inflation has worsened poverty and depressed economic activity. Between 2020 and 2021, for instance, the inflation shock has pushed an estimated 8 million Nigerians into poverty.

Opportunities: Reducing inflation is arguably the key priority.

- **FX management:** See previous section.

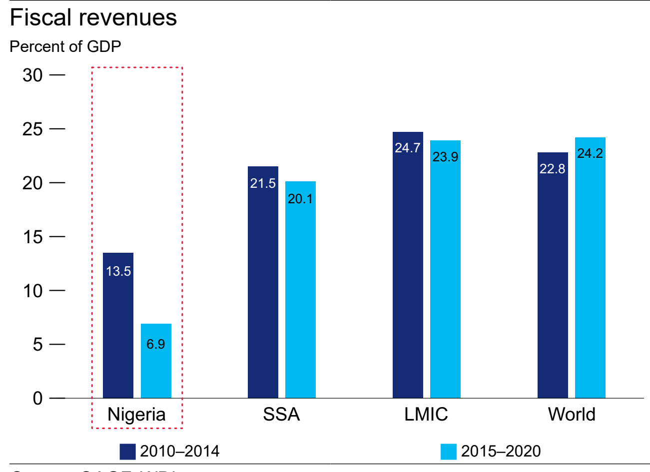
- **Trade measures:** Fully re-open land borders to trade, and strengthen regional cooperation to combat smuggling. Remove imports of staple foods and medicines from the list of FX restrictions, and replace restrictions with tariffs that reflect the ECOWAS Common External Tariff. Review FX restrictions and import bans on non-food goods and assess the implications of replacing them with tariffs.

- **Monetary policy:** Reduce subsidized CBN lending to medium and large firms. To further reduce the federal government's recourse to CBN financing, enforce the legal limit that prevents the federal government from borrowing from the CBN more than 5 percent of the previous year's fiscal revenues.

Strengthening the macrofiscal framework

Why the urgency? Nigeria's revenues are among the lowest globally. As revenues remain volatile and low (FIGURE 51), the country has adjusted spending to maintain fiscal sustainability. Low revenue and costly subsidies undermine the government's ability to finance necessary expenditures in critical areas, such as health, education, security, and Nigeria's vast infrastructure gap. Over-reliance on oil and low tax rates are major obstacles to accelerating revenue mobilization. Oil and gas revenues are volatile and have been reducing, amid a secular decline in oil production and the burden of petrol subsidies to consumers. Oil fiscal savings rules broadly functioned until 2012, but since then savings have been depleted and not replenished. In addition, tax expenditures impose a large cost in terms of forgone revenues at ₦5.8 trillion (3.7 percent of GDP)—one of the highest among SSA countries for which estimates of forgone revenues are available (World Bank, 2022d). Despite a succession of development plans prepared by every government, macroeconomic policies lack predictability due to weak implementation, the absence of buffers to reduce the impact of external shocks, and a poor institutional framework that lets ministries, departments and agencies pursue conflicting goals with little coordination.

FIGURE 51. Nigeria's fiscal revenues are among the lowest globally



Source: OAGF, WDI.

Opportunities: Priorities for mobilizing oil and non-oil revenue and reducing tax expenditures can be divided in three areas.

- **Eliminate the petrol subsidy.** Nigeria's petrol subsidy imposes a massive and unsustainable fiscal burden (2.7 percent of GDP in 2022), and an even greater opportunity cost. By maintaining an inefficient price control on petrol, Nigeria is forgoing productivity-enhancing investments in essential public goods and services.

- **Increase non-oil revenues.** Two sets of actions can contribute to achieving this goal:
  - **First, broaden the non-oil tax base efficiently and equitably.** Low tax rates are a major obstacle to accelerating revenue mobilization. Despite rising from 5.0 to 7.5 percent in 2020, the standard VAT rate in Nigeria remains by far the lowest in SSA. A weak tax administration also hinders revenue mobilization. For instance, poor VAT efficiency reflects exemptions on a wide range of goods (e.g., food, pharmaceuticals, education) and weak administrative performance. Moreover, certain classes of taxpayers escape the income tax net entirely or in part.
  - **Second, reduce tax expenditures.** Nigeria started publishing cost-benefit analyses of its tax expenditures on a regular basis to inform the preparation of the annual Medium-Term Expenditure Framework and Fiscal Strategy Paper. However, adequate management of tax expenditures is hindered by shortcomings in the legislative framework and overlaps across several public institutions. Good practice suggests that tax expenditures should be decided solely through tax laws.
- **Improve the efficiency of spending.** With its population surpassing 200 million, Nigeria's national budget of nearly US$50 billion entails a per capita allocation of US$220[13] annually across federal and state governments. This is significantly lower than in comparator countries: for example, in 2020 the Indonesian Government spent US$716 per capita, and the South African Government about US$1,833 per capita.[14] In addition, most of Nigeria's small resource envelope is devoted to keeping government administrative functions going, to the detriment of spending on human capital and infrastructure. The infrastructure gap, estimated to cost up to 4 percentage points of GDP growth annually, reduces profitability and discourages private investment, specifically through a lack of reliable power supply, and gaps in transportation, irrigation, and water and sanitation. Public-private partnerships (PPPs) could help fund infrastructure investments to meet the country's needs

4.2. Institutional enablers: Building accountable and transparent public institutions to ensure a robust job-creating business environment

Tackling insecurity and strengthening the rule of law

Why the urgency? Nigeria faces a diverse range of security threats: terrorism and violent extremism, armed banditry, kidnapping gangs, separatist agitations, pastoralists-farmers' conflicts, transnational organized crime, piracy and sea robbery, and porous borders. In the 2021 Global Terrorism Index, Nigeria ranked sixth by number of terrorist threats, only below Afghanistan, Iraq, Somalia, Burkina Faso, and Syria.

