

NIGERIA DEVELOPMENT UPDATE | JUNE 2022

The Continuing Urgency of Business Unusual



Nigeria Development Update
June 2022

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Acknowledgments

The Nigeria Development Update (NDU) is a World Bank report series produced twice a year that assesses recent economic and social developments and prospects in Nigeria, and places these in a longer-term and global context. The NDU also provides an in-depth examination of selected policy issues and medium-term development challenges in Nigeria. 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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Structure

The Nigeria Development Update (NDU) has three sections:

1. **Recent economic developments and outlook:** A review of the most salient economic developments over the past six months and the outlook for the next two years, including a set of short-term and medium-term policy recommendations.
2. **Taking a closer look:** A topical review of a selection of issues that have “risen to the surface” in the past six months.
3. **Spotlight on Nigeria’s development agenda:** A long-term view on key challenges and opportunities for Nigeria’s development agenda, including a set of actionable policy recommendations.

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Abbreviations and Acronyms

bpd	barrels per day
CBN	Central Bank of Nigeria
ECOWAS	Economic Community of West African States
EMDEs	Emerging Markets and Developing Economies
FAAC	Federation Accounts Allocation Committee
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GHS	General Household Survey
HNLSS	Harmonized Nigerian Living Standards Survey
I&E	Investors and Exporters
IEA	International Energy Agency
IEFX	Investors and Exporters Foreign Exchange
IGR	Internally Generated Revenue
JSS	Junior Secondary Schools
NAFEX	Nigeria Autonomous Foreign Exchange Fixing
NASSP	National Social Safety Net Program
NBS	National Bureau of Statistics
NDU	Nigeria Development Update
NESG	Nigerian Economic Summit Group
NLSS	Nigerian Living Standard Survey
NNPC	Nigerian National Petroleum Corporation
NSR	National Social Registry
OAGF	Office of the Accountant General of the Federation
OOS	Out Of School
OPEC	Organization of the Petroleum Exporting Countries
RRR	Rapid Response Registry
SME	Small and Medium Enterprises
SSA	Sub-Saharan Africa
SSS	Senior Secondary Schools
TFR	Total Fertility Rate
UBEC	Universal Basic Education Commission
USD	United States Dollar
UTAS	Upstream Tariff Simulator
VAT	Value Added Tax

Overview

Nigeria's growth prospects have improved compared to six months ago...

Nigeria's growth prospects for the next three years have improved thanks to a more robust recovery in the non-oil economy and higher global oil prices. As a result, compared to the previous edition of the Nigeria Development Update (NDU) from November 2021, we have revised growth estimates upwards: Nigeria's gross domestic product (GDP) is projected to now grow by 3.4 percent in 2022 and by 3.2 percent in 2023, up from the previous forecasts of 2.8 percent for 2022 and 2023 from November 2021. Two factors explain the revision:

- **First is the better-than-expected performance of the services and agriculture sectors.** Tertiary activities, except for trade, rebounded above 2019 production levels, driven by base effects and a demand recovery, particularly in telecommunications and financial services. Agriculture continued growing, aided by the influx of workers that returned to farming during the pandemic despite insecurity challenges, higher prices of inputs, and import restrictions. Based on the GDP performance during the first quarter of 2022 and high-frequency indicators for the second quarter of 2022, we expect these trends to continue until the end of the year.
- **Second, higher oil prices stemming from the Ukraine war will boost Nigeria's economic growth, though less than anticipated.** As in other oil-producing economies, higher oil prices usually improve Nigeria's fiscal and external position, boosting exports and public spending. In addition, through income spillover effects, they also aid the non-oil economy, particularly manufacturing and services. However, in contrast to previous episodes of high oil prices, Nigeria is not expected to harness the windfall fully this time. This is because the effect of

higher oil prices is offset by lower oil output, which as of May 2022 stood at 1.5 million barrels per day (bpd), the lowest in 15 years. Fiscal gains are offset by the continuing petrol subsidy.

...but, the macroeconomic framework has weakened, increasing Nigeria's vulnerability to external and domestic shocks

Nigeria is in a paradoxical situation where growth prospects have improved, but the overall macroeconomic framework is deteriorating.

Compared to the last NDU, our revised estimates for inflation, the fiscal deficit, and public debt indicate a more vulnerable macroeconomic position in 2021 and the first half of 2022, which is further compounded by the increasing premium between the official and the parallel (black market) exchange rates. The weakening of Nigeria's macroeconomic framework is mainly due to the absence of concerted efforts to reduce inflation, address fiscal pressures, and strengthen exchange rate management. As a result, inflation is expected to be two percentage points higher in 2022–2023 than in our baseline scenario from six months ago. In addition, against a burgeoning petrol subsidy (estimated to cost over US\$9 billion in 2022 or almost 2 percent of GDP) and low oil production, the general government fiscal deficit for 2022 has been revised upwards from 5.3 to 5.8 percent of GDP. Consequently, the public debt ratio to GDP is projected to reach 36 percent in 2022, up from our previous 32.3 percent projection six months ago (Table O.1).

Global risks have risen in the last six months. First, the war in Ukraine has increased the uncertainty in international capital flows, spurred higher prices of imported food and inputs for fertilizers, depressed

global growth, and heightened the volatility of oil prices. Second, the impact of monetary tightening by central banks across advanced economies, including the United States Federal Reserve, will reduce the room for maneuver of central banks worldwide.

Table O.1. Key Macroeconomic Indicators for Nigeria, 2019–2022.

	2019	2020	2021	2022f	
				NDU NOV 2021	NDU JUN 2022
GDP growth (percent)	2.2	-1.8	3.6	2.8	3.4
Inflation (percent)	11.4	13.2	17.0	13.5	15.5
Fiscal deficit (percent of GDP)	4.6	5.4	5.3	5.3	5.8
Public debt (percent of GDP)	23.6	27.0	35.3	32.3	36.0

Sources: Nigerian authorities and World Bank projections.

Notes: Public debt includes Ways and Means Advances and estimates of AMCON debt.

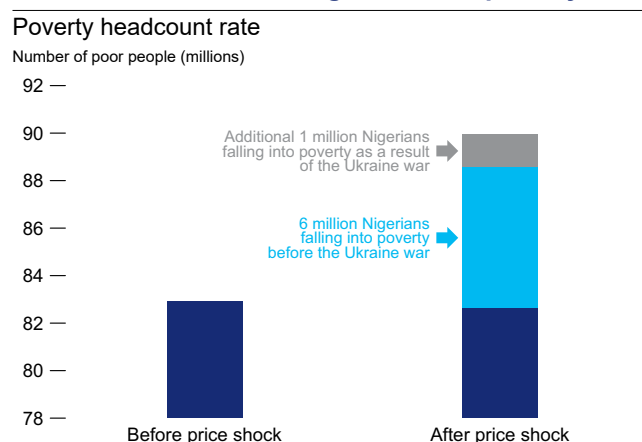
Amid heightened risks, the government has kept a “business-as-usual” policy stance that hinders prospects for economic growth and job creation.

Multiple exchange rates, trade restrictions, and financing of the public deficit by the Central Bank of Nigeria (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.¹ Notably, during 2020 and 2021, when oil prices were much lower, the government lost an opportunity to address one of the primary sources of fiscal vulnerability by choosing to maintain the subsidy for premium motor spirit, more commonly known as petrol—a subsidy that is unique, opaque, costly, unsustainable, harmful, and unfair.² Due to the petrol subsidy and low oil production, Nigeria faces a potential fiscal timebomb. As further discussed in this NDU, with upcoming elections in February 2023, a key government challenge is addressing macroeconomic vulnerabilities when (i) elections encourage higher spending; (ii) high inflation is pushing millions of Nigerians into poverty; and (iii) higher global interest rates deter private investment.

Reducing inflation is arguably the key policy priority, as rising prices continue pushing millions of Nigerians into poverty

Inflation in 2022 is projected to be higher than anticipated, increasing to 15.5 percent. Before the war, inflation was already a major macroeconomic challenge for Nigeria, and it was among the highest in the world. Inflationary pressures were compounded by policy distortions, in particular (i) lack of flexible foreign exchange (FX) management, (ii) trade restrictions, and (iii) conflicting monetary policy goals. In addition, global supply shocks exacerbated inflationary pressures and increased the urgency of addressing inflation. In May 2022, the Central Bank of Nigeria increased the interest rate for the first time in 18 months. This was a welcome shift in Nigeria’s monetary policy stance but took place much later compared to actions taken by Central Banks worldwide and in a context in which FX management and development finance at subsidized rates have reduced the effectiveness of the monetary policy. As trade disruptions and commodity price volatility placed additional pressure on the domestic prices of food staples and fuel products, our forecast for the average inflation rate in 2022 has been revised upwards from 13.5 to 15.5 percent.

Figure O.1. Inflation in 2022 will continue pushing millions of Nigerians into poverty



Source: World Bank estimates based on data from NBS.

1 See the forthcoming World Bank reports: (i) the 2022 Nigeria Public Finance Review; and (ii) the 2022 Nigeria Country Economic Memorandum.

2 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), please see the November 2021 edition of the Nigeria Development Update, “Time for Business Unusual”.

Increased inflationary pressures following the Ukraine war are expected to push even more Nigerians into poverty. Before the war, higher inflation pushed an estimated 8 million more Nigerians into poverty between 2020 and 2021. In 2021, inflation averaged 17 percent, undermining Nigeria's economic recovery by eroding the purchasing power of the most vulnerable households. We project that the added inflationary pressure emanating from the war in Ukraine could push as many as one million more Nigerians into poverty, on top of the six million already projected before the war. Overall, the "inflation shock" is estimated to result in about 15 million more Nigerians living in poverty between 2020 and 2022.

Despite higher oil prices, the fiscal situation is deteriorating, limiting the government's ability to support the recovery and protect the poor

In 2022, as in 2021, Nigeria is not expected to benefit fiscally from higher oil prices fully. In 2021, while oil prices rose by two-thirds against the backdrop of global economic recovery from COVID-19, net oil revenues in Nigeria increased by only 4 percent, as production (including condensates) decreased from 1.83 million bpd in 2020 to 1.68 million bpd in 2021. This "decoupling" between oil prices and related revenues happened because the Nigerian National Petroleum Corporation (NNPC) deducted a significant portion of the Federation's oil revenues to pay for the petrol subsidy. The decoupling continues in 2022, driven by low oil production, a larger unit petrol subsidy, a weaker currency, and higher apparent petrol consumption than in the past (Figure O.2). In particular:

- **Oil production is expected to stagnate and likely fall below that in 2021.** For example, during the first four months of 2022, oil production was the lowest in two decades, averaging only 1.54 million

bpd (1.28 million bpd if blended condensates are excluded). Lower oil production is due to *force majeures*, funding shortfalls, a lack of adequate maintenance, and other factors.³

- **The cost of the petrol subsidy will increase significantly as higher global petrol prices will entail larger subsidy payouts if pump prices continue to be frozen.** The removal of the subsidy that the authorities had originally planned by mid-2022 was postponed until 2023 or later, which is expected to generate considerable fiscal costs. The 2022 amended budget (yet to be adopted at the time of this publication) allocates ₦4 trillion (almost 2 percent of GDP) for the petrol subsidy, higher than the combined budget allocated for education, health, and social protection.
- **The NNPC makes other deductions from oil and gas revenues.** These deductions are to finance government gas projects, refining and exploration costs, pipeline maintenance, and strategic reserve holdings, among other deductions. In addition, past and mounting funding shortfalls in joint-venture operations will need to be eventually repaid.

The worsening revenue collection at the federation level is increasing budgetary pressures for the States, and many States are in a precarious fiscal position. With net oil and gas revenues stagnating, most states will not be able to achieve their intended levels of expenditures in 2022. In addition, debt servicing expenditures at the state level are also mounting due to a decline in gross statutory account revenue transfers from the federation account allocation committee (FAAC), which comprises oil and non-value added tax (VAT), non-oil revenues. The lower FAAC transfers in 2022 will not be compensated by the expected higher VAT collection or improvements in independently generated revenues (IGR).

³ Nigeria has higher oil production costs than peer countries due to procurement procedures requiring the NNPC approval, high-security risks, and local content rules, among other factors. In addition, oil produced by joint ventures (JVs) between the NNPC and international oil companies has been suffering from the inability of the NNPC to cover the Federation's share of costs.

Figure O.2. Despite rising oil and gas revenues for the Federation, deductions for the petrol subsidy are causing stagnation in net oil and gas revenues transferred to the Federation Account.

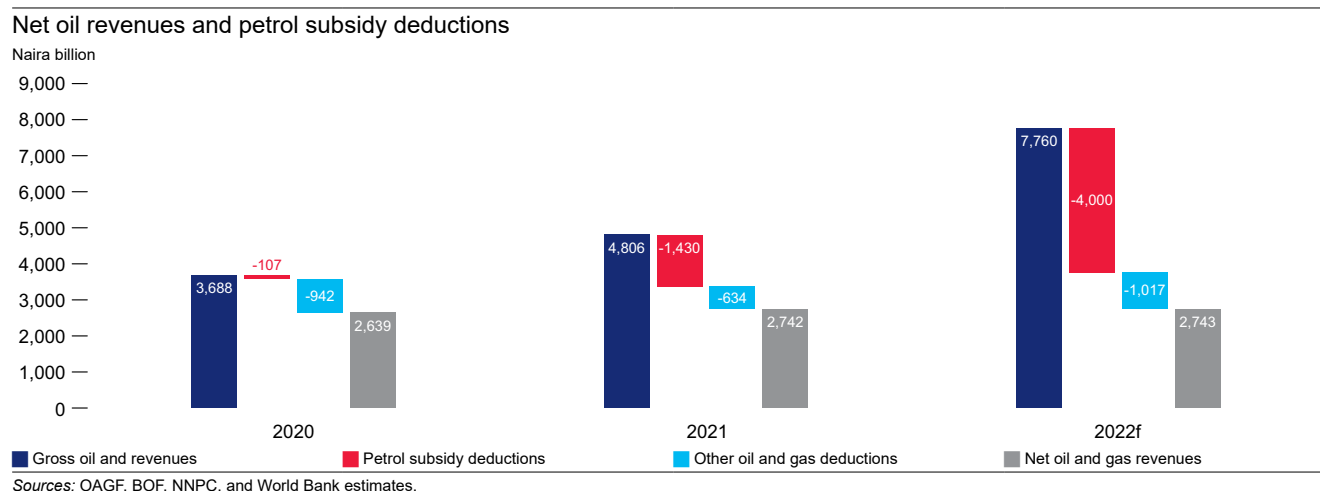
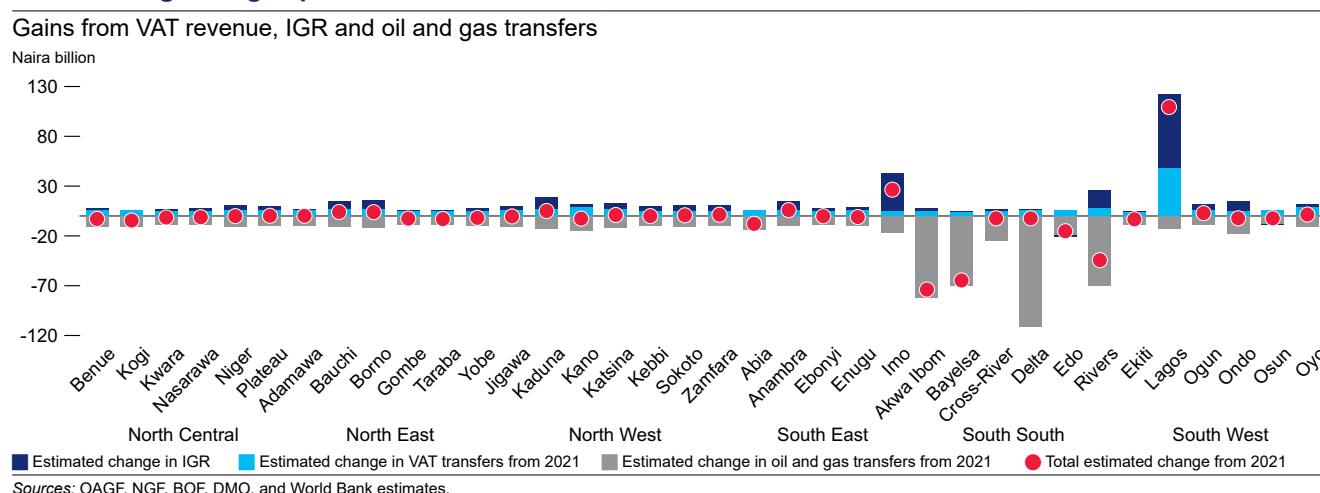


Figure O.3. Many states are expected to see a drop in federation revenue transfers in 2022 despite growing expenditure needs.

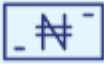




Exchange rate management policies continue to deter private investment

The exchange rate policy in 2022 remains focused on maintaining an artificially stable official exchange rate through foreign exchange restrictions and administrative measures, thereby deterring inflows of capital, especially foreign direct investment. As highlighted in previous editions of the NDU, the CBN restricts the supply of FX to imports of over 40 products, some of which firms use as raw materials. As a result, despite the recovery in exports and economic activity

in 2021, the CBN's FX supply in the main market window—the investors and exporters (I&E) window—declined by 41 percent in 2021 relative to 2020. At the same time, while the prevailing rate at the I&E window (the Nigerian autonomous foreign exchange fixing rate, NAFEX) remained broadly stable in 2021, the parallel exchange rate depreciated by as much as 16 percent in a context of FX scarcity. As a result, the premium between the parallel exchange rate and the NAFEX widened from 21 percent to 37 percent. Despite higher oil prices in 2022, FX shortages have not abated, hindering private investment.

Table O.2. Near-term policy options to support Nigeria's rise to its full potential.

	Reduce inflation by adopting a single, market-responsive exchange rate regime and enhancing exchange rate management; fully re-opening land borders to trade and strengthening regional cooperation to combat smuggling; removing import and FX restrictions on staple foods and medicines while replacing restrictions with tariffs that reflect the ECOWAS Common External Tariff; and reducing subsidized CBN lending to medium and large firms, and instead expand the scope for commercial banks to lend at a risk-adjusted rate.
	Address fiscal pressures by phasing out the petrol subsidy while protecting the poor, containing the potential rise in inflation at the time of the subsidy removal through complementary measures, such as eliminating trade and FX restrictions, enhancing exchange rate management, and reducing the monetary financing of fiscal deficits; raising excise taxes on “sin” goods, e.g., alcohol and cigarettes; implementing the electronic money transfer levy; introducing a new, sustainable revenue source from a green surcharge on imported vehicles; aligning the VAT rate with the regional average, re-introducing VAT on petrol, launching VAT compliance improvement initiatives; and rationalizing tax expenditures; amongst other measures.
	Catalyze private investment to boost job creation and support stronger and more inclusive growth by reducing inter-state and international trade and transportation costs; introducing risk-based management of customs interventions and a streamlined trusted trader program; improving the transparency of key government-to-business services; and increasing affordable access to broadband; amongst other measures. These will add to policy options for reducing inflation that will also foster private investment, by increasing access to markets and improving the availability and accessibility of FX.

What would ‘business unusual’ look like?