The Armed Conflict and Location Event Data (ACLED) Project estimates that the number of conflict events in Nigeria increased by 200 percent between 2018 and 2021. Attacks by Boko Haram and Islamic State West Africa Province (ISWAP) have created large numbers of internally displaced people, while armed banditry, kidnapping gangs, and separatists' agitations constitute a grave threat to personal security across the country (FIGURE 52). Conflicts between farmers and pastoralists, which first emerged in the middle belt, have spread to other parts of the country. Youth unemployment, poverty, inequality, and lack of national cohesion have magnified fragility. It is estimated that one

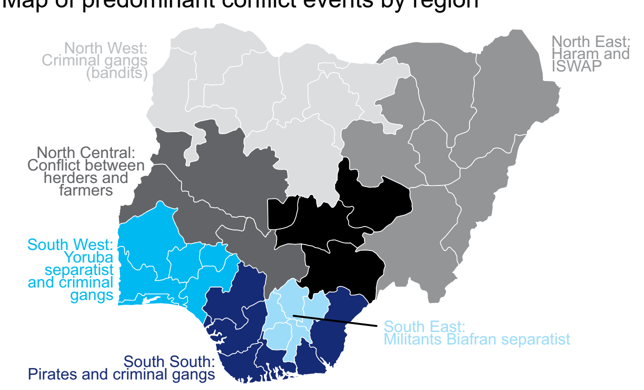
13 In current (2021) US$-equivalents, derived from Nigerian naira values converted using the official exchange rate prevalent during the preparation of this report (₦410/US$). The values are budgeted, not actual spending.

14 World Development Indicators (2021) and IMF Fiscal Monitor (October 2021).

additional conflict event leads to a 3–4 percent decrease in total consumption (World Bank, 2019). Fragility and conflict have severe consequences in terms of the loss of lives and destruction of property. They undermine the normal functioning of society, reducing human and physical capital and long-term growth. For instance, mass kidnappings of schoolchildren by Boko Haram have resulted in the closure of over 600 schools, with educational losses for tens of thousands of children.

FIGURE 52. Insecurity in Nigeria has spread to all regions

Map of predominant conflict events by region



Source: Armed Conflict and Location Event Data.

Opportunities: The effects of fragility and conflict in Nigeria are highly visible, notably in terms of poor social and economic outcomes, low levels of human security, unequal opportunities, social exclusion, and a low level of trust in public institutions. Priorities for reducing insecurity and strengthening the rule of law focus on three areas, which require enhanced coordination between different tiers of government.

- **Acknowledging that any single action or policy will not be sufficient, in isolation, to bring about security and development.** A single policy, implemented in isolation, can have a positive development impact. However, when the objective is to dramatically alter the vicious cycle between unemployment, insecurity, and fragility, a holistic and coordinated effort along different fronts has the most potential. For example, investments in local public goods and services can complement connective infrastructure. Easing the movement of goods and labor by reducing transport and information barriers can facilitate trade. Building up social cohesion can enhance citizen participation and help restore government presence. Coordinated resource management, information, and technology transfers can help reduce divisions.

- **Strengthening the rule of law by expanding state capacity for social cohesion.** Three basic and related state functions need to be strengthened: security, justice, and the coordination and provision of infrastructure and services at the local level. Enhanced security, coupled with transparency and information-sharing to better assess and manage security risks, is necessary to expand safe access to conflict areas for civilians and allow peacebuilding programs to advance. A stronger justice system is vital for resolving conflicts peacefully, addressing grievances and enforcing law and order, all of which contribute to enhancing the legitimacy of the government. At the state and local levels, stronger capacity could enhance the delivery of services, and of programs in support of recovery and peacebuilding.

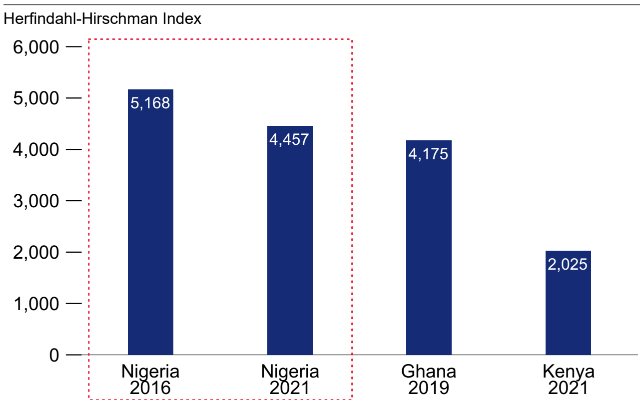
- **Creating durable solutions for displaced people.** Massive population displacement has created major challenges to social cohesion across the North East, particularly in Borno. Although around 1.6 million people have returned home since 2015, there are still about 2 million internally displaced people in Nigeria, more than 80 percent of them in Borno. Government authorities and partner organizations supporting the return of displaced people to their original homes could expand their support to working with displaced people and host communities to absorb and integrate those who are unlikely to return. For those who do move back to damaged areas, the restoration and improvement of basic services is essential.

Promoting market contestability and competition

Why the urgency? Conditions to support a market-based, competitive economy have weakened due to market distortions introduced by conflicting macro and micro policies. Local content rules, import bans, restrictions on foreign companies, state aid favoring certain players, privatization without consideration of the effects on competition, and biased standard-setting processes have created an uneven playing field, inhibited investment, and raised prices.

Reforms of the regulatory framework have not been sustained, thus discouraging investment decisions by domestic and foreign firms. In addition, unexpected changes in macro policies have limited access to FX for manufacturers, and severely constrained the capacity of local industry to achieve production goals. Import substitution and the influence of large players on industrial policies have compromised market contestability (FIGURE 53).

FIGURE 53. Concentration in key industries such as cement is higher than in other African countries



Source: World Bank, Reuters.

For instance, key markets for raw materials and final consumption goods show a high degree of concentration, due in part to barriers to entry and expansion for smaller firms. Furthermore, land management has complicated the development of competitive clusters.

Opportunities: A business-enabling environment is essential to promoting greater market competition, enabling a more efficient allocation of resources, and increasing productivity. Enhanced policy predictability reduces the cost of saving and investing, and allows for long-term planning. Competition can expand markets and productivity, boost growth, create jobs, and improve households' welfare. Three priorities can be identified:

- **Reducing the administrative burden and simplifying rules to lower transaction costs.** Administrative burdens on businesses affect market contestability and efficiency. The regulatory environment in most states is complex and opaque. Where regulations are restrictive and procedural requirements too costly or time-consuming, entrepreneurs are less likely to start businesses or formally register them. Information about fees, requirements, and timelines for obtaining government services is not easily accessible. The ability of businesses to plan for the impact of policy changes is also limited by lack of information. Easier access to regulatory information would allow for greater regulatory efficiency, enhance the transparency of public processes, introduce accountability, lower compliance costs, and improve regulatory quality for businesses at the state level.

- **Reducing barriers to entry to strengthen market contestability.** Barriers to entry and rivalry remain relatively high in Nigeria compared with the average middle-income economy. A decline in market contestability has reduced the pressure on firms to adopt better technologies. Nigeria passed the Federal Competition and Consumer Protection Act to curb anticompetitive behavior and promote competition in the market, but there are still gaps in the regulatory framework. In addition, independence, capacity building, and efficiency are needed to strengthen enforcement of the law by the nascent Federal Competition and Consumer Protection Commission.

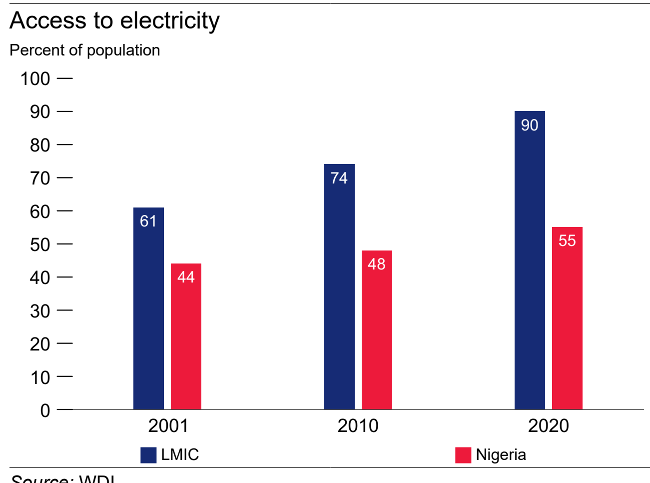
- **Improving the transparency and management of land markets to enhance land use planning, improve access to finance, and strengthen security of tenure.** Registered land comprises only 3 percent of the country's landmass and is located primarily in urban areas. Varying practices across states and the application of informal, customary, and religious norms make land management challenging. The relatively high cost of formally registering land and property, and lack of clarity about procedures, incentivize informal practices. Four out of five businesses register their properties through in-person visits to the registration office, due to a lack of functional digital property registration platforms and processes across states. Although progress has been made in certain states where property registration takes an average of four weeks, in most states it takes longer and can take as much as two years.

4.3. Investment accelerators: Addressing binding constraints to private investment, firms' productivity, and job creation

Improving access to reliable power to reduce production costs

Why the urgency? Unreliable power supply is arguably the biggest deterrent to private sector development in Nigeria (FIGURE 54), causing annual economic losses estimated at US$28 billion (5 percent of GDP). Lack of power consistently tops the list of constraints facing the private sector. Most firms connected to the national grid receive less than five hours of power per day. Meanwhile, 40 percent of the population (85 million Nigerians) do not have access to electricity, well above the average of 14 percent across lower middle-income countries (LMICs). The average Nigerian consumes 147 kWh per year, one-fifth of the average for LMICs. Chronic power shortages reduce the incentives for investors to expand production and create more jobs. Notably, in the absence of reliable power, 30 percent of SMEs and 26 percent of households are estimated to use gasoline generators, whose combined capacity is eight times larger than that of the national grid. However, these generators are expensive, and cause 1,500 deaths annually from smoke inhalation. Furthermore, until recently, electricity tariff subsidies imposed an unsustainable fiscal burden on the government. For instance, between 2015 and 2020, such subsidies cost on average US$1.2 billion per year.

FIGURE 54. Access to power is one of the main deterrents to private sector investment



Source: WDI.

Opportunities: Priorities for improving on-grid and off-grid access to reliable power, and for restoring the fiscal sustainability of the power sector, focus on four areas.

- **Strengthening the regulatory environment, to enhance market competition and corporate governance among power generation and distribution companies.** Nigeria's power sector is unbundled and, since 2013, largely privately owned. However, a weak regulatory framework has led to limited enforcement of contracts and delays in electricity tariff reviews.

- **Ensuring the financial and fiscal sustainability of the sector by implementing progressive and cost-reflective tariffs, while protecting the poor.** Cost-reflective tariffs will allow generation companies and gas suppliers to receive adequate payments, while increasing their power supply. Improving their

financial sustainability will allow them to raise tariffs for most consumers, while keeping tariffs low for the poor. It is also critical to restructure the Government's historical arrears using sustainable funding sources.

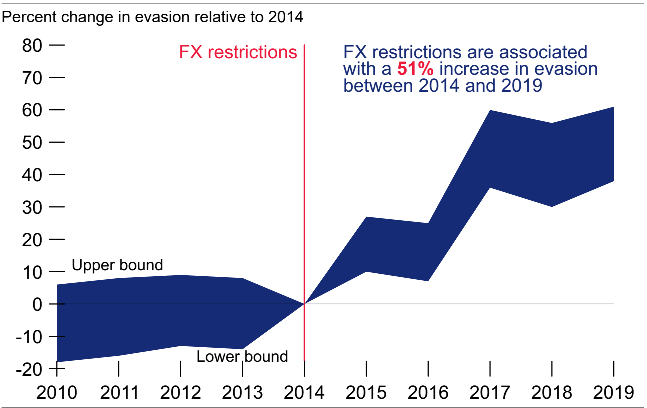
- **Improving operational efficiency in electricity generation, transmission, and distribution systems.** Opportunities include: (i) tackling electricity theft and bill collection to reduce high system losses; and (ii) increasing accountability and transparency by timely publishing audited financial statements for all distribution companies, according to international financial reporting standards.