Nigeria's macroeconomic challenges in 2022 highlight with even more force the need for a sequenced program of robust reforms, as posited in previous editions of the NDU. This edition emphasizes *immediate critical reforms in three key areas* to help Nigeria overcome the current challenges and set the foundation for rising to its full potential. In 2022, the pace of reform is expected to be slower as political activities heat up in the run-up to general elections scheduled for February 2023. However, the authorities can boost the country's growth prospects in 2022 and over the medium term by strengthening macroeconomic and structural reform efforts in the near term, including measures aimed at:

I. Reducing inflation: In this edition, as in our other recent editions, we highlight the economic hardship imposed by inflation and present policy options to address this urgent challenge. Without decisive action, inflation will continue pushing Nigerians into poverty.

II. Addressing the mounting fiscal pressures at the federal and sub-national levels: Nigeria can continue pursuing a business-as-usual policy mix by allocating its limited fiscal resources to the costly and regressive petrol subsidy, or it can redirect expenditures towards targeted and time-bound cash transfers and other priority investments in health, education, and critical infrastructure. The latter investments are undeniably better for growth and job creation. Phasing out the petrol subsidy will raise inflation in the short term. Still, there are other more important drivers of inflation (notably exchange rate management and trade restrictions), and the impact of inflation on Nigerian households can be mitigated (see the November 2021 NDU for detailed measures to reduce inflation while protecting the poor).

III. Catalyzing private investment to boost job creation: Several factors discourage private investment in Nigeria. See the forthcoming 2022 Nigeria Country Economic Memorandum for a detailed analysis and policy options to rebalance

Nigeria's growth towards more private investment and exports supporting jobs.

Taking a Closer Look at (i) Oil Production; (ii) the Pace of Poverty Reduction; and (iii) Attitudes towards the Petrol Subsidy

Oil production in Nigeria. Oil production has not recovered since its decline in the wake of the COVID-19 pandemic, while the growing petrol subsidy has eroded the net revenue flow to the Federation. In contrast to the past, oil production in Nigeria has consistently fallen below its organization of the petroleum exporting countries (OPEC) quotas since February 2021 and plunged below 1.5 million bpd in December 2021, March 2022, and April 2022. Production constraints and the deductions for the petrol subsidy are responsible for Nigeria's low net oil revenues in the current context of high oil prices. To remain competitive for oil and gas investment against the backdrop of the global energy transition, Nigeria will need to slash greenhouse gas emissions in oil and gas production. Concurrently, the government and the NNPC will need to enhance administrative efficiency.

Picking up the Pace of Poverty Reduction. Poverty reduction in Nigeria hinges on bolstering and sustaining growth and creating opportunities to share the proceeds of growth with poorer Nigerians. Our estimates suggest that poverty may be becoming entrenched in certain households, particularly in rural areas in the north. Nigeria is spatially unequal, and the labor market is not creating the jobs needed to lift people out of poverty. Three types of reforms could help: First, macroeconomic reforms—including fiscal, trade, and exchange-rate policy—could help diversify the economy, invigorate structural transformation, and create good, productive jobs, especially wage jobs. Second, since structural transformation and the creation of productive wage jobs on a large scale may not happen overnight, policies to boost the productivity of the farm and non-farm household enterprises—by improving access to inputs,

credit, and markets—will be crucial in the meantime. Third, the bedrock of infrastructure needs to be strengthened by providing access to electricity, drinking water, improved sanitation, and information and communication technologies that can help households find jobs and reach markets, and support the government in rolling out social protection programs.

Attitudes towards the petrol subsidy reform. Many Nigerians do not support removing the petrol subsidy, and they do not trust the government to use any fiscal savings for pro-poor causes. The challenges associated with the petrol subsidy in Nigeria are clear: (i) it imposes an unsustainable fiscal burden, and (ii) richer Nigerians benefit significantly more from it than poorer Nigerians. Thus, redirecting spending towards health, education, and targeted social protection is better. Yet, in the absence of countervailing measures, many poor and vulnerable Nigerians would still lose out in the short run if the subsidy were removed and petrol prices were allowed to rise. Sequencing spending on a well-targeted social transfers program, alongside a clear, two-way communication campaign, could help overcome these constraints and generate the trust needed to build a consensus around subsidy reform.

Spotlights on Nigeria's Development: (i) The Unintended Effects of Nigeria's Trade Restrictions; (ii) Investing in Adolescent Girls to Defuse Nigeria's Demographic Timebomb; and (iii) Bringing Nigeria's Children Back to School

The unintended consequences of Nigeria's trade restrictions. Nigeria's trade policy has moved further in a protectionist direction since 2015, and this has had several unintended consequences. Trade and investment have been key drivers of global growth and poverty reduction over the past 30 years. The increased participation of firms from developing countries in regional and global value chains has contributed significantly to job and wealth creation. However, widespread skepticism remains in Nigeria about the

benefits of export-led growth and increased integration. Despite economic diversification being a long-standing policy aim, efforts to achieve it have remained unsuccessful. Foreign investment has not reached its potential, and in fact, it has been declining. Nigeria's protectionist trade policy increased import restrictions through higher tariffs and levies, import bans, foreign exchange limitations, and border closures. While these measures have been aimed at supporting the country's industrialization and security aims, they have been detrimental in other ways. For one, current import restrictions result in high levels of evasion and thus a loss in revenue. The estimated total loss of tariff revenue due to evasion is estimated at 0.4 percent of GDP, or US\$1.8 billion annually. Secondly, these policies also adversely affect poverty by raising consumer prices. Finally, they reduce the scope for domestic firms to enhance their efficiency by increasing the cost of their production inputs, constraining their competitiveness, and limiting their potential to export to regional and global markets. There is an urgent need for a change in policy and approach. Options include focusing on (i) reviewing trade policy to safeguard revenues, reduce poverty and support domestic firms; (ii) reducing domestic and international trade and transport costs; and (iii) enhancing the institutional framework supporting Nigeria's trade priorities.

Investing in adolescent girls to defuse Nigeria's demographic timebomb. The country has been slow in transitioning to a stage where the share of those working outnumber young and old dependents. As the country enters a period of rapid expansion of the working-age population, there is an opportunity to benefit from this "demographic dividend" and the increase in labor supply that can boost economic growth. However, Nigeria's persistently high fertility rates (especially in the northern regions) among adolescent girls, the poor, and those with low education threaten to derail the demographic transition. Poverty, low prevalence and demand for modern contraception, and lack of quality secondary schools and job market opportunities contribute to high teenage pregnancy rates, early marriage, and low educational attainment among Nigeria's adolescent

girls. To reap the demographic dividend, Nigeria must kickstart the stalled demographic transition and ensure that today's children have the means to grow into healthy and productive adults.

Bringing Nigeria's children back to school. Although Nigeria has experienced a significant expansion in access to education during the last few decades, it still has the highest number of out-of-school (OOS) children in the world. Nigeria's more than 11 million OOS children between the ages of 6 and 15 represent 1 in 12 OOS children globally. The OOS children phenomenon in Nigeria is multi-causal and will require a combination of interventions. On the demand side, reducing the cost of education by eliminating school fees, providing cash transfers, and shifting socio-cultural norms that prevent school enrollment are critical steps. On the supply side, Nigeria will do well to expand the availability of schools, optimize their location through geo-referenced data, improve the conditions of dilapidated schools, and ensure safety in and around schools. It is also critical to involve communities and provide foundational skills to those attending Qur'anic education. Systemic finance and governance reforms are also essential to reach intended beneficiaries cost-effectively.

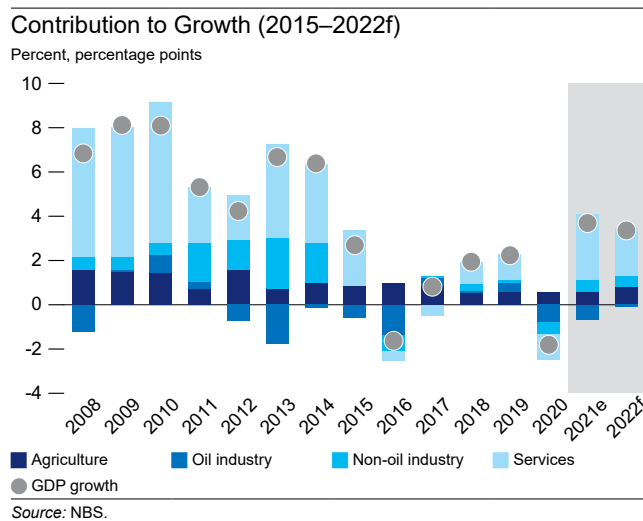


Part 1: Recent Economic Developments and Outlook for Nigeria

Economic Growth: Improving prospects but increased risks from policy inertia and external shocks

The Nigerian economy grew faster than expected in 2021 and recouped the growth losses from the COVID-19 pandemic. Following a contraction of 1.8 percent in 2020, the economy rebounded and grew by 3.6 percent in 2021. This growth exceeded population growth for the first time since 2015. It was driven by base effects in most services and manufacturing and organic growth in agriculture, telecommunications, and financial services. However, despite high oil prices, oil output declined by 8.3 percent and remained consistently below the country's OPEC quotas (see Section 2.1). The consistent decline in oil production, which reached a two-decade low as of May 2022, stemmed from technical and security challenges in the oil-producing Niger Delta region, aging infrastructure and inadequate investment in the sector, and NNPC's failure to pay for the Federation's share of costs in joint-venture operations.

Figure 1.1. Services continued to contribute the most to growth in 2021...

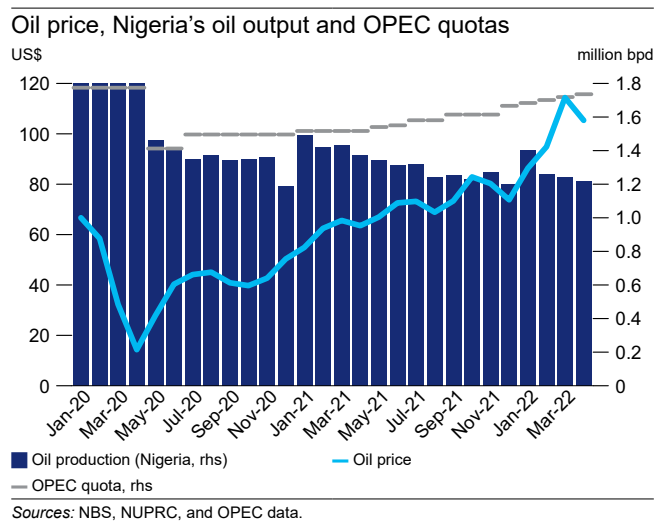


Nigeria's growth in 2021 was in line with the average for Sub-Saharan Africa (SSA) but fell short compared to oil producers and other emerging markets and developing economies (EMDEs). Growth in SSA was at an estimated 3.5 percent, reflecting a better-than-expected pickup in activity in the first half of the year amid an improved external environment, including a strong rebound in commodity prices. On the other hand, growth in EMDEs and oil-producing countries was much higher, over 6 percent.

Nigeria's GDP is expected to grow faster than its population in 2022 but still below pre-2015 rates and those of EMDEs and oil-producing countries.

In 2022 is expected to be driven by agriculture, services (trade, ICT, financial services), and the non-oil industry (construction, food). Nevertheless, GDP per capita by the end of 2022 is expected to be below its 2014 level and will not return to pre-pandemic levels before 2025.

Figure 1.2. ...while Nigeria's oil output continued to decline, falling short of OPEC quotas since January 2020.



- Agriculture:** The agricultural sector grew by 2.1 percent in 2021 (consistent with 2.2 percent growth in 2020) and is expected to grow by 3.2 percent in 2022. Agriculture was the only sector to show resilience to economic volatility over time—it is a crucial employer of last resort and the only sector not to contract during the 2016 or 2020 recessions. However, agriculture's recent growth has lagged its average growth of 5.4 percent over the last two decades, despite the sector being a beneficiary of CBN development finance interventions.⁴ According to official information, yields of crops such as rice and cassava have increased, and the sector's production is expected to expand after overcoming the mobility restrictions of 2020 and 2021.
- Oil Sector:** Oil and gas output contracted further by 8.3 percent in 2021, following a contraction of 8.9 percent in 2020. As was often the case in prior years, oil and gas production in 2021 suffered from technical and security issues, including pipeline leaks, equipment failure, work stoppages for non-payment, community protests over unpaid compensation, and other problems such as theft and

vandalism. The NNPC's monthly reports to FAAC show that disruptions and other factors had cut oil production by about 175,000 bpd in 2021. Nigeria's crude oil output (excluding condensates) has stayed consistently below its OPEC quota since February 2021. Production is expected to stagnate without sustained measures to reverse these trends in 2022.

- Non-oil Industry:** In 2021, the non-oil industry grew by 4.4 percent, recovering from its 2020 contraction. Base effects accounted for part of the growth in certain sectors, such as manufacturing and construction. In 2022, the non-oil industry is expected to grow at a lower rate (3.6 percent) as sub-sectors such as cement, food, beverage and tobacco, chemical and pharmaceutical products, and motor vehicles and assembly suffer from supply constraints, rising costs for inputs and services, and foreign exchange shortages.
- Services:** Services, which account for the largest share of Nigeria's GDP (slightly more than 50 percent since 2010), contributed the most to GDP growth in 2021. This strong performance drove sub-sectors

Figure 1.3. Nigeria's growth mimics SSA but falls below the levels of emerging markets and oil-exporting economies.

Nigeria's growth vis-à-vis SSA, EMDE and oil exporters' growth (2020–2022f)

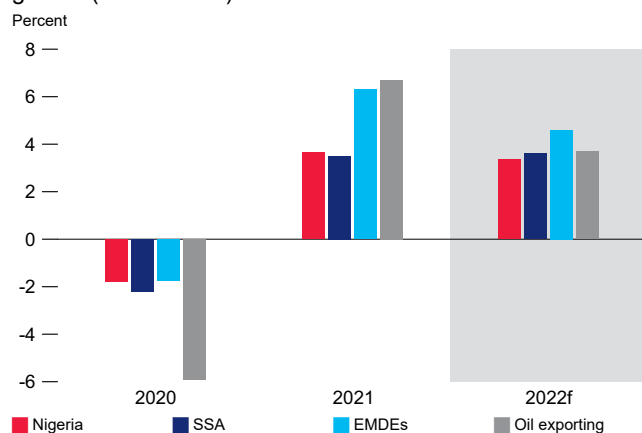
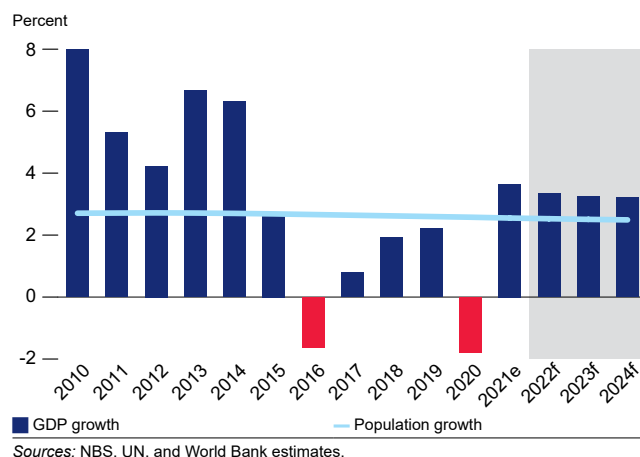


Figure 1.4. However, the rate of economic growth is projected to remain above that of population growth in 2022–2024.

Nigeria's projected growth trajectory 2022–2024



⁴ Notably, the anchor borrowers program (ABP) and the commercial agriculture credit scheme (CACS) initiatives of the CBN, which as of 2020 had extended concessional credits of ₦497.2 billion and ₦672.9 billion, respectively. Another CBN initiative, the agricultural credit guarantee scheme fund, guarantees loans granted by commercial banks for agricultural purposes, with the aim of increasing bank credit to the agricultural sector.

such as information and communication technology (ICT) and financial services. ICT expanded by 6.5 percent as households and firms continued to increase their data consumption in the wake of the pandemic-related lockdown. Financial services grew

by 10.1 percent in 2021 (after growing by 9.4 percent in 2020) as digital technology enabled a broader suite of financial transactions. In addition to trade, these subsectors will continue driving the growth of services in 2022 (4 percent).

Box 1.1. Impact of the war in Ukraine on the Nigerian Economy.

The war in Ukraine is affecting the Nigerian economy through direct and indirect channels. The direct channels include (i) trade disruption; and (ii) commodity (mainly food, fuel, and fertilizer) prices. The indirect channels include: (i) the transmission of higher commodity prices to growth; and (ii) the tightening of global financial conditions, which impact foreign financing flows into Nigeria. While Nigeria is a heavy recipient of foreign remittances, neither the Russian Federation nor Ukraine is a significant source country for remittance flows to Nigeria. Similarly, investment flows into Nigeria from both countries are insignificant. Hence, the war is not affecting Nigeria through these channels.

Trade disruptions: The war adds to the headwinds to global recovery by further disrupting supply chains, especially those between Russia and Ukraine and the rest of the world. Nigeria is among the top-ten importers of wheat grains from Russia, which accounted for 19 percent of Nigeria's total wheat imports in 2020. As a result of the war, there is a gap that Nigeria must seek to fill from other sources.

Commodity prices: Disruptions caused by the war are causing supply shortfalls and increases in the international prices of commodities. This includes the cost of fuel and food staples (in particular, cereals and edible oils) and fertilizers, products for which Russia and Ukraine hold a considerable share of global exports. In addition, higher cereal prices raise animal feed prices and, consequently, poultry and meat. Higher fuel and food prices in Nigeria exacerbate pre-existing inflationary pressures, eroding purchasing power and hurting the poor.

The price movements for essential food items may be leaving some Nigerians especially worse-off and at risk of falling into—or deeper into—poverty. This is determined by the mix of goods that households consume and produce.⁵ For example, raw wheat prices have increased dramatically since the start of the war in Ukraine, rising by 35 percent between January and March 2022. Still, raw wheat constitutes only a tiny share of what Nigerians consume, limiting the impact on welfare. However, although price increases for wheat-derived products such as flour and bread and vegetable oil were much more modest, they threatened households' purchasing power far more, making up a much larger share of their consumption basket. This demonstrates the interlinked nature of international and domestic markets for raw and refined products. Shocks to purchasing power may be partially offset for those households that produce and sell goods whose prices are increasing, especially for corn-producing households in Nigeria's middle-belt (in states such as Niger, Plateau, and Taraba). However, this does little to help poor and vulnerable households in Nigeria's north, who do

⁵ See Artuc et al. (2022) for further details on the global impact of war-induced price inflation on poverty. See Artuc et al. (Forthcoming) for specific estimates for Nigeria.

Box 1.1 continued

not produce corn but buy wheat-derived products and other staples (in states such as Jigawa, Sokoto, and Zamfara). This is particularly worrying, as many northern Nigerians' food security was already threatened even before the current cost-of-living crisis.

The higher crude oil prices triggered by the war (33 percent increase between January and March 2022) would ordinarily be beneficial to Nigeria's current account position and its fiscal position. However, there has been no boost on the budgetary side due to continued challenges in oil production and the burden of the petrol subsidy. As a result, we expect the fiscal deficit in 2022 to grow to 5.8 percent of GDP, up from our earlier projection of 5.3 percent.