- **Investing in infrastructure to reduce technical and commercial losses.** Distribution companies lose about 50 percent of every kWh produced, well above the international standard of 15 percent. Opportunities include: (i) accelerating the introduction of metering for customers; (ii) upgrading and rehabilitating transmission lines; and (iii) adopting a strategy to expand access to electricity that encompasses off-grid solutions.

Enhancing trade and connectivity to boost domestic value added

Why the urgency? Nigeria's protectionist trade regime limits growth opportunities and raises production costs for the private sector. Nigeria remains one of the of the world's least diversified countries, due to high trade and transport costs, a restrictive trade policy environment, and numerous constraints in the overall investment climate. In recent years, there has been a significant escalation in the scale and scope of import restrictions. Many of them have been intended to support the development of domestic production and processing, especially of staple food items. They include FX restrictions, import bans, border closures, and high tariffs. However, these policies have done little to boost domestic production and have increased evasion (FIGURE 55), due to the country's highly porous borders, large informal sector, and underdeveloped domestic supply chains.

FIGURE 55. Nigeria's tariffs have resulted in higher evasion



Source: Nigeria's customs data and UN Trains data.
Note: Evasion is defined as non collected custom revenues.

Nigeria exports relatively little to the rest of the continent. Its formal intra-regional exports as a share of total exports are less than 10 percent, while almost one-quarter of South Africa's exports go to the African region. Nigeria's share of trade within ECOWAS is also small—about 5 percent of Nigeria's total recorded exports in 2020. FDI, which goes hand-in-hand with trade, supports the diversification of the economy and helps domestic firms export. However, Nigeria's FDI inflows as a share of GDP have dropped from over 2 percent a decade ago to less than 1 percent, one of the lowest rates among middle-income economies. Regulatory and institutional weaknesses inhibit the country's ability to attract and retain investment and diversify its economic and revenue base. Although Nigeria has been taking steps to facilitate trade, these are yet to be reflected in key rankings: in fact, Nigeria's Logistics Performance Index ranking significantly deteriorated, from 92nd in 2016 to 147th (out of 160) in 2018.

Opportunities: Trade presents a vital, but often untapped, pathway to poverty reduction. Through its effects on investment, technology transfer, and competition, trade can help growth—boosting job creation, increasing domestic value added, and reducing the price of goods that Nigerians buy along the way.

- **Remove trade restrictions to decrease evasion and reduce production costs:** A wide range of restrictions are intended to support the development of domestic production and processing, especially of staple food items. This includes FX restrictions, import bans, border closures, high tariffs, and non-tariff measures. One of the areas where trade restrictions have the most impact is customs evasion. Current import bans, in combination with unpredictable enforcement and cumbersome customs procedures, cause large-scale smuggling, and FX bans have led to substantial reductions in reported imports. Increased openness to trade can help Nigeria achieve long-standing policy goals of economic diversification and industrial development.

- **Strengthen trade facilitation to integrate Nigeria into global value chains:** Nigeria stands to gain from reforms that address high costs and delays at the border, which would position the country to emerge as a logistics hub for the region and a springboard into regional value chains. High priority measures are reducing trade costs, including by addressing delays and inefficiencies in border and port clearance. Other relevant measures encompass simplifying and harmonizing documents, streamlining and automating procedures, as well as improving governance, impartiality of decision-making, and information availability.

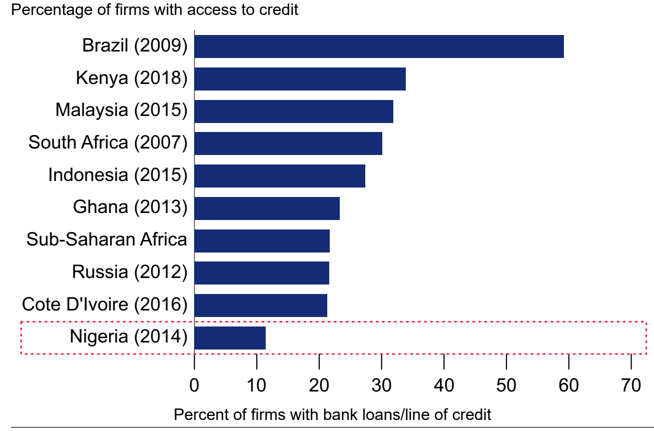
Reducing interstate transportation frictions to promote domestic market growth and reduce export costs. The movement of goods between states and across borders has been hampered over the years by interstate transportation costs and multiple checkpoints. Transportation costs can be equivalent to as much as 40–70 percent of business incomes, as recorded in Lagos, the FCT, Bauchi, Abia, and Cross River. In the absence of a uniform and transparent schedule of levies and fees, borders are increasingly thick for exporters, who have fewer incentives to sell into foreign markets. For instance, one study found that about 40 percent of the export costs that it recorded could be linked to inefficiencies and informal payments across the Lagos-Kano-Jibiya Road corridor (USAID, 2013). Conversely, informal costs represent about 3 percent of the total cost to import, or US$162 per 20-foot container, with the majority incurred during border clearance and transport from Lagos warehouses to Kano. Additional costs are passed on to consumers through higher final prices.

Promoting financial deepening to increase access to sustainable long-term finance

Why the urgency? Low access to finance and limited financial inclusion constrain the access of firms to varied sources of funding (FIGURE 56), particularly MSMEs. Only 11.4 percent of firms in Nigeria have access to finance, a lower share than the average of the region and of other middle-income countries. Domestic credit to the private sector as a percentage of GDP remains lower than the 14.6 percent achieved in 2016. Banks are reluctant to lend to certain sectors, most notably agriculture, which accounted for 24.1 percent of GDP in 2020 but only received 4 percent of total banking sector credit. The CBN has provided funding to the agriculture sector on highly subsidized terms, thus crowding out commercial credit and contributing to the weakening of monetary policy and financial intermediation. Financial intermediation is also discouraged by widening spreads

FIGURE 56. Financial intermediation is lower in Nigeria than in other middle-income peers

Percentage of firms with access to credit



Source: Enterprise Surveys.

between bank lending rates and the monetary policy rate on newly approved loans, systemic gaps in the credit contracting environment, and the pervasive impact of macroeconomic uncertainty.

Opportunities: Banking the private sector, in particular MSMEs, is necessary to achieve sustainable job creation and foster a strong and resilient recovery. Four areas of intervention are key:

- **Re-aligning roles and responsibilities for monetary and financial sector policies.** The primary roles and responsibilities of the CBN should be clearly focused on ensuring price stability. The CBN's use of intervention funds potentially offers important sources of funding to specific sectors, but this simultaneously undermines commercial banks' appetite for lending and compromises the thrust of monetary policy.

- **Strengthening the institutional infrastructure for financial intermediation.** Banks' reluctance to lend to MSMEs stems from weaknesses in credit infrastructure, such as: (i) shortcomings in credit information, particularly in the quality and timeliness of information shared with credit bureaus; (ii) uncertain and unreliable loan foreclosure processes, which can result in creditors facing legal challenges and lengthy delays; and (iii) the incomplete implementation of unique borrower identification and a register for movable collateral.

- **Providing banks with access to long-term funding to finance lending to MSMEs.** There is a role for development finance, to the extent that it is made available on terms aligned with the market. The Development Bank of Nigeria is a wholesale development finance institution which, unlike the schemes financed by the CBN, is mandated to provide term funding for on-lending to MSMEs on a fully self-sustainable basis, and could support the expansion of the MSME finance market. Moreover, partial credit guarantees (PCGs) can support banks in entering new markets.

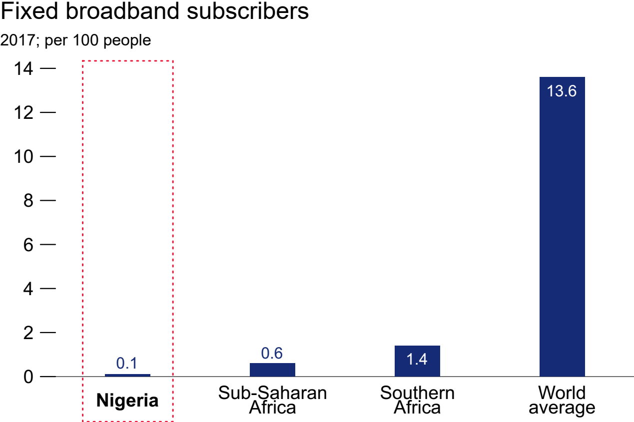
- **Reducing security risks associated with digital financial services.** Digital financial services enable individuals and businesses to conduct transactions electronically, and can extend beyond digital payments to include credit, savings, and insurance. The main threats associated with these services derive from pervasive fraud, and from the ongoing struggle with terrorism and armed conflict in northern states. Adequate regulation and oversight can reduce the risks associated with the ease of obtaining instant credit and making real-time domestic and international money transfers

Developing digital infrastructure and skills to enhance technology adoption

Why the urgency? Nigeria is capturing a fraction of its digital economy growth potential—a 10 percent increase in mobile broadband penetration can lead to a minimum additional GDP growth of 0.8 percent. Minimal fixed broadband infrastructure (FIGURE 57) and a lack of accessible and affordable connectivity in rural areas have exacerbated the digital divide. At the end of 2018, Nigeria's household penetration rate for fixed broadband was 0.04 percent, far below the African average of 0.6 percent and the world average of 13.6 percent. The average cost of fixed broadband is US$80 per month, which is unaffordable for most households. With the high cost of internet and mobile connectivity, small entrepreneurs, microenterprises, and SMEs face poor quality of internet services, impacting their efficiency and productivity. About 63 percent of Nigerians living in rural areas are unconnected, compared with 40 percent of those living in urban areas. The quality of service is uneven across the country, particularly in the north, where mobile phone coverage is poor and impacted by conflict zones. The performance of Nigeria's digital entrepreneurship ecosystem, i.e., the creation of new ventures and the transformation

of existing business through digital technologies, lags regional and global competitors. Nigeria ranks 118th out of 141 countries in ICT adoption, and 129th out of 141 countries in digital skills on the World Economic Forum's Global Competitiveness Index. Although urban SMEs have been increasingly using digital platforms, the digitalization of firms in traditional industries and rural locations remains limited. Digital entrepreneurs are also constrained by a cumbersome tax system and public procurement processes that are difficult to navigate. In addition to promoting job creation and reducing transaction costs, the implementation of a robust digital ecosystem could boost the delivery of social safety nets to the poorest and enhance financial inclusion.

FIGURE 57. The number of fixed broadband subscribers is one of the lowest in the world



Source: Nigeria National Broadband Plan 2020–2025.

Opportunities: Nigeria's digital economy has the potential to unleash productivity gains, offer new services, and improve the Government's efficiency. It can also lead to greater citizen engagement and enhanced trust. This could be achieved through interventions in three areas:

- **Investing in fiber infrastructure as part of a national backbone network.** Unlike its West African peers, Nigeria does not have a pervasive, open-access national backbone network through which high-speed internet connectivity can be affordably extended across the entire country. As such, most telecommunications operators continue to rely on their own infrastructure. This has resulted in unnecessary duplicative investments, with high-traffic intercity routes often having three or more fiber-optic links, while other routes have none. Nigeria needs between 120,000 and 167,000 km of fiber infrastructure—in addition to the existing 55,000 km—at a cost of US$3.4 billion. The lack of an open-access wholesale network, combined with ineffective wholesale access regulation and various federal and state levies, has hampered investments in the sector.