Economic growth: The income effects of higher oil prices on secondary and especially tertiary economic activities are expected to result in higher growth in 2022 than initially anticipated. Our growth projections for 2022 have been revised upwards from 2.8 percent (as of November 2021) to 3.4 percent.

Global financial conditions: Inflationary pressures from the invasion, also hitting advanced economies, led many central banks to hike interest rates earlier and faster than anticipated. For example, the US Federal Reserve raised its federal fund rate by 0.25 percentage points in March 2022 for the first time in over three years and by a further 0.5 percentage points in May 2022—the single most significant rate hike in more than 20 years. The US Federal Reserve also indicated an aggressive path ahead, with rate hikes expected at its remaining meetings in 2022. Higher interest rates in advanced economies diverted capital away from EMDEs such as Nigeria. Furthermore, foreign aid flows may tilt in the direction of Ukraine, thus reducing flows to Nigeria and other African economies.

Prices: Inflationary pressures have increased due to the war in Ukraine and a delayed policy response

Elevated inflation in 2021 was already reducing the purchasing power of Nigerians and increasing poverty. Inflation is hurting Nigerians, especially workers facing lower incomes, as they have turned to small-scale, non-farm enterprise activities in the wake of COVID-19. Nigeria's inflation has increased consistently since the closure of the borders. In 2021, at an average of 17 percent, inflation was above that of the previous four years and among the highest in the world. It was driven by higher food prices, especially for staples such as bread and cereals, potatoes, yams, and other tubers, meat, fish, fruits, and oils and fats. We estimate that between 2020 and 2021, the “inflation shock” alone pushed about 8 million more Nigerians below the poverty line (Figure 1.6).

The war in Ukraine has added to Nigeria's inflationary pressures, with inflation projected to

reach 15.5 by end-2022. The headline inflation rate rose to 16.8 percent year-on-year in April 2022, from 15.6 percent in January, while food inflation increased from 17.2 to 18.4 percent. Core inflation, which excludes prices of volatile agricultural produce, remained steady at 14.2 percent. Food inflation, however, is increasing due to higher wheat prices. As of April 2022, the price of wheat flour—used to produce bread, pasta, and other major Nigerian staples—had increased by 36 percent year-on-year. Core inflation has risen due to the scarcity of petrol and other fuels (diesel, household kerosene, and jet fuel).⁶

The added inflationary pressure from the war in Ukraine could push as many as one million additional Nigerians into poverty in 2022. Even before the war, inflation in 2022—then projected at 13.5 percent—was predicted to push around six million Nigerians

Figure 1.5. Inflation remained elevated in 2021...

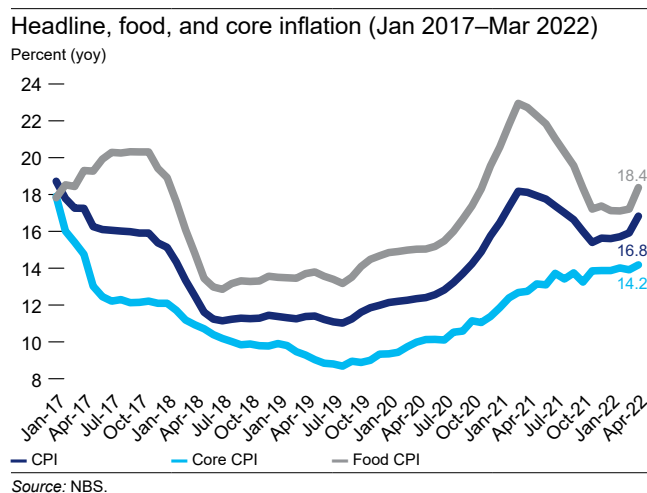
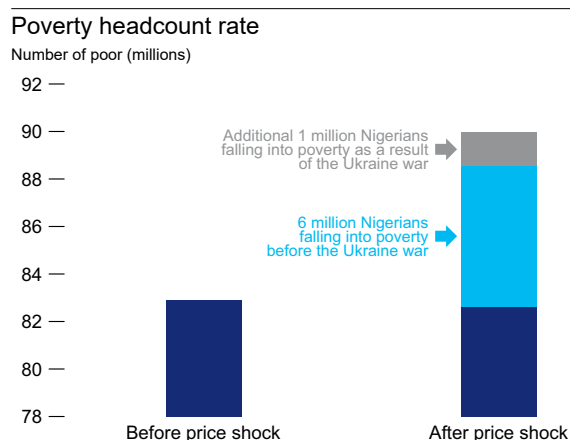


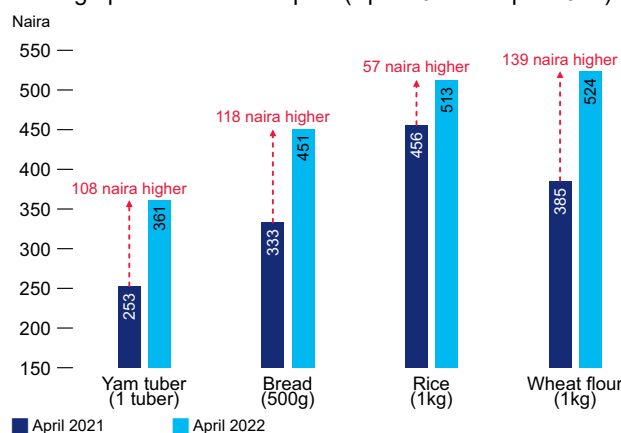
Figure 1.6. ...and pushed millions of Nigerians into poverty.



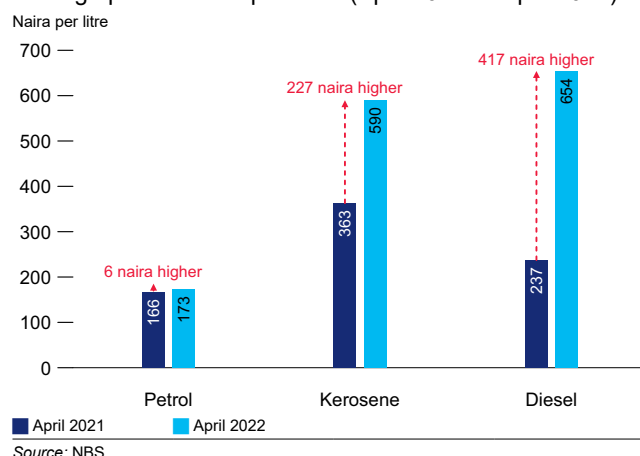
⁶ The Nigerian Midstream and Downstream Petroleum Regulatory Authority indicated that petrol shortages in February–March 2022 were due to the discovery of 100 million liters of imported petrol in the supply chain with methanol quantities “above Nigeria’s specifications”, leading to an emergency withdrawal of unspecified volumes of the product from the supply chain. The shortages led to black-marketeering and higher unofficial prices.

Figure 1.7. Domestic prices of food staples have increased...

Average prices of local staples (April 2022 vs April 2021)

**Figure 1.8. ...and so have fuel prices, except petrol because it is subsidized.**

Average prices of fuel products (April 2022 vs April 2021)



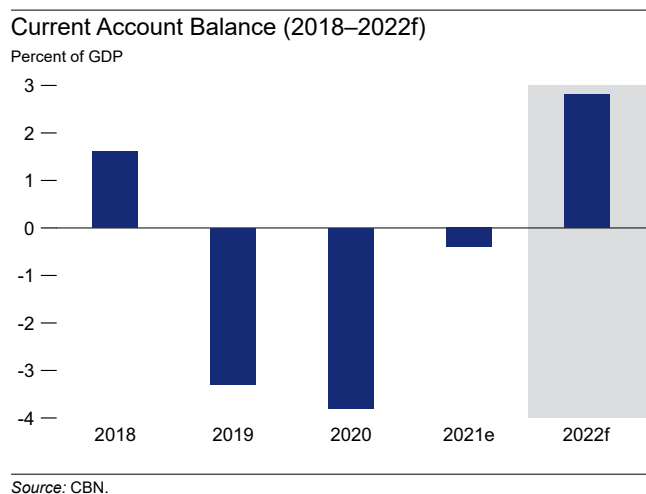
into poverty in 2022.⁷ With the war, the higher rate of inflation—projected at 15.5 percent—could push approximately seven million Nigerians into poverty, an additional one million people (Figure 1.6). The CBN's inflation target of 6–9 percent, which was not achieved in previous years, remains unlikely to be met in 2022. The increase in May 2022 in the policy rate by the CBN is an adequate measure. Still, it has occurred in a context in which FX management and development finance at subsidized rates have reduced the effectiveness of monetary policy. Moreover, financing of the fiscal deficit and trade restrictions by the Central Bank continue fueling inflationary pressures. Inflation in Nigeria will thus remain among the highest in Sub-Saharan Africa in 2022.

⁷ This estimate involves isolating the impacts of inflation on consumption and purchasing power, although it does not capture the effects that inflationary shocks can have on income, nor does it account for how people might substitute away from purchasing goods whose prices rise more to other, cheaper goods.

The External Sector: Higher oil prices provide a boost, but rising global interest rates and FX restrictions undermine external sustainability

Nigeria's current account improved in 2021 thanks to the economic recovery from COVID-19 and is expected to strengthen further in 2022 due to increases in oil prices, remittance inflows, and non-oil exports. In 2021, the current account deficit narrowed from 3.8 percent of GDP in 2020 to 0.4 percent in 2021, driven by an increase in exports stemming from the rebound in oil prices. In contrast, imports remained subdued and declined by 4 percent year-on-year. This was partly due to FX scarcity, as the private sector reported shortages of FX even for “allowed” imports.⁸ Remittance flows also recovered to pre-pandemic levels in 2021. In 2022, higher oil prices are expected to push the current account to a surplus for the first time since 2018, amounting to a projected 2.8 percent of GDP.

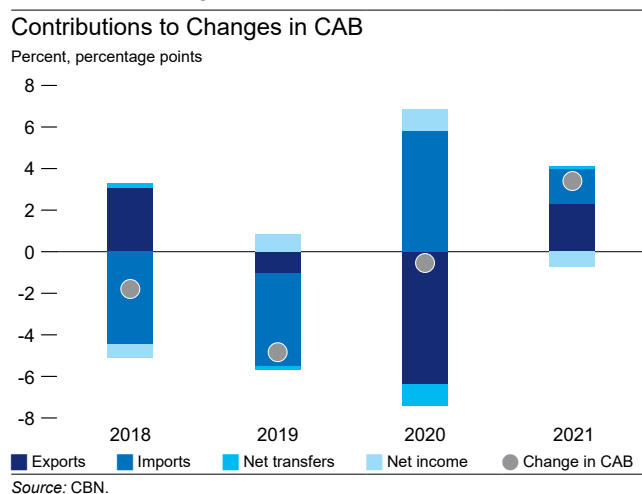
Figure 1.9. The CAB improved in 2021 and is projected to improve further in 2022...



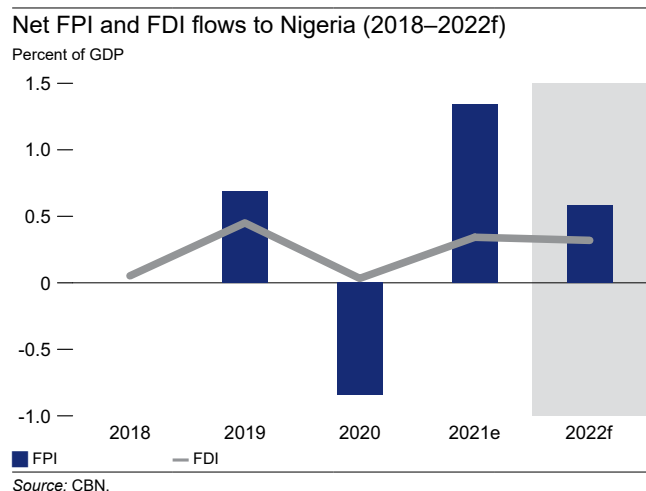
Direct investments have been persistently low in 2022, as exchange rate management issues deter investors. Net foreign direct investment (FDI) inflows in 2021 remained at less than 1 percent of GDP, despite higher oil prices which have historically driven higher portfolio investment flows into the country. Although the CBN has made progress in harmonizing the two main exchange rates, the reform remains incomplete, and the persistence of multiple rates continues to discourage private investment.

With rising global interest rates, Nigeria will likely experience net portfolio outflows in 2022. FPI inflows grew significantly in 2021, exceeding US\$6 billion (1.4 percent of GDP). This followed a significant decline in 2020 in the wake of the COVID-19 pandemic when net outflows reached US\$3.6 billion (0.8 percent of

Figure 1.10: ...off the back of higher oil exports and foreign remittances and lower imports.

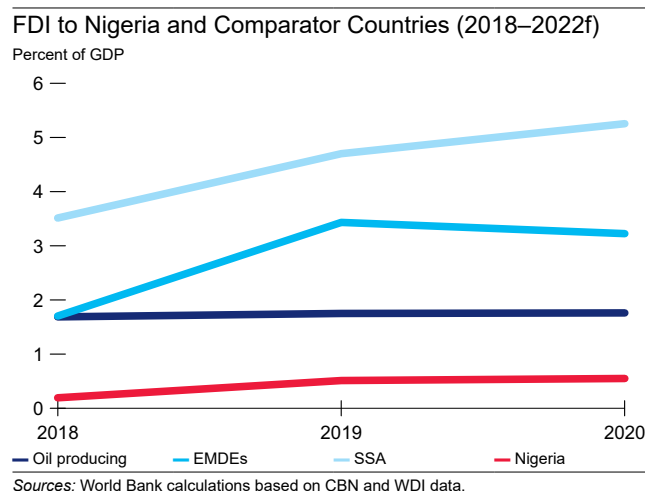


⁸ The CBN had already excluded several import categories from FX access since 2015, in a deliberate effort to mute “excess demand for frivolous imports”.

Figure 1.11. Direct and Portfolio Investment flows to Nigeria remain low.

GDP). However, with the continued hiking of interest rates in the US and other advanced economies due to rising inflation, net portfolio inflows to Nigeria are expected to drop under 1 percent of GDP in 2022. The pre-election environment is also likely to add to the hesitance of portfolio investors, keeping net inflows low.

Boosted by higher oil exports, International Monetary Fund's Special Drawing Rights allocation in August 2021, and a Eurobond issuance in September 2021, gross official reserves rose to US\$41.3 billion (7.4 months of imports) at the end of 2021;⁹ offering an opportunity for exchange rate adjustment. Nigeria issued additional Eurobonds for US\$1.25 billion in March 2022. However, gross FX reserves are projected to decline during 2022, as the CBN is expected to clear the FX backlog to foreigners (estimated at US\$1.7 billion as of end-October) and FX forward contracts.

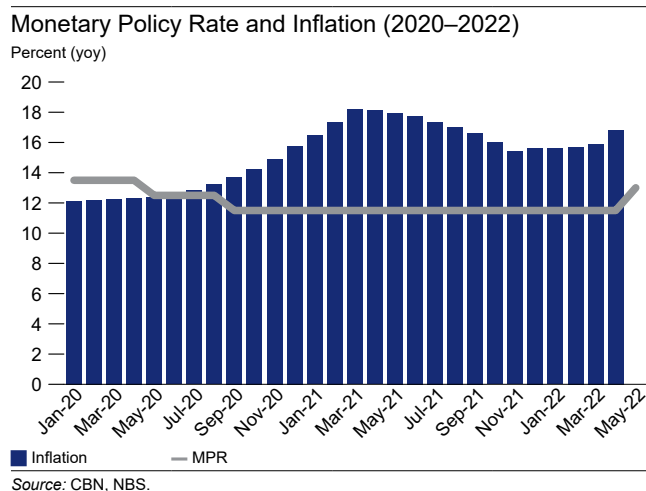
Figure 1.12. Direct Investments are particularly low compared to peer countries.

⁹ The International Monetary Fund issued a Special Drawing Rights allocation of US\$3.35 billion to Nigeria in August 2021 as part of the US\$650 billion general Special Drawing Rights allocation to boost global liquidity. Nigeria also issued Eurobonds for US\$4 billion in September 2021.

Monetary Policy and Exchange Rate Management: The need for timely and consistent monetary policy and exchange rate unification has become critical

Against the background of heightened inflationary pressures from the war in Ukraine, timely and consistent monetary policy in 2022 is becoming a pressing priority. Nigeria was the only emerging market economy not to change its policy rate between the second half of 2020 and May 2022. Higher food, fuel, and fertilizer prices arising from the Ukraine war started impacting early in the year, and Nigeria's inflation rate started trending upwards in February 2022. It reached 16.8 percent in April, up from 15.6 percent in January, and is likely to increase further if the war persists. Policy action to counteract this trend has become critical. However, the CBN postponed any increase in the policy rate, having retained the monetary policy rate (MPR) at 11.5 percent since September 2020, and continued to ramp up its development finance initiatives to soften the economic impact of the COVID-19 crisis on households and businesses. Only in May 2022 did the

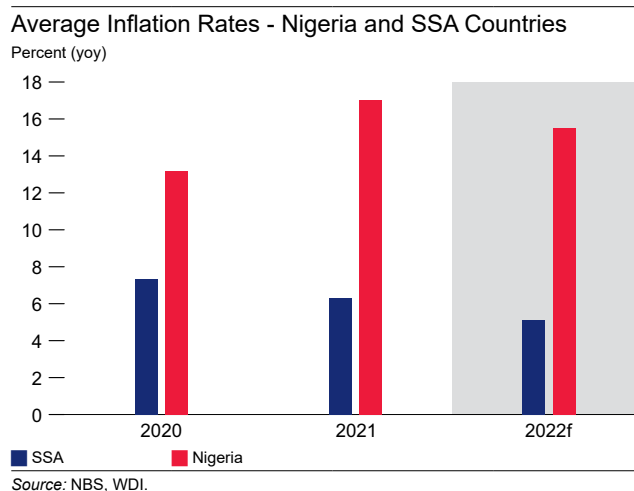
Figure 1.13. The monetary policy rate remained unchanged till May 2022...



CBN raise the monetary policy rate by 150 basis points to 13 percent, persuaded that tackling inflation had become more urgent. However, CBN's development financing interventions at subsidized interest rates and its FX management which leaves substantial amounts of local currency liquidity waiting to exit, have reduced the effectiveness of the monetary policy.

Clarity on exchange rate policy, and transparency in its management, are necessary to attract more significant capital inflows, including foreign direct investments. The exchange rate policy in 2022 remains focused on maintaining the IEFX rate and the official exchange rate artificially stable through foreign exchange restrictions and administrative measures.¹⁰ The CBN maintains a complete restriction of FX supply to import about 45 products, and firms report limited FX supply availability for other imports. Despite the recovery in

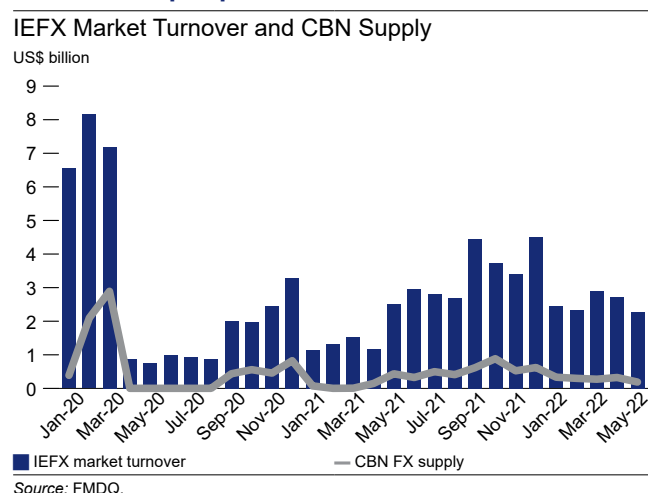
Figure 1.14. ...despite inflation in Nigeria trending higher than in other SSA countries.