- **Expanding technology adoption by firms and the Government.** Realizing the potential of digital technologies requires widespread adoption by firms and the Government. To favor this, it is important to remove the overlap of responsibilities between various entities responsible for regulating the ICT sector, review procurement policies and practices to ease access to public procurement for local companies, and build core skills in the procurement, development, and maintenance of digital services. In addition, a value-for-money audit of investments in government digital systems will reduce inefficiencies in the adaptation to new technologies.

- **Increasing mobile internet adoption among women through expanded smartphone ownership.** Affordability is reported as the single biggest barrier to using mobile internet for women in Nigeria, followed by lack of digital literacy and skills, and lack of perceived relevance of mobile internet. In 2020, only 37 percent of women owned a smartphone, compared with 51 percent of men.

5. How can Nigeria chart a new growth path?

5.1. What does success look like?

Measuring the impact of reforms on the speed and quality of growth

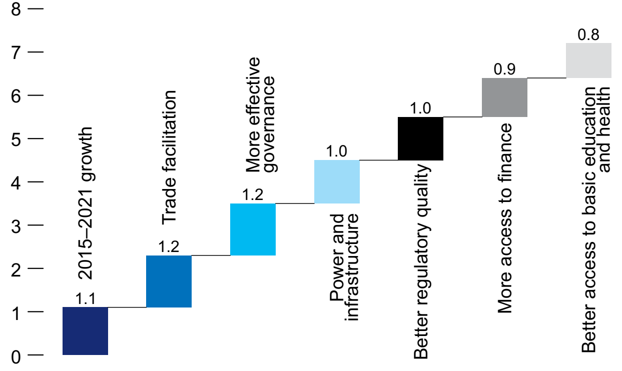
Nigeria is at a pivotal moment in its history. Nigeria was one of the best growth performers globally in the 2000s, but it failed to efficiently use the large windfalls from natural resources and build institutions that could foster structural transformation and job creation. As a result, Nigeria is struggling to keep pace with the growth rates and transformation of its peers, and improvements in its development outcomes have stalled since the early 2010s. For instance, GDP per capita dropped from US$2,280 in 2010 to US$2,097 in 2020, and the number of Nigerians living below the poverty line rose from 68 million to about 80 million—the world's second-largest poor population after India. Moreover, Nigeria is one of the least developed countries in the world, with a ranking of 160 out of 189 on the 2020 HDI. Another indication of Nigeria's development challenges is that a Nigerian child born today will only be 36 percent as productive in adulthood (the sixth-lowest percentage globally) as she could be if she enjoyed complete education and full health in her early years.

While there is no silver bullet to accelerate growth, putting Nigeria on an upward development trajectory requires a comprehensive set of bold and urgent reforms. Considering how far behind its peers Nigeria is on many socio-economic dimensions, structural reforms could yield large economic dividends in the long run. As a simulation exercise, federal- and state-level reforms that reduce trade restrictions, strengthen governance and regulatory quality, improve digital connectivity, ameliorate power and infrastructure, boost human capital, reduce product and labor market regulation, and increase access to finance could jointly contribute 6.7 percentage points of additional yearly growth over the next 20 years (FIGURE 58). This fast growth would help Nigeria close its income gap with other middle-income economies over the next three decades (assuming constant population growth). These simulations do not predict future growth, but serve as an approximation of the growth rate that Nigeria could achieve if it implemented policies as effective as those enacted in aspirational peers such as Indonesia, Mexico, and South Africa.

FIGURE 58. Structural reforms can bring large growth dividends for Nigeria and close the income gap with other middle-income economies

Impact on Nigeria's annual GDP growth from closing the gap with Indonesia, Mexico, and South Africa over 20 years

Percentage points

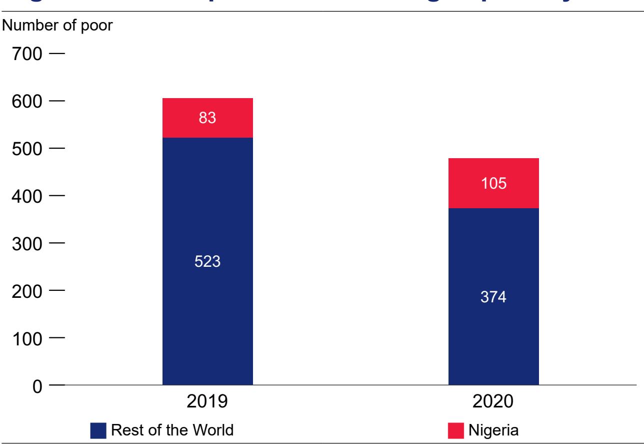


Source: World Bank calculations.
Notes: Structural determinants of potential GDP growth are identified by separately studying capital, labor, and productivity—the channels through which these determinants may work. The analysis builds on the approach introduced by Bouis and Duval (2011), Barnes et al. (2013), and Johannson et al. (2013), and elaborated on by Egert and Gal (2016). The model is based on a standard Cobb-Douglass production function with capital, labor, and technical efficiency. Technical efficiency is estimated with a stochastic frontier analysis, which allows for the computation, for a given sample of countries, of the maximum amount of output, given the factors of production and technology available and conditional on structural and macro variables. The impact of each structural reform on growth depends on the comparator country and the number of years to close the gap.

The cost of inaction for Nigeria is very high. If no structural reforms are implemented and business-as-usual continues, Nigeria's future looks bleak. Per-capita income will plateau, 80 million working-age Nigerians will not have a full-time job by 2030 if the employment

rate does not improve, and 23 million more Nigerians will live in extreme poverty by 2030 if the poverty rate does not fall (FIGURE 59). Nigeria's oil-based growth model, low tax revenue, mismanaged exchange rate, weak governance, large-scale trade restrictions, and inefficient resource use will have prevented crucial investments, extended Nigeria's pattern of poor and unequal growth, and depleted the country's natural-resource base.

FIGURE 59. If no action is taken to boost growth and reduce poverty, about 23 million more Nigerians are expected to be living in poverty



Source: World Bank estimates based on NBS data and World Poverty Clock.
Note: Poverty estimates do not include Borno.

With increasing macroeconomic shocks, structural reforms have become critical. The COVID-19 pandemic and rising inflationary pressures from the Russia-Ukraine war have already pushed an additional 7 million Nigerians into poverty. If reforms are not adopted to reduce inflation and foster job creation, the number of Nigerians facing extreme poverty could increase by more than 30 million by 2030.

5.2. Sustaining policy implementation to achieve success

Sprints, medium distance runs, and marathons

To achieve the desired success and forge a faster and more inclusive growth path, this report proposes a strategy based on a prioritized set of reforms. Nigeria's aspiration to chart a new path to upper middle-income status requires the effective implementation of a wide range of reforms that span across all parts of government, the private sector, and society. In particular, bold first- and second-generation reforms are required. First-generation reforms—termed as "enablers"—consist of fiscal adjustment, exchange rate, and trade liberalization reforms that seek to create the right foundations for a well-functioning economy. Meanwhile, second-generation reforms—termed as "accelerators"—are critical to developing market institutions and a vibrant private sector that creates quality jobs. Both sets of reforms will require strengthening coordination between federal, state and local governments to reduce inefficiencies and maximize synergies.

Sequencing the reforms is paramount for a successful implementation. All the proposed actions are critical to realizing Nigeria's potential. However, not all actions can be implemented immediately and yield results in the short term. Considerations about the political economy, global context, and adequate funding are necessary to improve the chances of successfully implementing any reform. Against this background, "sprints" are stroke-of-the-pen reforms implementable within one to three months at no fiscal cost, given the political will; "medium-distance runs" are programs implementable within 18 months with tangible benefits for millions of Nigerians; and "marathons" are long-term structural initiatives that can be initiated and put on a firm footing in the next three years. TABLE 2 and the following section chart a path for the authorities to start a process of reform that would put Nigeria on a faster and more sustainable growth trajectory, if adequately implemented.

5.3. Policy options

A. Macroeconomic and Institutional Enablers:

- **Adopt a unified and market-reflective exchange rate.** Unify all FX rates to eliminate misalignment

TABLE 2. Key policy reforms for faster and more inclusive growth

*Time horizon**	*Macroeconomic and Institutional Enablers*	*Investment Accelerators*
Sprints	Adopt a single and market-reflective **exchange rate**	Facilitate **trade and boost domestic value added** by removing import and foreign exchange restrictions
	Increase **non-oil revenues** by raising VAT and excise rates and strengthening tax administration	
Medium distance runs	Eliminate the **petrol subsidy** by establishing a "compact" which also protects the poor and vulnerable	Increase **access to finance** by strengthening the institutional infrastructure for financial intermediation
	Contain **inflation** by reducing the federal government's recourse to CBN financing	
Marathons	Boost **competition** by embedding it into policy, enhancing enforcement, and simplifying rules to lower costs	Boost **power generation** by investing in infrastructure to reduce technical and commercial losses
	Reduce **insecurity** by strengthening the rule of law	Facilitate **transport connectivity** by reducing interstate transportation costs

Source: World Bank.
Note: *Sprints are stroke-of-the-pen reforms implementable within 1–3 months or less at no fiscal cost, given the political will. Medium distance runs are programs implementable within 18 months with tangible benefits for millions of Nigerians that can help make the sprints more bearable. Marathons are longer-term structural initiatives and institutional reforms that can be initiated and put on a firm footing in the next three years but will take longer to complete. Blue boxes are policies to be implemented at the federal level, while grey boxes are policies that require both federal and state level implementation.

and alleviate persistent FX pressures and adopt a clear exchange-rate management and communication strategy to build credibility.

- **Increase non-oil revenues.** Increase the VAT rate from 7.5 to 15 percent via a 2.5-percentage-point increase every two years, and gradually increase the excise rates on beer, tobacco, and non-alcoholic beverages.

- **Eliminate the petrol subsidy.** Phase out the petrol price subsidy and roll out a large, targeted, and time-limited cash transfer program, coupled with a communication strategy to explain public spending priorities.

- **Contain inflation.** Enforce the existing limit (5 percent of the previous year's fiscal revenues) on the use of CBN overdrafts to finance the fiscal deficit.

- **Boost competition.** Expand access to regulatory information at the state level to enhance the transparency of public processes, introduce accountability, reduce compliance costs, and improve regulatory quality for businesses at the state level.

- **Reduce insecurity.** Strengthen the rule of law by expanding state capacity for social cohesion and create durable solutions for displaced people

B. Investment Accelerators:

- **Facilitate trade.** Facilitate imports of staple foods and medicines, by removing them from the list of import bans and applying tariffs that reflect the ECOWAS common external tariff; remove FX restrictions on non-food products.

- **Increase access to finance.** Strengthen credit infrastructure by addressing shortcomings in credit information, particularly in the quality and timeliness of information shared with credit bureaus and improve the reliability of loan foreclosure processes.

- **Boost power generation.** Accelerate the introduction of metering to customers, upgrade and rehabilitate transmission lines, and adopt a strategy to expand access to electricity that encompasses off-grid solutions.

- **Facilitate transport connectivity.** Adopt a uniform national schedule of levies and fees and improve transport infrastructure though PPPs.

How to sustain implementation: building elite consensus on a set of critical reforms and institutionalizing a delivery unit that coordinates across tiers of government

To implement this set of prioritized reforms, the focus must shift from the "what" to the "how". Over the years, successive Nigerian governments developed a plethora of development plans (such as Vision 2020 and Vision 2030) and sectoral strategies that analyzed, identified, and set targets for tackling key development challenges. Nevertheless, Nigeria's development progress has stagnated, and most of the targets were not realized or are not expected to be met in light of current trends. For instance, Vision 2020, introduced in 2009, aimed to improve the welfare the population and place the country among the top 20 economies in the world. It targeted a minimum GDP of US$900 billion and per-capita income of not less than US$4,000 per year by 2020. These targets have been largely missed, as Nigeria's per-capita income was US$2,097 in 2020, just over half of the target. The failure to turn policy ambitions into results has stemmed from the inability to focus on timely and robust implementation of priority measures.