¹⁰ The IEFX rate - also known as the NAFEX rate - is the exchange rate applicable in the Investors and Exporters foreign exchange window.

exports and economic activity in 2021, the CBN's FX supply in the I&E window declined by 41 percent in 2021 relative to 2020. At the same time, the NAFEX remained broadly stable in 2021, the parallel exchange rate depreciated by as much as 16 percent in a context of FX scarcity. As a result, the premium between the parallel exchange rate and the NAFEX widened from 21 percent to 37 percent. The CBN has also signaled that it would stop selling FX to commercial banks by end-2022, and has introduced an FX repatriation rebate program in February in conjunction with the Bankers' Committee.

Figure 1.15. The CBN's FX supply to the IEFX market remains limited and well below pre-pandemic levels.



The benefits of a more effective exchange rate management, with a view towards a unified and market-reflective exchange rate, are more significant than in previous years. Favorable external conditions (oil prices being the highest in nine years) provide an opportunity to adjust the exchange rate reflective of market dynamics. Allowing further gradual adjustment in the IEFX rate, where the CBN manages the price, would help eliminate misalignment and alleviate persistent FX pressures. The CBN took steps to unify multiple exchange rates by adopting the IEFX window rate as its official exchange rate in May 2021. However, different windows still exist, and the parallel

Figure 1.16. The premium between the NAFEX rate and the parallel (black market) rate has widened.

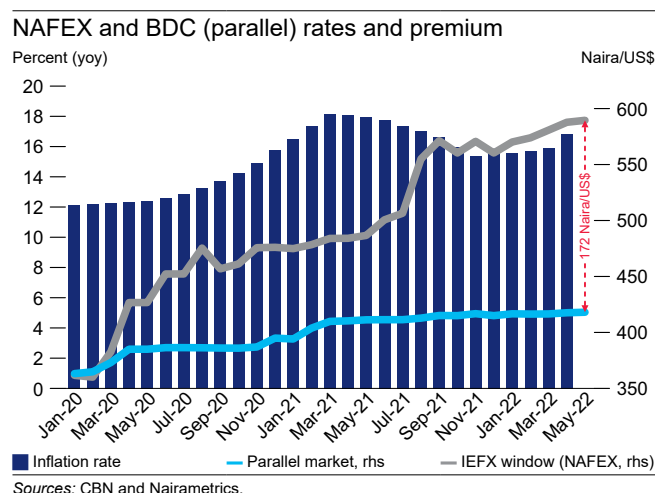
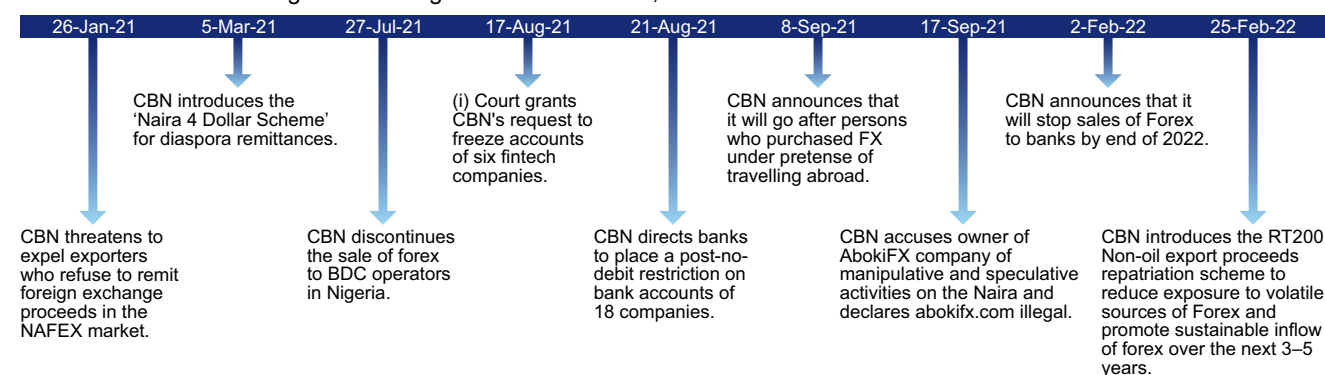


Figure 1.17. Nigeria's exchange rate policy includes FX demand management as well as supply-boosting measures.

Timeline of CBN's exchange rate management interventions, 2021–22



Source: CBN.

rate premium continues to climb, reaching 39 percent over the official IEFX rate in March 2022 (see Figure 1.16). The CBN continues to supply FX to at least four windows, sometimes at varying rates: (i) the I&E window; (ii) the secondary market intervention sales retail window; (iii) the small and medium-size enterprises (SME) window; and (iv) the window for invisibles.

The Financial Sector: Time to dial down development finance interventions

Through March 2022, net domestic credit grew robustly (21.3 percent year-on-year), reflecting a surge in private sector credit (Figure 1.18) spurred by the CBN's development finance interventions.

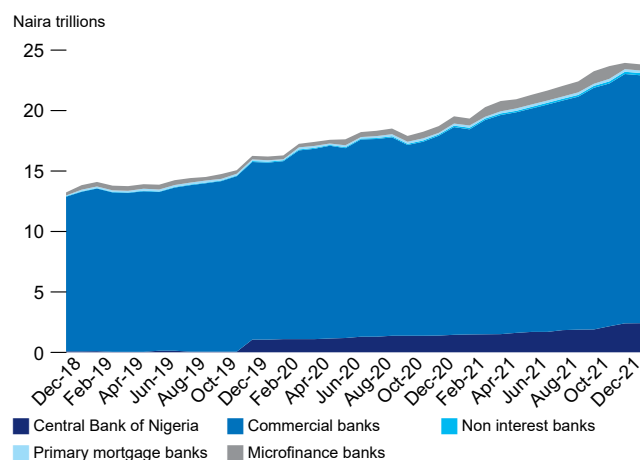
At the same time, deposit money banks have increased their holdings of CBN securities—as their yields rose—while roughly maintaining their exposure to the government. The share of private sector credit originated by deposit money banks that went to the agriculture sector continued to rise. It stood at 6.3 percent of the total (March 2022), about two percentage points higher than at the end of 2019. As of February 2022, interest rates on savings and time deposits and prime lending were below the levels prevailing at the start of the pandemic—by around 200bps and 300bps, respectively. However, maximum lending rates (charged to riskier borrowers) have returned to levels prevailing in March 2020. Overall, foreign currency funding of commercial and merchant banks steadily grew in 2021, with funding sourced domestically from corporates and households

rising in relative importance to about 60 percent by the end of 2021.

The CBN's continued provision of heavily subsidized funding to certain sectors undermines commercial banks that lend on a risk-adjusted pricing basis and needs to be dialed down. CBN disbursements are growing in funding the private sector, with the CBN's share of private sector credit rising from about 6.5 percent at end-2019 to 10 percent by end-2021 (Figure 1.19). Although some of the COVID-related tools deployed by the CBN are being phased out (e.g., the moratorium on principal repayments on CBN-funded credits lapsed in March 2022), the Central Bank has introduced new intervention facilities without a publicly available evaluation of their impact. The CBN also stepped up disbursements and kept the monetary policy rate unchanged at 11.5 percent from September 2020 until May 2022. On March 15, 2022, the CBN extended the 5 percent per annum interest rate on its

Figure 1.18. Nigeria avoided a credit crunch.

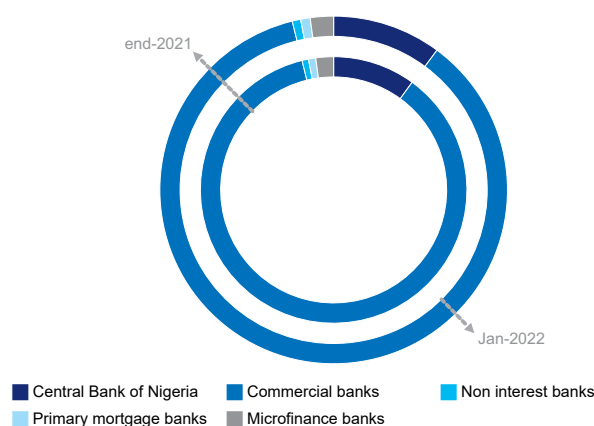
Credit to the Private Sector



Source: CBN.

Figure 1.19. The CBN played a key role in expanding credit.

Share in Private Sector Credit Origination (end 2021 'inside' Vs. end January 2022 'outside')



Source: CBN.

development finance intervention funds for one more year through end-February 2023. The Monetary Policy Committee has strongly encouraged the central bank to continue its development finance interventions, including a policy tool to help tame rising inflation. However, this stance fuels inflation in the short term from elevated aggregate demand and weakens the ability of the central bank to control inflation efficiently.

Expanding government programs to support micro, small, and medium enterprises (MSMEs) is a priority to protect viable and vulnerable MSMEs against rising uncertainty. The banking system has proved resilient in the face of COVID-19. Still, the operating environment for banks and firms has become more challenging recently. The fallout from the war in Ukraine drives inflation higher, increasing production costs and the cost of borrowing through higher rates. Thus, loan quality over the next several quarters is likely to deteriorate, but it is not expected to threaten the banking system's stability, as capitalization levels remain healthy overall. The NPLs ratio fell to 4.8 percent of gross loans in February 2022 (from 6.4 percent in Q2-2021). System-wide capitalization levels stood at 14.4 percent in February 2022 (down from 15.5 percent in Q2-2021), above minimum prudential requirements, but profitability has eroded. There are pockets of vulnerability, as troubled loans (International Financial Reporting Standards Stage II and III) remain elevated in two domestically systemically important banks—one of which has a thin capital buffer above the minimum requirement—as of Q3-2021. In addition, certain medium-sized banks that cater to SMEs and intermediate CBN development finance could be stressed if the economic recovery were to falter. SMEs, many of which have already suffered over the last two years, typically have less resiliency in revenue generation than larger, more diversified companies.

Phasing out prudential regulatory support measures is also a priority. Managing the consequences of this removal may test the adequacy of the framework for dealing with banks in distress. Further developing the

tools and powers provided in the 2020 Banks and Other Financial Institutions Act is strongly recommended. The regulatory forbearance granted by the CBN at the onset of the pandemic for restructuring loans impacted by COVID-19, and the surge in the price of crude oil, have helped keep the banking system sound. Restructuring peaked at some 40 percent of banking system loans, but that share fell to around 25 percent in Q3-2021, and repayments on restructured loans started to normalize.

Fiscal Policy: Stagnating oil revenues harm fiscal accounts at both the federal and subnational levels

Nigeria's fiscal performance suffered in 2021, as oil production was sluggish, the petrol subsidy eroded net oil revenues, and expenditure pressures remained high. Although higher than in 2020, the Federation's revenues did not match pre-pandemic (2019) levels. On the expenditure side, interest payments and capital expenditures increased. As a result, the general government fiscal deficit is estimated at 6.5 percent of GDP in 2021, with the federal fiscal deficit reaching 4.2 percent of GDP—a marginal improvement from 4.4 percent in 2020—but still breaching the limit set by the 2007 Fiscal Responsibility Act for the third consecutive year (for a detailed explanation of Nigerian fiscal rules, see the Forthcoming 2022 World Bank Nigeria Public Finance Review).

In 2021, for the first time, Nigeria did not fully benefit from rising oil prices. In the wake of the global economic recovery from COVID-19, international oil prices increased sharply. Although the price of Bonny

light crude oil rose to an average of US\$70/barrel in 2021 from US\$42/barrel in 2020, net oil revenues transferred to the Federation Account increased only by 3.9 percent (approximately ₦100 billion). The stagnation in oil revenues is attributable to declining oil production and sizable deductions from the Federation's oil revenues for the petrol subsidy.

The performance of non-oil revenues boosted total revenues, but total distributable FAAC revenues remained below 2019 levels, even in nominal terms. Non-oil revenues increased by almost 19 percent against 2020 levels (and 22 percent over 2019 levels) but stayed around 2.4 percent of GDP (only 0.1 percentage point increase over 2020 levels). VAT revenues increased by 17.6 percent to remain at 0.9 percent of GDP in 2021, the same as in 2020. Customs revenues increased by 38.6 percent (0.1 percentage point of GDP) over the 2020 level. Total FAAC revenues were 3.3 percent (or ₦232 billion) below 2019 levels (or 0.2 percentage

Figure 1.20. Rising oil prices did not translate into higher gross and net oil revenues.

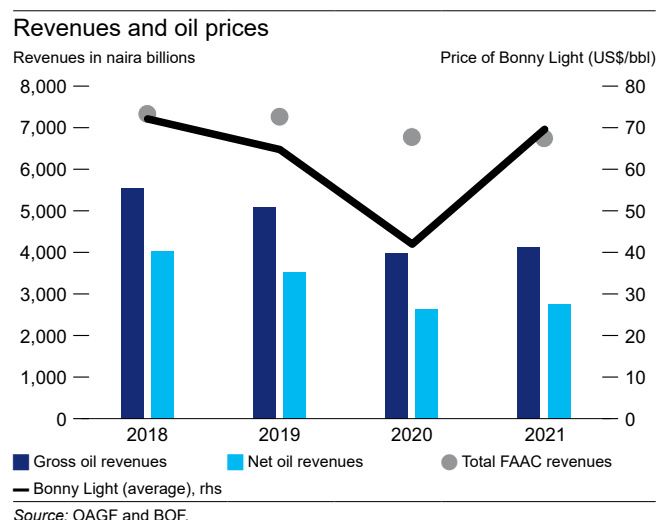
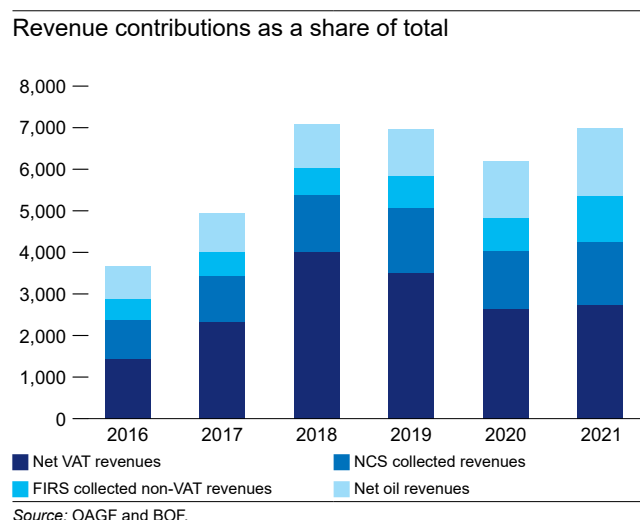


Figure 1.21. As such, despite strong non-oil revenue performance, total FAAC revenues remained marginally below 2019 levels.



points of GDP) on account of the negligible increase in net oil revenues.

Expenditure pressures remain high due to an increase in recurrent spending. Federal expenditures rose by 22.8 percent in 2021 (0.5 percentage points of GDP), and “rigid” recurrent spending—interest payments and personnel costs—hovered around 60 percent of total federal expenditure. Interest payments increased by 26.4 percent (0.2 percentage points of GDP) while personnel expenditure by almost 10 percent (but a decline of 0.1 percentage point of GDP). However, capital expenditures also rose significantly in 2021, by nearly 75 percent against 2020 levels (from 1.4 percent of GDP in 2020 to 2.2 percent of GDP in 2021), to reach their highest-ever level of ₦3.9 trillion. This stark increase was presumably due to the government resuming projects paused in 2020 because of the pandemic (see the forthcoming 2022 World Bank Nigeria Public Finance Review for a broader analysis of spending efficiency) as well as possibly due to the upcoming elections.

Many subnational governments also saw their fiscal balances worsen as expenditure growth outstripped revenue increases. It is estimated that the states

collectively saw a 10 percent increase in revenues for 2021, but expenditures grew by almost 20 percent, primarily due to higher interest payments. The states’ collective primary spending is estimated to have declined by 7 percent in 2021 against 2020, raising concerns about the accumulation of arrears. Many states are expected to have posted larger fiscal deficits than in 2020.

In 2022, Federal government revenues are projected to be 3.7 percent lower, despite a 22 percent increase in estimated independent revenues. In 2022, despite higher oil prices, net oil revenues for Nigeria are projected to remain stagnant due to low oil production and large petrol subsidy deductions. Federal expenditures are estimated to increase by over 25 percent in 2022 amid elections, with a 37 percent increase in capital expenditures. If budgeted expenditures are in line with the Medium-Term Fiscal Framework (MTFF), the federal fiscal deficit will reach 5.4 percent of GDP. Suppose capital expenditures are maintained at the 2021 level, which may occur due to delays in passing the 2022 amended budget. In that case, the federal fiscal deficit is still expected to be higher than in 2021 and reach 4.7 percent of GDP.

Figure 1.22. Rigid expenditures account for around 60 percent of total federal expenditure.

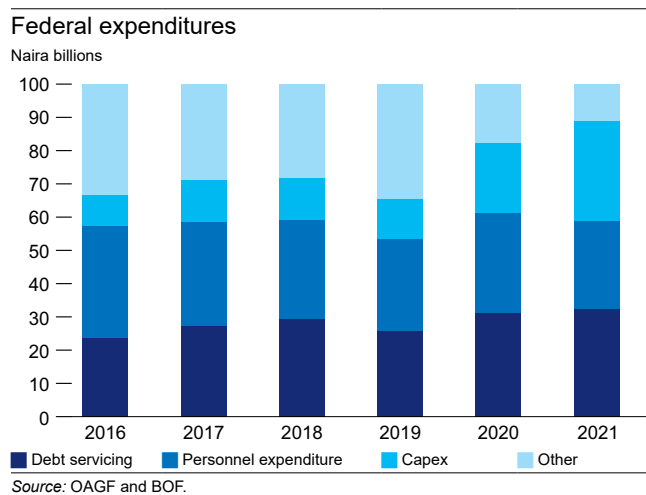


Figure 1.23. Continued pressure from interest payments and personnel costs pushes the federal fiscal deficit beyond the legally stipulated limit.

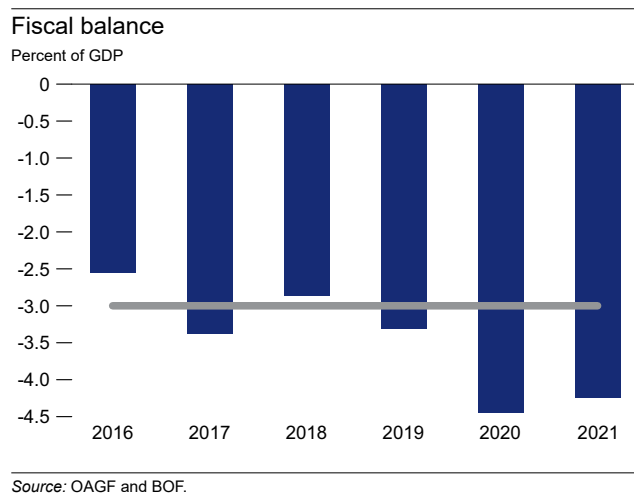


Figure 1.24. For most states, fiscal deficits increased as expenditure pressures outstripped revenue growth.