The success of Nigeria's growth strategies will largely depend on the establishment of a strong implementation mechanism that promotes performance and accountability. A new institutional arrangement explicitly created to monitor policy implementation and to promote accountability and coordination could support this process. This will not solve all policy implementation issues and it is not a silver bullet to address Nigeria's vast development challenges, but it has the potential to help Nigeria place a greater priority on effective implementation to achieve tangible results. This institutional arrangement, which should support a culture change that prioritizes the delivery of public services and meeting citizen's needs, would be expected to be at the center of policymaking, and to have a clear and unwavering mandate from the highest political leadership. The mandate should focus on efficient and rapid implementation, with the end goal of achieving results.

Nigerian states should be part of any institutional arrangement to support policy implementation. Meeting demands for autonomy and balancing power, the 1999 Constitution devolved extensive political autonomy and service delivery responsibilities to subnational governments. As a result, the states play a key role in addressing the country's development priorities. They are responsible for the delivery of basic services, including health, education, and water supply and sanitation, as well as for providing land access for infrastructure development. Representing states would be necessary and critical to improving coordination, avoiding duplication, and ensuring robust implementation at the local level, particularly when it comes to reforms that involve investments and job creation.

To drive change, any institutional arrangement created to promote accountability and coordination needs to focus on a limited set of priorities and measure success based on outputs, not inputs. There is a need not only to define what success looks like and how it can be measured, but also what the priorities are: if everything is a priority, nothing is. While policy makers can indicate several priorities to address, not all constraints are equally important in terms of development impact. Hard choices must be made. Choosing a small set of priorities to be addressed over a defined period of time, based on simple tracking mechanisms, would also go a long way toward securing the support of senior civil servants. Metrics of success are based on outcomes, not inputs. For instance, do not target an increase in spending in education or health per se, but rather an increase in literacy rates or decrease in the child mortality rate. Regularly structured meetings (bi-monthly or monthly) with clearly defined expected outcomes and deadlines are also important, as they create a sense of urgency to deliver.

6. Conclusion

Nigeria cannot sustainably grow faster without restoring solid macroeconomic foundations. Providing macroeconomic sustainability is the first priority to accelerate growth, reduce poverty and boost job creation. An over-reliance on oil exports has brought about a high exposure to external volatility. Combined with the government's limited fiscal space, high borrowing costs, and ad-hoc borrowing strategy, this has resulted in a pro-cyclical fiscal position that is not suited to reducing the impact of domestic and external shocks on the real economy. Inconsistent monetary policies and distortionary exchange rate policies have fueled inflation, thereby shrinking the purchasing power and the value of savings of Nigerians, and discouraging private investment. Restrictive trade policies, intended to promote domestic production, have been counterproductive as they increased production costs and encouraged smuggling and evasion.

But macroeconomic foundations alone will not make the economy more competitive. To sustain growth and job creation in the long term, structural constraints that hinder private investment have to be addressed. While the development challenges are vast, a change of policies in four areas is urgent to improve the productivity of the economy by reducing the cost of doing business and improving the allocation of resources: (i) access to reliable power by investing in the sector's infrastructure; (ii) trade policies that boost domestic valued added by reducing protectionist measures; (iii) strengthening the rule of law by reducing insecurity, and (iv) better transport connectivity by reducing interstate transportation costs.

Policy implementation, implementation, and implementation. The development agenda, which has not changed for several years and is unlikely to be corrected overnight, remains significant. For any reform to succeed, adequate and sustained implementation through subsequent government administrations will be critical. But policy implementation is not a byproduct of economic growth. Implementation is the result of consensus among the political elite about the direction of policy, the allocation of fiscal resources, the role of the state and the space for private sector initiatives. Only with sustained implementation can we finally stop talking about Nigeria's potential and start talking about Nigeria's actuals.

Annex: List of Technical Notes

The CEM also includes a set of seven technical notes that summarize key challenges and opportunities in selected areas, and present to the extent possible granular priority policy options. The selection of priority areas for in-depth analysis in the technical notes has been guided by the Nigeria Country Partnership Framework and accompanying Systematic Country Diagnosis and Country Private Sector Diagnostics. The process for selecting the technical notes was also guided by two additional criteria, including: (i) the 2021–2025 National Development Plan; and (ii) alignment with the 2019 IDA Jobs and Economic Transformation (JET) framework.[15]

Title: "Igniting Economic Growth by Reforming Nigeria's Power Sector"
Authors: Yadviga Semikolenova, Arsh Sharma, and Anshul Rana

Title: "Integrating Nigeria Through Better Trade Policies for Investment and Diversification"
Authors: Jakob Engel, Aleksander Stojanov, Jonathan Lain, Bob Rijkers, Erhan Artuc, Guido Porto, Guillermo Falcone, Federico Ganz, and Mohammed Isa Shuaibu

Title: "Investing in Adolescent Girls to Defuse Nigeria's Demographic Time Bomb"
Authors: Samik Adhikari, Tekabe Ayalew Belay, Olumide Olaolu Okunola, Aisha Garba Mohammed, Fatimah Abubakar Mustapha, Julia Vaillant, and Amy Elizabeth Copley

Title: "Options for Nigeria to Mobilize Domestic Revenues Without Hurting Investment"
Authors: Rajul Awasthi and Elijah Kimani

Title: "Strengthening Competition in Nigeria to Unlock Growth Opportunities"
Authors: Ryan Chia Kuo, Sara Nyman, and Rodrigo Barajas

Title: "Good Jobs for A New Generation: Delivering Quality Jobs for Young Nigerians After COVID-19"
Authors: Christina Jenq, Jonathan Lain, and Tara Vishwanath

Title: "Modernizing Nigeria's Agribusiness to Boost Domestic Value Added"
Authors: Elliot Mghenyi and Chidozie Anyiro

15 See: IDA. 2019. "Special Theme: Jobs and Economic Transformation". Washington, DC: The World Bank Group, May 17.

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