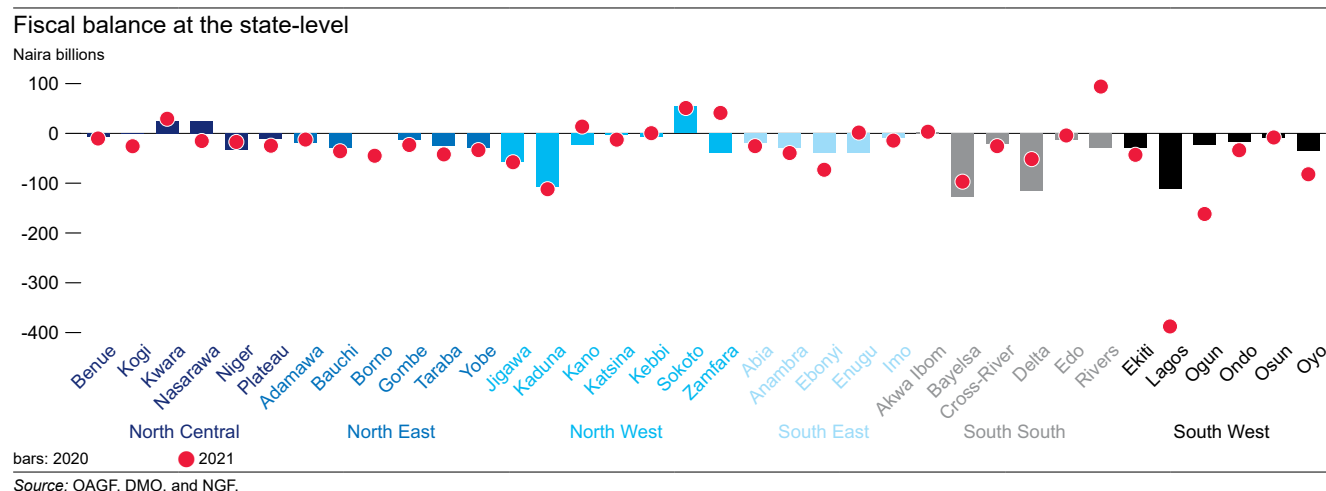


Figure 1.25. Net oil revenues are expected to stagnate in 2022 as oil production remains low and petrol subsidy deductions increase with higher oil prices.

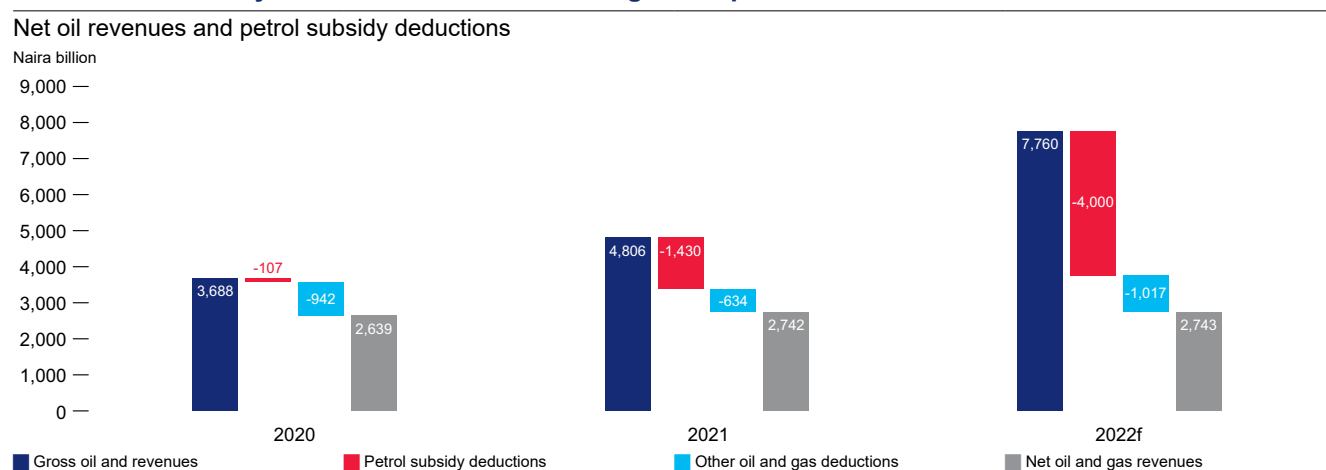


Figure 1.26. States are projected to receive lower revenue transfers from the federal government in 2022 in nominal levels relative to 2021.

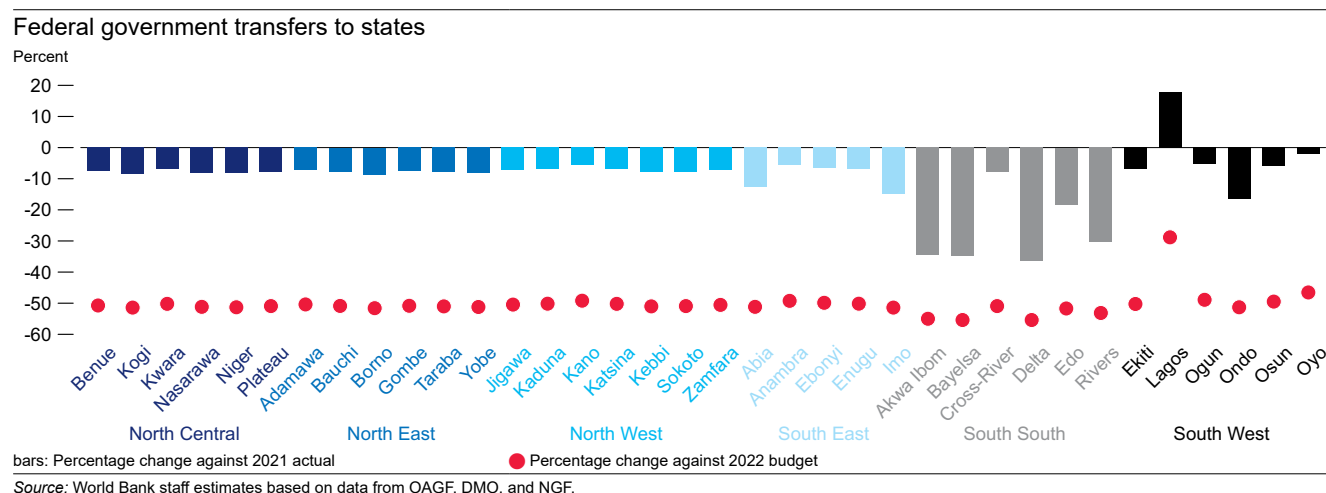
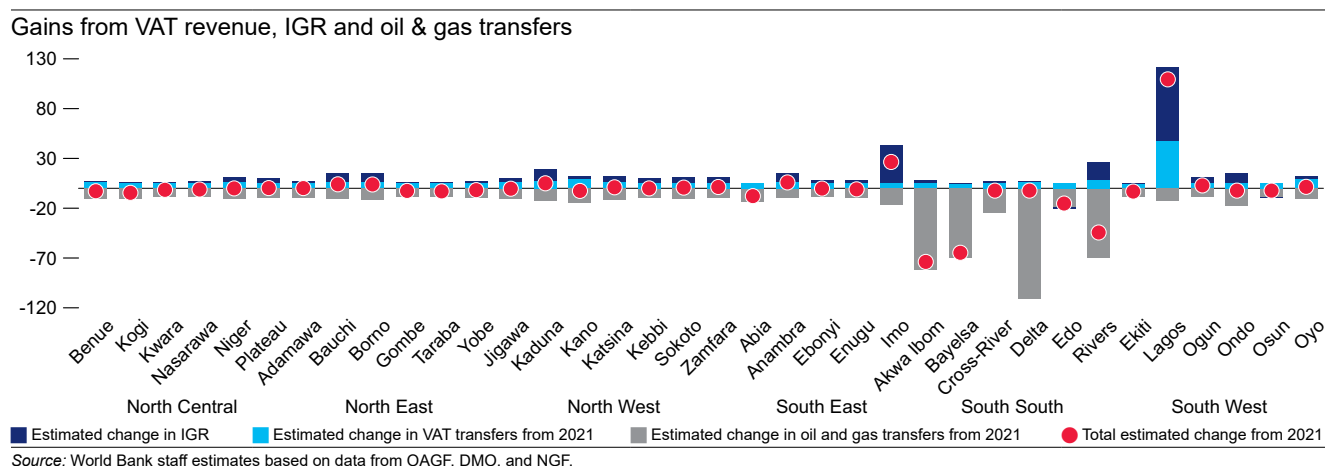


Figure 1.27. For most states, gains from VAT revenues and IGR are not expected to make up for losses in net oil revenues.

Stagnating net oil revenues will significantly affect the fiscal situation at the state level.

State governments are projected to collectively receive 2.7 percent fewer revenues than in 2021, as federal transfers are estimated to decline by 10 percent against 2020 levels. Lower transfers will cause state governments to incur debt or drastically slash discretionary expenditure. Although states receive the majority of VAT revenues, VAT increases would not make up for the loss of net oil revenues. As a result, in 2022, the average state in Nigeria will lose ₦18.8 billion in oil and gas revenues, while optimistic projections place average gains from VAT and the electronic money transfer Levy at ₦7.1 billion per state, and average increases in each state's independent revenues at ₦6.7 billion. As a result, the average state can expect to lose ₦5 billion in revenue in 2022.

Public debt is considered to be sustainable.

It is expected to reach 36 percent of GDP in 2022, 1 percentage point higher than in 2021. Debt servicing costs are projected to remain high, with interest payments expected to reach 45 percent of total consolidated government revenues in 2022 (see the World Bank Nigeria Public Finance Review, 2022 (forthcoming), for a discussion on debt dynamics and sustainability).

Economic Outlook

The Global Economy: The shock from the war in Ukraine is affecting the recovery from the pandemic

Global economic prospects have deteriorated substantially since early 2022, amid disruption to global commodity markets caused by the war in Ukraine and accelerated policy tightening in many countries. These headwinds arose right on the heels of the COVID-19 pandemic. Beyond the war, frequent pandemic-related lockdowns in China have contributed to disrupting global supply chains. As a result, overall risks to economic prospects have risen sharply, and the room of maneuver to control inflation, boost growth, and promote financial stability has decreased. Furthermore, high public debt leaves many EMDEs with even less policy space to support the recovery while expanding social safety nets, which are needed to mitigate the impact of higher food and fuel prices on vulnerable households. Against this backdrop, global economic growth is forecast to slow from 5.7 percent in 2021 to 2.9 percent in 2022—1.2 percentage points below the January forecast—and edge up to 3.1 percent in 2023 (Table 1.1).

Commodity prices surged in the first half of 2022, especially for those commodities where Russia and Ukraine are major exporters (Figure 1.28). Further disruptions to Russia's crude oil exports could be offset by inventory releases or the scaling up of production among other major exporters; however, increasing production would take time. In 2022, crude oil prices are forecast to average US\$100 per barrel, an upward revision of US\$24 per barrel from forecasts in January

Table 1.1. Global and Regional Indicators, 2019–2022.

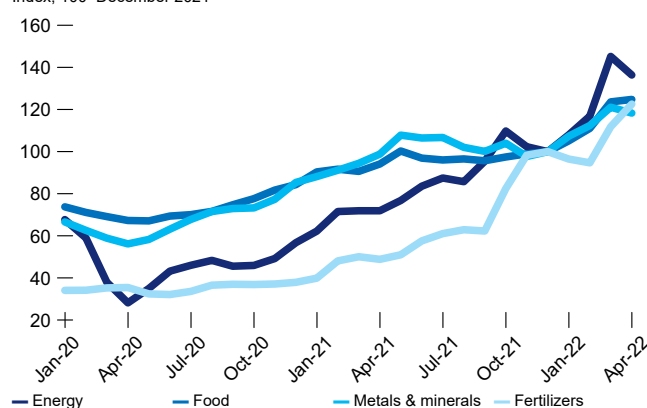
	2019	2020	2021	2022f	
				GEP JAN 2022	GEP JUN 2022
Real GDP Growth - Global economy (percent)	2.6	-3.3	5.7	4.1	2.9
Real GDP Growth - AEs (percent)	1.7	-4.6	5.1	3.8	2.6
Real GDP Growth - EMDEs (percent)	3.8	-1.6	6.6	4.6	3.4
Real GDP Growth - SSAs (percent)	2.6	-2.0	4.2	3.6	3.7
Crude Oil Price (\$/bbl)	64	42.3	70.4	76	100

Source: World Bank Global Economic Prospects (June 2022), Commodity Markets Outlook (June 2022).

Figure 1.28. Global commodity prices surged, and confidence plunged as a result of the war

Panel A. Commodity Price Indexes

Index, 100=December 2021

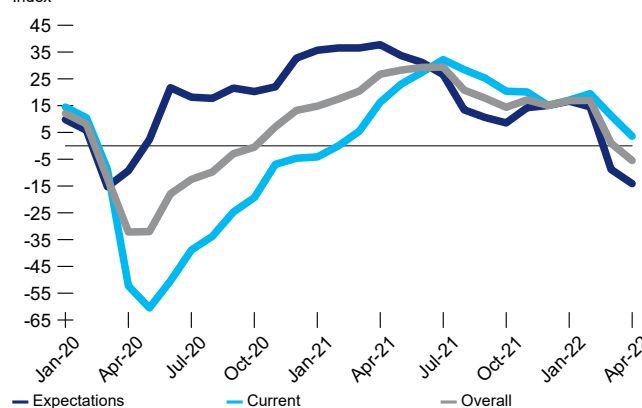


Source: Bloomberg and World Bank.

Note: Panel A. Pink Sheet data for oil, metals, and agricultural prices indexed to December 2021=100. Last observation is from March 2022. Panel B. A positive value indicates improving sentiment. Last observation is from April 2022.

Panel B. Global Sentix Index

Index



(Table 1.1). Prices are projected to moderate in 2023 as production rises elsewhere; however, they will remain much higher than previously forecast and well above the past five years' average.

Nigeria's Outlook: Stronger growth amid a weakening macroeconomic framework

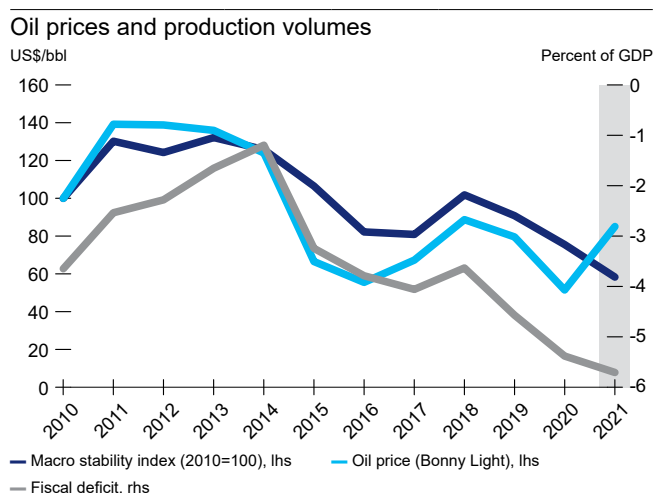
Nigeria's short-term growth prospects are positive. In 2022–2023, the economy will continue growing above than the expected population growth of 2.6 percent. GDP is projected to grow by 3.4 percent in 2022 and 3.2 percent in 2023. Growth prospects have improved on the back of (i) sustained growth in agriculture and a robust recovery in services, mainly telecommunications, and financial services, all which are above 2019 production levels; and (ii) higher oil prices, which have strengthened Nigeria's external position, and have spillovers effects on manufacturing and services.

However, macroeconomic indicators have weakened despite higher oil prices and higher growth. Four reasons explain the paradox of higher growth accompanied by an expected deterioration of the macroeconomic framework:

- **High inflation:** Inflation is arguably the key priority to improving macroeconomic sustainability. Despite the urgency, the authorities' response over the last two years has not been adequate, and inflation has increased and fueled poverty and food insecurity. As discussed in previous NDUs, between 2020 and 2021, Nigeria's high inflation resulted from a lack of concerted action to reduce it by reforming the mix of trade, exchange rate, monetary, and fiscal policies. For instance, until May 2022, the CBN was the only monetary authority in emerging economies pursuing expansionary policies amid intensified inflationary pressures. In addition, global supply shocks resulting from the war in Ukraine have further compounded food and fuels inflationary pressures.

- **Decoupling between oil prices and oil revenues:** As highlighted in this edition of the NDU, this phenomenon started in 2021 and intensified in 2022 and will continue until the petrol subsidy is phased out. The scenario is more optimistic on the external side, as higher oil prices boost the value of oil exports. However, external reserves have not increased and have not reduced the need for external financing as in previous episodes of higher oil prices.

Figure 1.29. Despite rebounding oil prices, Nigeria's macroeconomic stability deteriorated in 2021.

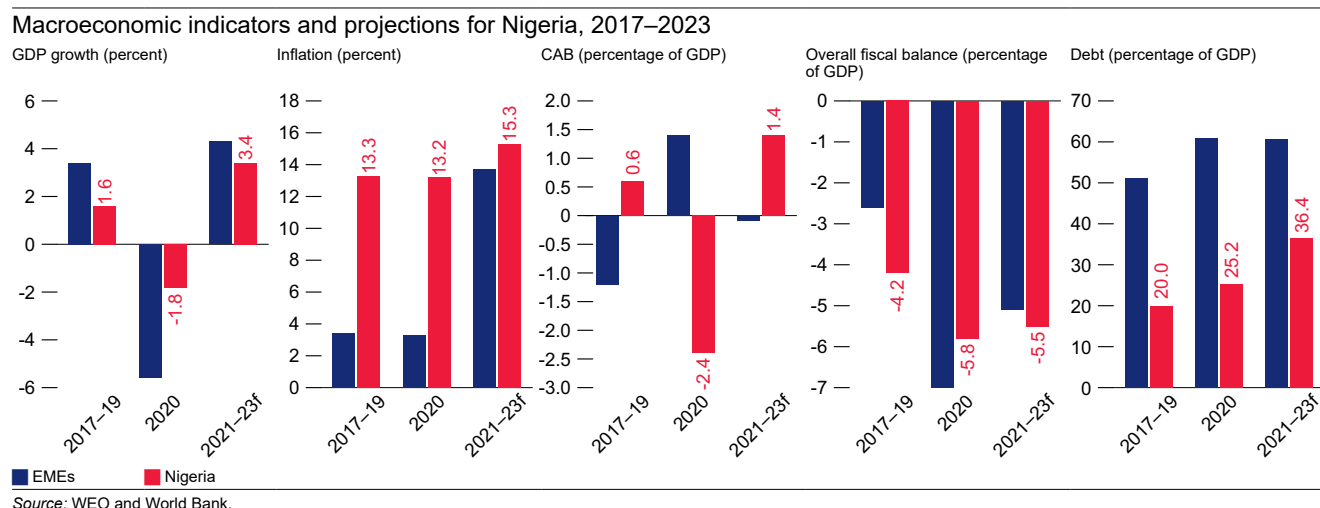


Source: OAGF, NBS, and CBN.

Note: Macro stability is measured by a standardized composite index of inflation, current account, and overall fiscal balance, with 2000 as the base year.

- **Heightened global risks:** First, the war in Ukraine has increased the uncertainty in international capital flows, spurred higher prices of imported food and inputs for fertilizers, depressed global growth, and heightened the volatility of oil prices. Second, the impact of monetary tightening by central banks in advanced economies, including the United States Federal Reserve, will reduce the room for maneuver of central banks worldwide and will likely reduce capital inflows into emerging economies.
- **Insecurity and uncertainty about the pace and direction of economic policy:** Insecurity remains widespread in Nigeria, with more violent conflict

Figure 1.30. In a business-as-usual scenario, Nigeria's GDP growth rate would continue to lag other emerging economies.



events across the country.¹¹ Insecurity has affected millions of Nigerian lives, but it has also discouraged private investment and growth. This situation is compounded by increased public perception of policy unpredictability at the state and federal levels due to the February 2023 general elections run-up.

A “business-as-usual” policy stance would not address Nigeria’s macroeconomic challenges. Multiple exchange rates, trade restrictions, and CBN financing of the public deficit continue to undermine the business environment, compounding long-standing weaknesses in revenue mobilization, foreign investment, human capital development, infrastructure investment, and good governance. In particular, the authorities lost an opportunity to address the main source of fiscal vulnerabilities by choosing to maintain the petrol subsidy. Moreover, with the 2023 elections on the horizon, the window of opportunity to accelerate growth by easing macroeconomic imbalances, addressing fiscal vulnerabilities, and protecting the welfare of poor households has shrunk—the following section describes two macroeconomic scenarios.

Nigeria’s Policy Scenarios: The overall macroeconomic framework would deteriorate further without concerted policy reforms

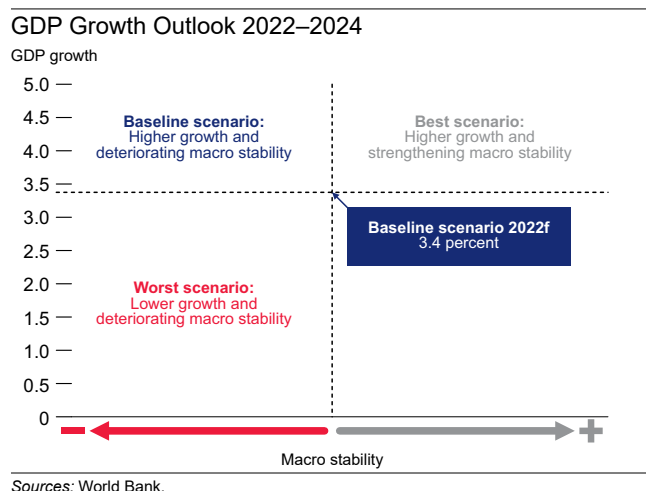
In our baseline “business-as-usual” scenario, Nigeria’s GDP growth will remain above population growth in 2022–2024. Nigeria will be in a highly unusual situation where growth prospects have improved, but the overall macroeconomic framework is deteriorating. Instead of benefitting from the windfalls to build macroeconomic resilience, the Nigerian economy is becoming more vulnerable to external shocks—if the external windfalls were to reverse, the economy would face a similar recession to that of 2015–2016.

- **External variables:** Oil prices are expected to remain broadly stable while oil production increases gradually. The price of Bonny Light crude oil is assumed to average US\$85/barrel between 2022 and 2024, and crude oil production will remain at 1.5 million bpd at the end of 2022 and range between 1.6 and 1.7 million bpd in 2023–24. Central banks in advanced and emerging economies continue tightening their monetary policy stance in response to supply shocks.

¹¹ For trends in conflict events in Nigeria, see the November 2021 edition of the NDU.

- **Policy:** The baseline scenario assumes that current policies continue, particularly regarding the petrol subsidy, exchange rate management, and the mix of trade, fiscal, and monetary policies.
- Growth is projected to be 3.4 percent in 2022 and 3.2 percent in 2023 and 2024. We expect sustained growth in services (telecommunications, trade, financial service) and non-oil industry (construction, food industry) and a moderate recovery in the oil sector. However, inflation would remain high, eroding consumer purchasing power and increasing poverty. The burden of the petrol subsidy would reduce the already limited fiscal space, limiting the options to alleviate the impact of high inflation on the poorest Nigerians. In the absence of FX reforms, there will be continued pressure on the parallel exchange rate, which will continue discouraging private investment and fueling inflation. In this scenario, once 2022 GDP per capita is adjusted by changes in prices and exchange rates, per capita GDP growth would be close the zero.

Figure 1.31. Without sustained reforms, Nigeria could end in a high-growth-higher-vulnerabilities scenario



In a “business unusual” scenario, the government would undertake a sequenced program of bold macro-structural reforms that position Nigeria on a faster and more inclusive growth path.

- **External variables:** This scenario has the same assumptions on external variables as the business-as-usual scenario.
- **Policy:** This scenario assumes that the Nigerian authorities advance exchange rate, trade, fiscal, and monetary policy reforms that help reduce inflation, address fiscal and monetary vulnerabilities and enhance the business-enabling environment (Table 1.2). For instance, immediate actions in this scenario would include (i) adopting a single, market-responsive exchange rate; (ii) establishing a “compact” with the Nigerian people that phases out the petrol subsidy while protecting the poor through targeted and time-bound cash transfers; (iii) easing FX and import restrictions; and (iv) accelerating COVID-19 vaccinations (see Box 1.2). By building macroeconomic resilience, the Nigerian economy will be a solid position to attenuate any potential global shock on commodity prices or capital inflows.
- In this scenario, growth could exceed 4.0 percent on average in 2022–2024, driven by sustained growth in services and industry. The reduction in inflation would restore confidence in the economy, promoting consumption and investment. By removing the burden of the petrol subsidy, the government would be able to use the additional resources in investment projects at the state and federal levels and protect the poor through cash transfers. These measures would boost public investment and consumption and private consumption. Finally, a more flexible exchange rate in a context where FX availability increases will promote private investment and reduce inflationary pressures.

Policy options to reduce inflation, address fiscal pressures, and catalyze private investment for faster growth with job creation

The risk of returning to a scenario where economic growth is below population growth is high under the current policy mix. This scenario could be further complicated by an unfavorable external context and a deceleration of vaccination rates (Box 1.2). Even in the most favorable global context, the policy response of Nigerian authorities will be crucial to laying the foundation for sustained growth. The government

cannot afford to be complacent and expect growth to maintain the GDP growth trajectory observed in 2021 without any sustained effort. GDP growth in 2021 was mainly the result of base effects following the 2020 recession— without base effects, GDP growth would have been 1.8 to 2.3 percent, below the population growth rate. With Nigeria benefitting only partially from high oil prices, which negatively impact the fiscal position; inflation pushing millions into poverty; FX discouraging investment and production; and higher global uncertainty, the time to implement long-overdue reforms is now.

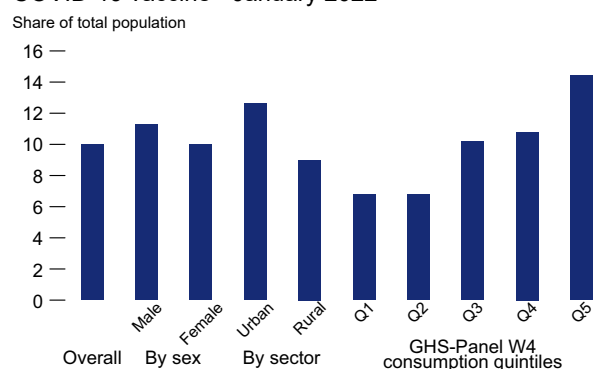
Box 1.2. COVID-19 Vaccination Take-up in Nigeria.

Vaccine take-up in Nigeria remains extremely low for a variety of reasons. Just 10 percent of the Nigerian population had received at least one dose of a COVID-19 vaccine as of April 5, 2022.¹² Both supply-side and demand-side factors may explain the slow progress of Nigeria's vaccination campaign. The short supply of doses and challenges in delivery could inhibit vaccination roll-out. Some Nigerians might also lack information on the vaccine or hesitate to get vaccinated.

Vaccination rates are meager among poor and rural households, who know less about Nigeria's vaccination campaign. The most recent round of the COVID-19 National Longitudinal Phone Survey (NLPS, collected in December 2021 and January 2022) sheds light on these issues. According to this nationally representative survey, while the overall vaccination rate is low, it is less than half in the bottom quintile of the consumption distribution as in the top quintile. These lower immunization rates correlate with poorer and rural households being less aware of Nigeria's COVID-19 vaccination campaign. Around 71 percent of respondents in the poorest quintile knew about the COVID-19 vaccination campaign, compared to 87 percent in the wealthiest quintile. Among unvaccinated respondents willing to get the vaccine, the most common reason for not

Figure B1.1. The share of Nigerians who have received at least one COVID-19 vaccine dose is low, and even lower among poor and rural households.

Nigeria: Population vaccinated with at least one dose of COVID-19 vaccine - January 2022



Source: Covid-19 National Longitudinal Phone Survey, Phase 2 Round 1. General Household Survey Wave 4 for consumption quintiles.

12 See report on official statistics available at <https://ourworldindata.org/coronavirus/country/nigeria>. Differences in survey-based immunization rates and official statistics might be related to delay in administrative reports of vaccination and positive bias in reporting in the NLPS household survey.

Box 1.2 continued

accessing the immunization is a lack of information on how or where to obtain it. This constraint affects 44 percent of unvaccinated respondents in the poorest quintile than 36 percent in the wealthiest quintile.

These findings show that vaccination—and communication around vaccines—needs to be scaled up, especially for poor and rural households. The supply of an adequate number of doses and their timely administration is paramount to increasing the share of Nigerians vaccinated against COVID-19. Providing information on the vaccination campaign is also crucial to ensure that all Nigerians are aware of the details of its administration.

Table 1.2. Near-term macroeconomic and structural policy options to support Nigeria's rise to its potential.

Area	Options for the next 3 to 6 months	Options for the next 6 to 18 months
Reducing inflation	<ul style="list-style-type: none"> • Adopt a single, market-responsive exchange rate regime and clearly communicate the exchange-rate management strategy to build credibility and improve the availability and accessibility of FX. • Fully re-open land borders to trade, and strengthen regional cooperation to combat smuggling. • Remove import and FX restrictions for staple foods and medicines, and replace import restrictions with tariffs that reflect the ECOWAS Common External Tariff. • Reduce subsidized CBN lending to medium and large firms. 	<ul style="list-style-type: none"> • Re-establish the dollar interbank market and re-enable commercial banks to trade FX on their own behalf and not solely to fill client orders. • Review FX restrictions and import bans on non-food goods and assess the implications of replacing them with tariffs. • 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.
Addressing fiscal pressures	<ul style="list-style-type: none"> • Establish a "compact" with the Nigerian people that phases out the petrol subsidy while protecting the poor through targeted and time-bound cash transfers. • Introduce a new, sustainable revenue source from a green surcharge on imported vehicles through and amendment of Custom, Excise, Tariff, Etc. (Consolidation) Act. • Safeguard the Federation's oil and gas assets by amending the Petroleum Industry Act (i) to specify that oil and gas assets will belong to the Federation until when NNPC Ltd. pays the full market value for these assets; (ii) to require that government revenues related to the oil and gas contracts are paid to the Federation Account and verified by the Commission; and (iii) to end all in-kind fiscal payments and instead use cash payments. 	<ul style="list-style-type: none"> • Increase the VAT rate from 7.5 percent closer to the regional Sub-Saharan African average of 15 percent. • Re-introduce the VAT on petrol, which is currently exempted. • Rationalize tax expenditures granted to agriculture, pioneer, and financial sectors. • Close legal tax loopholes by issuing a regulation that gives the Ministry of Finance the sole responsibility for granting tax expenditures. • Restructure FGN's debt stock from the CBN into longer-term debt instruments. • Strengthen the budgeting framework by linking budgets to robust macroeconomic forecasts and cost estimations. • Develop and publish detailed multi-year rolling borrowing plans that focus on reducing cost of debt servicing.

Table 1.2. Near-term macroeconomic and structural policy options to support Nigeria's rise to its potential (continued)

Area	Options for the next 3 to 6 months	Options for the next 6 to 18 months
Catalyzing private investment to boost job creation and support stronger and more inclusive growth	<ul style="list-style-type: none"> • Ensure greater FX flexibility and availability by establishing a well-defined schedule of regular FX auctions, apply pre-defined exchange-rate bands (with "circuit breakers") to control possible immediate overshooting, and limit CBN FX interventions to episodes of intense market volatility. • Deepen power sector reforms to fully eliminate tariff shortfalls and expand grid and renewable energy capacity. 	<ul style="list-style-type: none"> • Reduce inter-state and international trade and transportation costs arising from border and port clearance delays by simplifying and harmonizing documents, streamlining and automating procedures, and making more information available. • Introduce risk-based management of customs interventions and a streamlined trusted trader program. • Simplify and make more transparent the processes related to firm entry, tax administration, and contractual enforcement. • Develop and scale up equity-based financing instruments, and mobilize private capital to cater for the needs of viable MSMEs. • Increase affordable access to broadband, as a key foundation for the use of digital technologies by traditional firms and for the entry of new digital businesses.

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Part 2: Taking a Closer Look

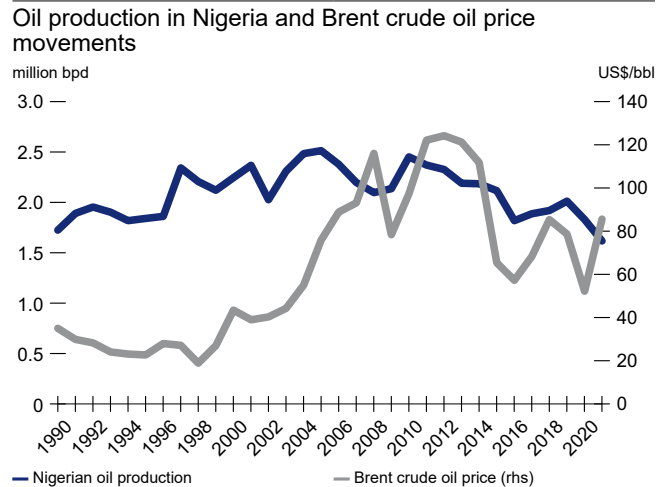
Oil Production and Associated Revenue in Nigeria

Summary: Nigeria has not realized its oil production potential due to high production, 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 Petroleum Industry Act. Ending the petrol subsidy will go a long way in reversing the decline in oil production. Further, the global energy transition has made investors increasingly selective about where to invest. To remain competitive, Nigeria will need to slash gas flaring, venting, and fugitive methane emissions; concurrently, the government and the national oil company will need to enhance administrative efficiency.

Security concerns, tense relationships with workers and communities, high costs, and the Federation's failure to finance the production of its equity oil have plagued Nigeria's oil production for many years. After rising above 2 million bpd in 1997, oil production fluctuated between 2 and 2.5 million bpd before falling below 2 million bpd in 2016, due to an unusually high number of attacks on oil production infrastructure that year. After recovering modestly, production fell to the lowest level since 1988 in 2021, and fell further during the first five months of 2022.

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. Because the natural production decline in Nigeria, as elsewhere, is about 10–15 percent a year, the delay in conducting bid rounds since 2007—partly because industry players were waiting for the new Petroleum Industry Act, which was enacted in August 2021 and has made fiscal terms more attractive to investors—has contributed to declining oil production.

Figure 2.1. While oil prices climbed in 2021, oil output declined.



Sources: World Bank calculations based off 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.

Attacks on oil production infrastructure, work stoppages, and disturbances in oil-producing communities have led to the suspension of oil production on numerous occasions. In the second quarter of 2016, as many as five oil terminals were under force majeure (*Platts Commodity News* 2016). Among the most damaging events was a series of attacks on the Trans-Forcados Pipeline, one of the main export routes which typically transports 200,000–250,000 bpd. A first bombing in February 2016 forced a declaration of force majeure, followed by an attack in June 2016 and another in November 2016. These attacks halted exports for most of the period between February 2016 and June 2017, or almost 16 months. In September 2017, the NNPC reported that vandalism had affected two pipelines a total of 42 times that year (*Sweet Crude Reports* 2017). The NNPC reports various incidents disrupting oil and gas production—pipeline leaks, equipment failure, work stoppages for non-payment, community protests for unpaid compensation and other issues, and vandalism—to FAAC on a monthly basis. These reports, which have

been publicly disclosed since January 2020, show that disruptions cut oil production by about 100,000 bpd in 2020 and 175,000 bpd in 2021.

Production in Nigeria is more expensive than in comparable countries because of higher security and procurement costs. Onshore oil production is particularly vulnerable to vandalism, resulting in higher-than-average costs for security and asset repairs. Overall costs are also high because contract approval processes have historically been complex, opaque and slow, potentially taking years to complete. All contracts of US\$1 million or more require approval by the Nigerian Content Development and Monitoring Board, and even smaller contracts in joint ventures and production-sharing arrangements require approval by the NNPC's National Petroleum Investment Management Services or NAPIMS. Furthermore, multi-year contracts have been restricted, potentially discouraging the development of local capacity. For these reasons the Nigeria National Petroleum Policy, published in the official gazette in December 2017, called for a “fundamental overhaul” of the procurement process to strengthen “efficiency, transparency and cost control.”

Striking a balance between strengthening domestic industrial capacity through local content rules, on the one hand, and facilitating competition and efficiency on the other, has been a challenge globally. Countries such as Brazil and Nigeria have the domestic industrial capacity to enable meaningful and effective domestic content rules. Without vigilance and close monitoring, however, such rules may foster corruption and cost increases. Local content rules in Brazil formed the backdrop for Operação Lava Jato (Operation Car Wash), a major criminal investigation centering on Petrobras, Brazil's national oil company, and raising questions about the local content policy (Lima-de-Oliveira 2020); the regulatory agency in 2018 lowered the local content requirements for the use of locally produced goods and services in oil field development. Even without corruption, if only a handful of local companies are

capable of delivering the required services, there would be inadequate competition and potentially higher prices.

The NNPC's failure to pay for the Federation's share of costs in joint-venture operations has had a significant impact on oil production. The Federation's equity stake in the joint-venture assets is either 55 percent (in joint ventures with the private firm Shell) or 60 percent (in all other joint ventures). The Federation, through the NNPC, is supposed to pay 55 percent or 60 percent of production costs and receive the corresponding share of total revenue. However, the Federation failed to pay its full share and, as of March 2022, owed US\$972 million in arrears (after a large write-off negotiated by the Minister of State for Petroleum Resources) for oil production costs up to 2016. It then accrued more arrears in 2020 and especially in 2021 and 2022, as oil revenues were diverted to finance the growing petrol subsidy. According to the NNPC's monthly submissions to FAAC, payments made to cover the Federation's share of costs had fallen short of the budgeted amount by US\$2.9 billion in 2021 and by nearly US\$1 billion by the end of April 2022. The combined impact of payment arrears and continuing disruptions to production in onshore fields has prompted many experienced oil companies, to exit onshore production.

More generally, the lack of payment discipline has threatened Nigeria's ability to produce oil and gas and supply electricity. Chronic power shortages—which force businesses and households to use back-up power generators running on petrol and diesel—are caused in part by the failure of power generation companies to pay gas producers, which deters delivery of natural gas to the power sector. The only market showing full payment discipline is that for liquefied natural gas, where Nigeria Liquefied Natural Gas Limited—in which the Federation, through the NNPC, has a 49-percent stake—is active. Improving payment discipline is essential for Nigeria's energy security and economic development.

Nigeria has seen periods of high oil prices and growing fuel subsidies in the past, but until 2021 higher oil revenues more than compensated for fuel subsidies. In constant dollar terms, global oil prices were about the same in 2010 as today, and markedly higher in 2012 and 2013. In these years, there were petrol and kerosene price subsidies, although the magnitude of the latter was very small. There are three important differences resulting in a very different outcome today:

1. Oil production in 2021 and especially in 2022 are much lower than in the earlier years. In 2010, the oil production averaged 2.45 million bpd, declining to 2.3 million bpd in 2012 and 2.2 million bpd in 2013. These are still 700,000 to 950,000 bpd higher than during the first five months of 2022.
2. The unit petrol subsidy was much smaller in the earlier years. In 2010, for example, the official price covered 60 percent of the cost of supply.¹³ By the end of May 2022, the official price is estimated to have covered only one-third of the cost of supply.
3. Petrol consumption was much lower in the earlier years. According to the oil and gas industry reports of the Nigeria Extractive Industries Transparency Initiative, the daily consumption was 44 million liters in 2010, 46.8 million in 2012, and 48 million in 2013. During the first three months of 2022, the NNPC imported an average of 70.5 million liters a day.

The higher unit subsidy combined with much higher consumption and much lower oil production at the same oil price in real terms as in 2010 explains why a decoupling of oil revenue from oil prices has emerged for the first time in 2021 and 2022.

The growing petrol subsidy can lead to a downward spiral of further decoupling and falling oil production. Consumption of petrol in Nigeria is better termed apparent consumption, because there is plentiful evidence of smuggling of petrol to neighboring countries with much higher pump prices. The higher the price of oil, the more financially attractive smuggling becomes, and the higher the apparent consumption, increasingly benefitting smugglers and consumers in the neighboring countries while reducing the net oil revenue transfers to the Federation. At the same time, increasing costs of the petrol subsidy will continue to make it difficult for the NNPC to pay for the Federation's cost of production of its equity oil and gas in full, thereby keeping oil production depressed. Such a possibility points to the urgency of phasing out the petrol subsidy.

In the future, the global energy transition will affect investments in Nigeria's upstream oil and gas sector, requiring steps to minimize inefficiencies in administrative approval processes as well as emissions from production. According to the International Energy Agency, global oil consumption must halve from its 2020 level by 2040 to limit global warming by 1.5°C by the end of the century; by more than a quarter to limit global warming to 1.65°C; and by 5 percent to implement the climate pledges announced as of mid-2021 (International Energy Agency 2021).¹⁴ Many investors will seek oil fields and production where greenhouse gas emissions are as close to zero as possible, and where the path from final investment decision to commercial operation is short and unencumbered by inefficient administrative processes. Ending routine flaring and venting is the first step towards minimizing greenhouse gas emissions, followed by measures to reduce fugitive methane emissions.

¹³ Original calculations for this report based on data in NEITI (2013).

¹⁴ More pledges were announced prior to or at COP26.

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Picking Up the Pace of Poverty Reduction in Nigeria

Summary: *Understanding how poverty has changed over time can provide vital insights into the effectiveness of poverty-reducing policies. Data constraints have traditionally complicated the assessment of poverty dynamics in Nigeria, but the application of specialized statistical techniques reveals that, even before COVID-19, poverty reduction in the country was stalling. Moreover, when Nigeria was growing in the early 2010s, it was richer Nigerians that benefited the most. This underscores the importance of reforms that not only bolster growth, but also ensure that the proceeds of growth are shared among all Nigerians, and especially the poor. Such reforms may include broad macroeconomic transformation to aid job creation, supporting productivity in small-scale household enterprises, and investing in infrastructure. These policies, guided by data, can help Nigeria make substantial strides toward poverty reduction.*

Understanding how poverty has changed over time can help design policies that lift Nigerians out of poverty. Nigeria aspires to lift 100 million people out of poverty by 2030. This is an ambitious target: around 4 in 10 Nigerians were living in poverty in 2018/19, even before the COVID-19 crisis, the subsequent rise in inflation, and the ongoing uncertainty in global markets stemming from the war in Ukraine.¹⁵

Assessing poverty dynamics has long been a challenge in Nigeria. The 2018/19 Nigerian Living Standards Survey (NLSS) provided the first official estimates of poverty in more than a decade. Yet, given a range of improvements in the survey—especially around measuring food consumption—it is difficult to directly compare its results with those from the previous official household survey in Nigeria, the 2009/10 Harmonized Nigerian Living Standards Survey (HNLSS).^{16,17}

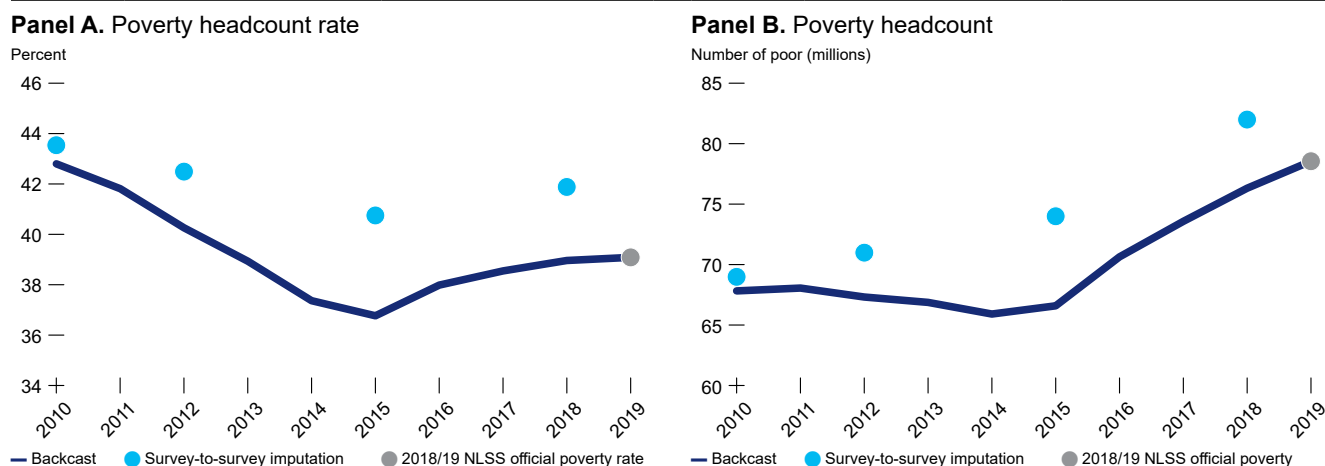
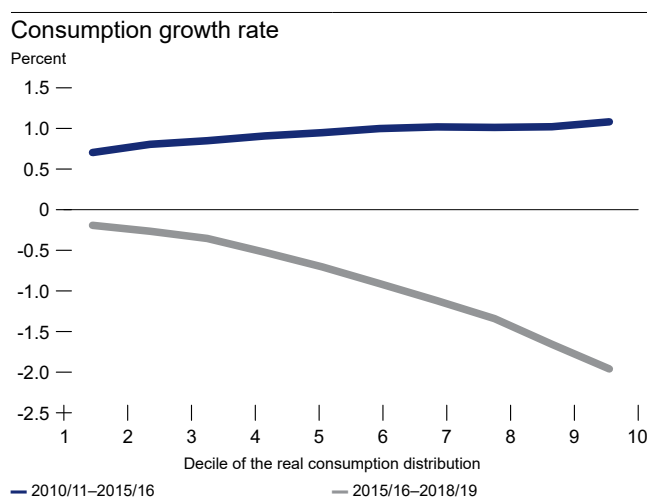
Specialized statistical techniques, designed to work around Nigeria’s data constraints, show that in the decade prior to COVID-19, poverty reduction was initially slow, and then it stalled entirely. In particular, “back-casting” and survey-to-survey imputation techniques were applied to estimate Nigeria’s poverty trend; these are described in Annex 2.1. While the poverty headcount rate dropped in the first half of the 2010s, this trend reversed after the 2016 recession, which was induced by falling oil prices, and real GDP growth dipped below population growth (Figure 2.2). Stalling progress on monetary poverty broadly matches the path of non-monetary indicators, including educational attendance and access to basic infrastructure such as electricity, drinking water, and improved sanitation, as data from Nigeria’s Demographic and Health Survey (DHS) demonstrates.

The fortunes of richer Nigerians waxed and waned in line with the country’s growth, much more so than those of poorer Nigerians. This can be seen by using the imputed data to construct “growth incidence curves”, which show which Nigerians—rich or poor—experienced the largest changes in consumption over time (Figure 2.3). When per capita incomes were growing in the early 2010s, richer Nigerians benefited more than poorer Nigerians; however, the former lost out more when the 2016 recession struck. This matches labor market indicators from the same period. In the wake of the 2016 recession, the shift towards farming as a key coping strategy was more pronounced among workers in the top 60 percent of the consumption distribution than among those in the bottom 40 percent (Jenq, Lain, & Vishwanath, 2021).

15 Many key drivers of poverty in Nigeria and potential poverty-reducing policies are considered in detail in a new report, *A Better Future for All Nigerians: Nigeria Poverty Assessment 2022* (Lain & Vishwanath, 2022).

16 The 2016 Nigeria Poverty Assessment also identified several anomalies in the 2009/10 HNLSS consumption data (World Bank, 2016).

17 A direct comparison of the 2018/19 NLSS with the 2009/10 HNLSS, without accounting for methodological differences, would suggest that poverty dropped by more than 17 percentage points over that decade.

Figure 2.2. Stalling poverty reduction in Nigeria in the decade prior to COVID-19.**Figure 2.3. Consumption for richer Nigerians is more closely linked to Nigeria's growth trends.**

These results emphasize that poverty may be becoming entrenched for certain households: Nigeria is spatially unequal and the labor market is not creating the jobs needed to lift people out of poverty. The findings above chime with global evidence that in large countries, poverty is increasingly clustered in certain regions—such as Nigeria's largely rural north (Pande & Enevoldsen, 2021). Indeed, around 84.1 percent of Nigerians living below the national poverty line in 2018/19 resided in

rural areas, and 76.1 percent resided in the country's North Central, North East, and North West zones. At the same time, just 16.7 percent of workers held wage jobs, which are those jobs most conducive to lifting people out of poverty, while the vast majority engaged in small-scale farm and non-farm enterprise activities, which provide relatively little reward. In part, this could stem from a lack of diversity in Nigeria's economy: while crude oil accounts for around 80 percent of exports, mining and extractives account for less than 1 percent of jobs.

Poverty reduction in Nigeria hinges not only on bolstering and sustaining growth, but also on creating opportunities to share the proceeds of growth with poorer Nigerians; three types of reforms could help.

First, macroeconomic reforms—including to fiscal, trade, and exchange-rate policy—could help diversify the economy, invigorate structural transformation, and create good, productive jobs, especially wage jobs. Second, since structural transformation and the creation of productive wage jobs on a large scale may not happen overnight, policies to boost the productivity of farm and non-farm household enterprises—by improving access to inputs, credit, and markets—will be crucial in the meantime. Third, the bedrock of infrastructure needs to be strengthened, by providing access to electricity,

drinking water, improved sanitation, and information and communication technologies that can both help households find jobs and reach markets and support the government in rolling out social protection programs. Guided by new data to design, implement, and monitor policies carefully, these reforms can help Nigeria make substantial strides forward along its pathway to poverty reduction.

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Annex 2.1. Estimating Nigeria’s poverty trend

Two specialized statistical techniques have been used to construct a poverty trend for Nigeria during the decade before COVID-19. The full details of this approach are described in Lain, Schoch, and Vishwanath (2022).

First, it is possible to “back-cast” Nigeria’s poverty rate. This involves taking household consumption estimates from the 2018/19 NLSS and using sector-specific GDP estimates—matched to each household through the household head’s sector of work—to roll back the entire consumption distribution and, in turn, calculate poverty.

Second, survey-to-survey imputations can be used to estimate Nigeria’s past poverty rates. This involves constructing a model that links monetary consumption with non-monetary indicators using the 2018/19 NLSS, then using this model to impute consumption into the General Household Survey (GHS) collected in Nigeria in 2010/11, 2012/13, 2015/16, and 2018/19. The GHS lends itself well to imputation from the 2018/19 NLSS because: (1) the non-monetary variables were collected through the same questions; (2) the surveys were implemented through the same NBS-World Bank collaboration, kickstarted when the first wave of the GHS was collected; and (3) the overlap in the timing of the two surveys in 2018/19 makes it possible to validate the imputation methods used. However, consumption data from the GHS cannot be used to construct poverty estimates directly, because the treatment of non-standard units for food items was adjusted across different survey waves.

Attitudes Towards Petrol Subsidy Reform in Nigeria

Summary: *Rising global oil prices, augmented by the war in Ukraine, have intensified debates around fuel subsidies. This matters in Nigeria: on the one hand, exports and government revenues depend on crude oil, but on the other, Nigeria's petrol subsidy was already very costly. As in many other countries, the potential benefits of removing the petrol subsidy in Nigeria—described in previous editions of the NDU—are clear: richer Nigerians benefit significantly more than poorer Nigerians from the subsidy—making it regressive—so redirecting spending towards health, education, and targeted social protection instead stands to benefit the poor and vulnerable. Yet, in the absence of countervailing measures, many poor and vulnerable Nigerians would still lose out in the short run if the subsidy were removed, and petrol prices were allowed to rise. Political economy constraints—which are described in detail in this section—make reforming the petrol subsidy especially difficult in Nigeria: understanding of the petrol subsidy is limited, Nigerians do not support removing the petrol subsidy, and Nigerians do not trust the government to use any fiscal savings for pro-poor causes. Sequencing spending on a well-targeted social transfers program first, alongside a clear, two-way communication campaign, could help overcome these political economy constraints and generate the trust needed to build a consensus around petrol subsidy reform.*

With global oil prices rising, debates around fuel subsidy reform have reemerged; this is especially true for Nigeria, where crude oil dominates exports and government revenues, but the petrol subsidy was already very costly. The Nigerian economy depends on crude oil, which accounts for about 80 percent of exports and over 30 percent of general government revenues. The steady rise in oil prices this year—accelerated by the war in Ukraine—could therefore

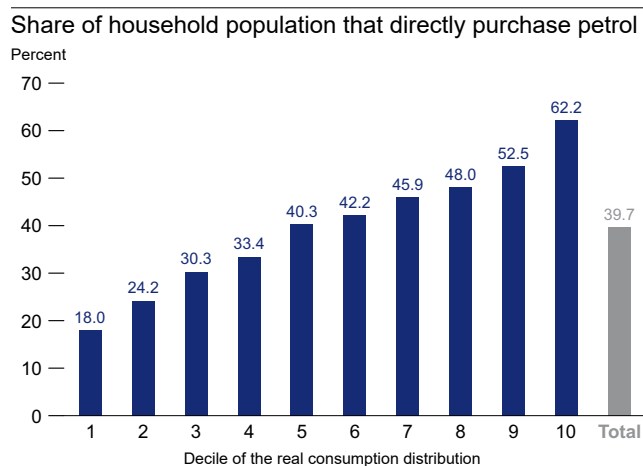
boost Nigerian exports as well as the country's fiscal balance. Yet these benefits may be subdued because refined oil products, which are imported into Nigeria, are also becoming more expensive. One key refined oil product—namely petrol—is heavily subsidized after it is imported. In 2021, Nigeria's petrol subsidy cost around USD 4.5 billion, or roughly 2 percent of GDP, far exceeding federal government spending on health, education, and social protection. Therefore, diverting spending away from the petrol subsidy towards more pro-poor causes *could* help spread the gains of growth, which is essential for reducing poverty (see the previous edition of the NDU and Section I for further details).

Despite several potential benefits, many countries have struggled to remove fuel subsidies; as this section explains, Nigeria is not alone. Fossil fuel consumption subsidies are in place in more than 40 countries worldwide (IEA, 2020). These subsidies typically benefit richer households more than poorer households—making them regressive—and “crowd out” government spending on pro-poor causes such as health, education, and social protection. Additionally, fuel subsidies may contribute to environmental damage, especially climate change. The benefits of removing subsidies are therefore clear.¹⁸ Yet governments that have attempted to reform fuel subsidies have typically faced strong resistance from the public and have often had to backtrack. Households recognize that, at least in the short run, the removal of subsidies would cause fuel prices to increase, weakening their purchasing power, and they do not trust the government to implement measures to compensate these welfare losses. Given this global evidence, Nigeria's challenge in trying to reform its petrol subsidy is sizeable but not unique.

18 For further information on fuel subsidy policies worldwide, see Coady, Flamini, and Sears (2015) and Bassetti and Landau (2021).

As the petrol subsidy disproportionately benefits richer Nigerians, the *potential* benefits of removing it are clear; but without countervailing measures, poor and vulnerable Nigerians could still suffer in the short run. The petrol subsidy benefits richer Nigerians more than poorer Nigerians: the share of Nigerians that report directly purchasing petrol is significantly higher in the higher deciles of the consumption distribution (see Figure 2.4). As such, poor and vulnerable Nigerians could benefit if spending on the petrol subsidy were redirected to health, education, and targeted social protection. However, the share of poor Nigerians and vulnerable Nigerians—those with consumption levels between 1 and 1.5 times the national poverty line—that directly buy petrol is still significant; their purchasing power would still be reduced were the subsidy to be removed and prices allowed to rise. Going beyond the data on direct petrol consumption, a significant share of vulnerable Nigerians also live in households that own generators (22.6 percent) and motorcycles (38.4 percent), while some have non-farm enterprises

Figure 2.4. Richer Nigerians are more likely to purchase petrol, but many poor and vulnerable households also buy petrol directly.

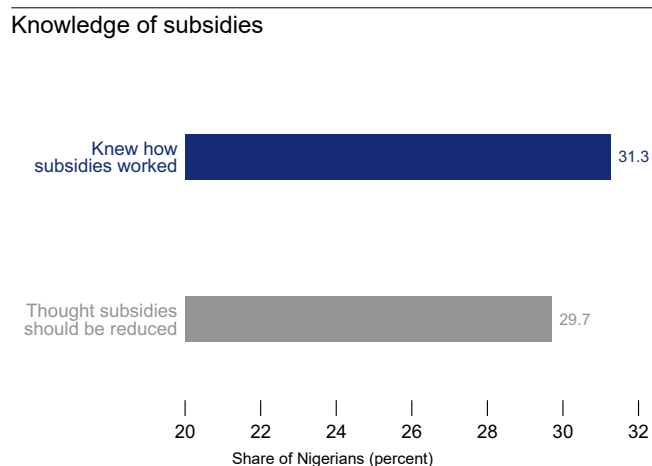


Source: 2018/19 NLSS and World Bank estimates.
Note: Estimates exclude Borno.

that rely on generators or operate in the transport sector; this further exposes them to changes in petrol prices. Moreover, poor and vulnerable Nigerians may consume petrol indirectly by paying for public transport and other petrol-dependent goods and services. In the absence of compensatory measures, these households could lose out in the short run, if the petrol subsidy is removed.

Unlocking the potential benefits of petrol subsidy reform—even with compensating measures for the poor and vulnerable—faces three key political economy constraints in Nigeria; first, the majority of Nigerians do not know how fuel subsidies work. In 2018, the Nigerian Economic Summit Group (NESG) collected nationally representative data on the attitudes and perceptions of Nigerians towards tax compliance and fuel subsidies through the Nigeria Tax and Subsidy Perception Survey.¹⁹ In this survey, respondents were asked if they believed the price at which the government purchased petrol was lower, the same, or higher than the price at which petrol was sold to the public. Less than

Figure 2.5. Understanding of and support for petrol subsidy reform in Nigeria was low in 2018.



Source: 2018 NESG Nigeria Tax and Subsidy Perception Survey and World Bank estimates.

Note: Knowledge of how the subsidies work was measured by asking respondents if the price at which petrol was purchased by the government was lower, the same, or higher than the price at which it was sold to the public; this variable was coded 0 if the respondent answered "lower" or "the same", and 1 if the respondent answered "higher." Support for a reduction of subsidies was measured through the question: "Do you think it would be a good thing if the government reduced the fuel subsidy?" This question was asked after explaining to the respondent how fuel subsidies worked.

19 See McCulloch, Moerenhout, and Yang (2021) for details.

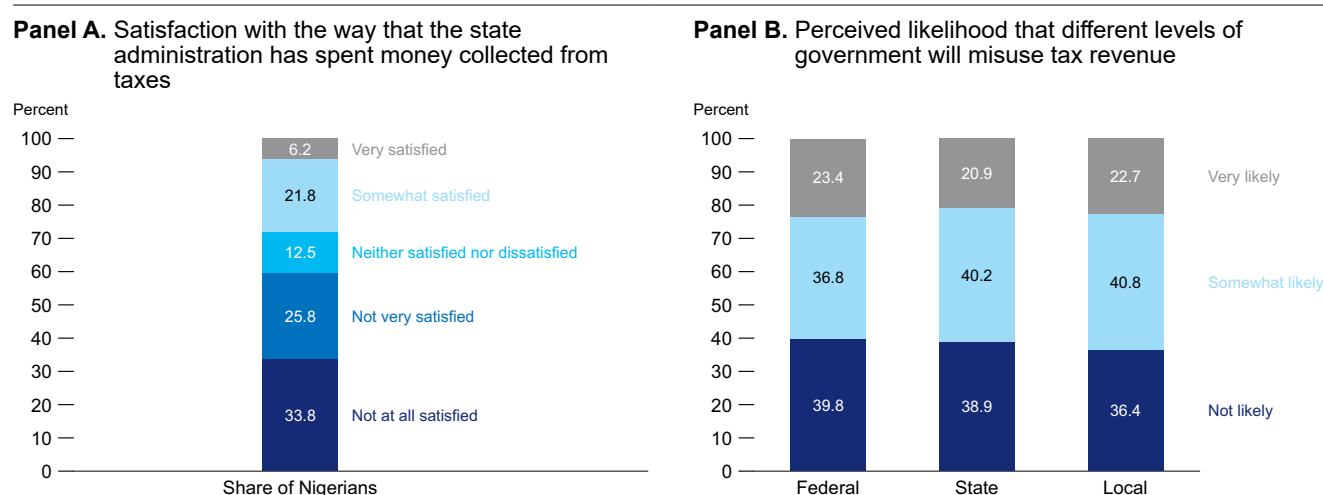
one-third of Nigerians (31.3 percent) correctly answered that the government paid a higher price for petrol than the price at which it was sold to the public (Figure 2.5). This presents a barrier to reform in Nigeria: it will be difficult to gather support for removing the subsidy if people do not understand how subsidies work in the first place.

Second, even after information on how the petrol subsidy is delivered is provided, Nigerians still do not support its removal. Following the questions on the respondents' understanding of the petrol subsidy, the enumerators for the 2018 NESG survey explained clearly to respondents how the petrol subsidy works and then asked whether "it would be a good thing if the government reduced the fuel subsidy."²⁰ Less than one-third of Nigerians (29.7 percent) indicated that they supported removing the petrol subsidy (Figure 2.5). While there was some variation, support for reform was low across socioeconomic groups and different areas in Nigeria: despite being somewhat higher in the north, support was below 40 percent in all six of Nigeria's zones.

Building support for reform will be a challenge, with the baseline level of approval being so low.

Third, Nigerians do not trust the government to use any resources saved from removing the petrol subsidy for causes that would benefit the population at large. Afrobarometer data indicates that general levels of trust in the government and other key institutions are low in Nigeria.²¹ As the 2018 NESG data shows, this also means that Nigerians do not trust the government to use any money saved from removing the petrol subsidy on policy areas such as health, education, and social protection. More than half of Nigerians (59.5 percent) were "not at all satisfied" or "not very satisfied" with the way that the state administration had spent money collected from taxes (Panel A of Figure 2.6). Similarly, about three-quarters of Nigerians believed it to be "somewhat likely" or "very likely" that the federal, state, and local governments would misuse tax revenue (Panel B of Figure 2.6).²² A lack of trust therefore presents another major obstacle for petrol subsidy reform in Nigeria.

Figure 2.6. Nigerians' satisfaction and trust in the government to use resources effectively was low in 2018, limiting people's support for petrol subsidy reform.



Source: 2018 NESG Nigeria Tax and Subsidy Perception Survey and World Bank estimates.

Note: The statistics exclude respondents who did not know or refused to answer the relevant question.

20 This followed some additional prompts about the nature of fuel subsidies in Nigeria, which were randomized at the respondent level. See International Centre for Tax and Development (2019) for further details.

21 See Afrobarometer data presented in Lain and Vishwanath (2022).

22 Satisfaction and trust appear to be slightly higher among supporters of fuel subsidy reform than among opponents.

Sequencing compensatory social transfers *first* could help overcome these political economy constraints and build support for petrol subsidy reform.

Since trust is so low, Nigerians may not perceive the government's promise of *future* pro-poor programs as credible. Directing fiscal savings towards expenditure on health, education, and infrastructure takes time, but expanding cash transfers targeted to poor and vulnerable Nigerians can preemptively compensate welfare losses. Indeed, current efforts to expand social protection are explicitly taking inflation into account, reflecting the need to support households that face losses in purchasing power as prices—for fuel and for other goods—rise.

A clear, two-way communication strategy will also be essential to provide the bedrock for public support and help build a consensus favoring fuel subsidy reform.

On the one hand, effective reform requires that the government listen to the Nigerian public's legitimate grievances—here, civil society and the media can play a central role. On the other hand, the government must address the low support for petrol subsidy reform by providing information on its potential benefits. As a foundation for this, it will be necessary to explain how the subsidy actually works. The 2018 NESG data hints at some potential avenues for convincing Nigerians of the merits of reform. For example, one-third of petrol-purchasing Nigerians report queuing, paying above the official price, or facing disrupted supply; these issues arise at least partly because subsidies are in place. Those Nigerians facing such issues are also more likely to support reform. Ensuring that such issues are clearly presented, alongside the other potential benefits of removing the petrol subsidy, could help the Nigerian government construct a consensus that allows reforms to move forward, freeing up much-needed resources for pro-poor policies.

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Part 3: Spotlights on Nigeria's Development Agenda

Spotlight 1: The Unintended Consequences of Nigeria's Trade Policies

Summary: Trade and investment have been key drivers of global growth and poverty reduction over the past 30 years. The increased participation of firms from developing countries in regional and global value chains has contributed significantly to job and wealth creation. However, widespread skepticism remains in Nigeria about the benefits of export-led growth and increased integration. Despite economic diversification being a long-standing policy aim, Nigeria's efforts to achieve it have largely remained unsuccessful; similarly, foreign investment has not reached its potential and has been declining in recent years. Nigeria's trade policy has moved in a heavily protectionist direction, with an escalation of import restrictions through higher tariffs and levies, import bans, foreign exchange limitations, and border closures. Although these measures were intended to support the country's industrialization and security goals, they have had numerous unintended consequences. For one, import restrictions result in high levels of tariff evasion, and thus a loss in revenue estimated at 0.4 percent of GDP, or US\$1.8 billion annually. Secondly, these policies also adversely affect poverty by raising consumer prices. Finally, they inhibit the efficiency of domestic firms by raising the cost of their production inputs, thereby constraining their competitiveness and limiting their potential to export to regional and global markets. There is an urgent need for a change in policy and approach to focus on: (i) reviewing trade policy to safeguard revenues, reduce poverty and support domestic firms, (ii) reducing domestic and international trade and transport costs, and (iii) creating an appropriate policy and institutional infrastructure that supports Nigeria's trade and industrialization priorities.

Increasing and diversifying exports and FDI is central to advancing Nigeria's industrialization and development objectives

Increased trade and investment can play an integral role in fostering economic development and poverty reduction.²³ Trade has historically contributed significantly to prosperity by supporting the creation of new, higher-paying jobs and enhancing the efficiency of firms, as well as by providing consumers with cheaper and better products. Across countries, a one percentage point increase in trade has been found to raise per-capita incomes by 0.5 percent.²⁴ Deeper participation in regional and global value chains can help drive industrialization and support the structural transformation of the economy, by enabling access to intermediate goods, attracting strategic FDI, and building capabilities in key industries to increase domestic value added. In the context of the COVID-19 pandemic, trade plays a crucial role in providing access to imports and key production inputs and in the production and distribution of vaccines and other essential medicines.

This Spotlight provides an overview of Nigeria's recent export performance and focuses on some of its key underlying features. It also examines the role of import restrictions that shield some incumbents from competition while hurting consumers and most firms, and constraining government revenues. These policies have been central to the country's limited success in diversifying the economy and furthering the growth of the manufacturing sector.

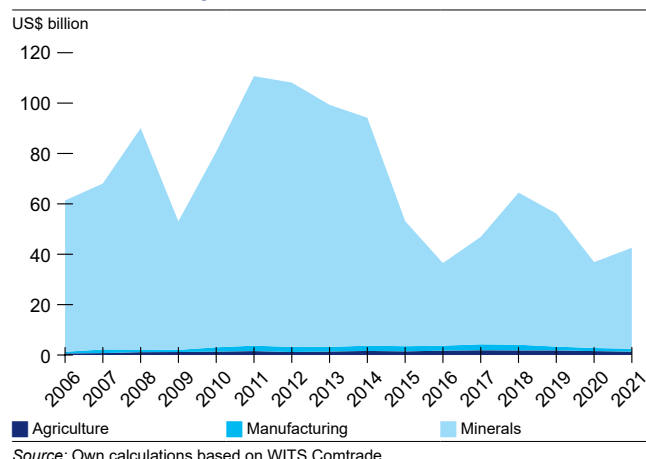
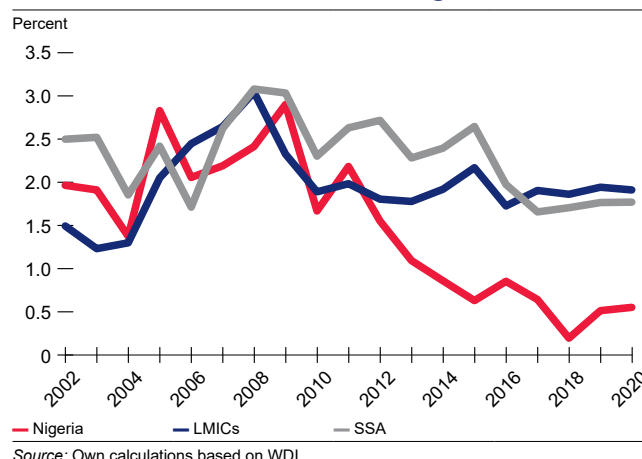
23 See Coulibaly et al. (2022). *Africa in the New Trade Environment: Market Access in Troubled Times*. Washington, DC: World Bank, and World Bank and WTO (2022). The role of trade in developing countries' road to recovery: Joint policy note. Washington, DC and Geneva: World Bank and WTO.

24 Feyrer, J. (2019). 'Trade and Income - Exploiting Time Series in Geography', *American Economic Journal*, vol. 11, no. 4, pp. 1-35.

Nigeria has ample room to harness the development potential of increased trade and investment. This is especially apparent when considering five dimensions of Nigeria's recent trade performance:

1. **Nigeria remains one of the world's least diversified countries.** Although experiences differ globally, countries that achieved greater diversification over the past decades grew more quickly and had more consistent growth overall.²⁵ In Nigeria, however, most exports are concentrated in oil, while remaining exports are mostly basic agricultural goods that add little value (Figure 3.1). Moreover, the dominance of mineral and fuel exports has increased over the past 50 years. Dependence on oil exports makes the country vulnerable to price shocks. In the early 1970s, oil exports made up approximately 74.5 percent of Nigeria's total merchandise exports, but in the three years leading up to the COVID-19 pandemic (2017–19), this share had increased to 92.4 percent. Notably, Nigeria's global share of exports in the oil sector was approximately 1.5 percent in 2020 (a decline from a 3 percent market share in 2010), while its share of global non-oil exports was 0.02 percent.
2. **Nigeria exports relatively little to the rest of Africa, as oil exports are primarily directed outside the continent.** Nigeria's formal intra-regional exports make up less than 10 percent of its total exports, while almost one quarter of South Africa's exports go to the African region. Nigeria's share of intra-regional trade within ECOWAS has also remained low—approximately 2–4 percent of Nigeria's total recorded exports between 2019 and 2021. However, the ECOWAS region accounts for a far greater share of Nigeria's non-oil exports—close to 10 percent in recent years. This shows the potential for Nigerian industries from greater continental integration, for example through the African Continental Free Trade Area, if the productivity of exporting firms can be strengthened and trade costs reduced.
3. **Services exports account for a small but growing share of total exports.** Albeit still limited, service exports have increased significantly, more than doubling between 2008 and 2019. In 2013, services made up 2.5 percent of total exports; by 2019, this share had increased three-fold to 7.5 percent. Nevertheless, in other large African countries, such as Ghana and Egypt, services exports make up approximately 40 percent of total exports. In Ghana's case, this is driven in particular by the export of services supporting the booming extractives sector (World Bank, 2022). The bulk of Nigeria's services exports have been in travel and transport, while growth has been driven by travel and “other services”, which includes financial services, entertainment, ICT and other high-skill services.
4. **Foreign direct investment (FDI), especially in extractives, has been declining both as a share of GDP and relative to comparator countries.** FDI, which goes hand-in-hand with trade, is a critical ingredient to economic growth, contributing to increased productivity, innovation, and technology transfer. FDI supports the diversification of the economy and helps domestic firms export more. Nigeria's FDI inflows as a share of GDP have dropped from over 2 percent a decade ago to less than 1 percent in recent years (Figure 3.2). Some comparator countries, such as Ghana, have consistently seen FDI inflows in excess of 6 percent of GDP. The decline in FDI in Nigeria has been driven by the weak performance of the mining and oil and gas sectors. The services sector, on the other hand, has attracted the largest share of Nigeria's FDI, potentially indicating greater diversification away from extractives. Between 2009 and 2019, FDI in services made up 50.3 percent of all inflows, followed by manufacturing (28.4 percent) and extractives (21 percent).

25 A recent International Monetary Fund analysis (Yao and Liu, 2021) contrasts Nigeria's experience with that of three Asian countries—Indonesia, India and Malaysia—that had a similar focus on import substitution during the second half of the 20th century but were able to diversify. All three countries trailed Nigeria in GDP per capita in 1980 but now far exceed it. Key drivers of change in these three countries included: economic crises that created a window of opportunity for reform, which entailed a focus on education and knowledge accumulation; and the gradual reduction of trade and investment barriers.

Figure 3.1. Extractives exports have dominated for the past decades.**Figure 3.2. FDI inflows as a share of GDP have been low and declining.**

5. **High trade and transport costs, and delays at borders and ports, are major impediments to export growth.** Although Nigeria has taken some steps to facilitate trade, these improvements are happening at a slower pace than in other countries. For example, Nigeria's Logistics Performance Index rank has significantly deteriorated, from 92nd in 2016 to 147th (out of 160) in 2018.²⁶ Central to this is the inefficiency of Nigeria's ports: in a recent global assessment of container port performance, Lagos and Tin Can Island ports were ranked 340th and 343rd, respectively, among 351 evaluated ports (World Bank/HIS Markit 2021). Given its favorable geographic location, improvements in this area could position the country as a logistics hub for the region and a springboard for Nigerian firms into regional value chains.

Nigeria's restrictive and unpredictable trade policies increase smuggling, diminish revenues, hurt consumers, and raise production costs

The scale and scope of Nigeria's protectionist policies have increased significantly

Nigeria's weak trade performance in recent years has been exacerbated by its highly restrictive trade regime.

The Federal Ministry of Industry, Trade and Investment is mandated to formulate Nigeria's trade policy, but the CBN plays a major role, and has been increasingly directing trade policy towards import substitution. The CBN's interventions extend beyond its core mandate, and have influenced trade and industrial policy through direct lending schemes and foreign exchange restrictions on certain imports. The effectiveness of these measures in boosting domestic production has been limited, due to the country's highly porous borders, a large informal sector, and an underdeveloped domestic supply chain.

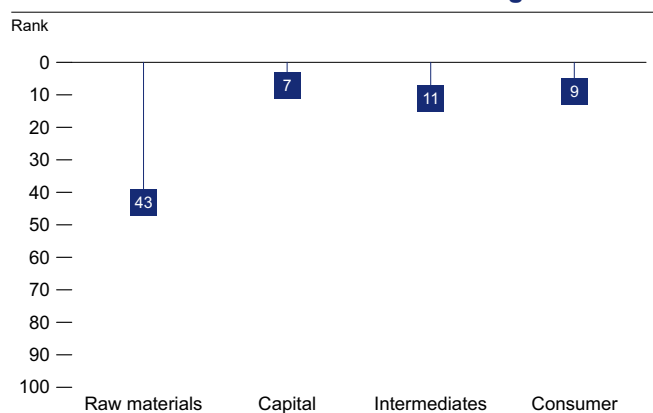
²⁶ This decline was driven in particular by a deterioration in the "logistics competence" sub-category, i.e. the quality of transport operators, customs brokers and related service providers.

In recent years, there has been a significant escalation in the scale and scope of import restrictions. Such restrictions are intended to support the development of domestic production and processing, especially for staple food items, but are also often the result of the successful lobbying of individual firms and industries. Notable restrictions include:

- **FX restrictions:** In 2015, the CBN announced restrictions on access to foreign exchange for the import of certain products that could be produced locally, with the aim of both bolstering foreign exchange reserves and supporting domestic industries. However, as noted above, the resulting boost to domestic production has been modest.
- **Import bans:** The Nigeria Customs Service and the CBN have long imposed a prohibition to import certain products. The Nigeria Customs Service currently lists the import of 44 products as “prohibited”. Import bans, in combination with unpredictable enforcement and cumbersome customs procedures, result in large volumes of smuggling.
- **Border closures:** The Nigerian government closed its land borders from August 2019 until a partial reopening in January 2021, in a bid to curb smuggling—especially from Benin. This closure coincided with a significant rise in inflation, especially for food products that are subject to import restrictions. Moreover, the closure only had a temporary effect in impeding the transit of illegal trade through Benin into Nigeria.²⁷
- **High tariffs:** Nigeria’s tariff regime is highly restrictive. Statutory tariffs (the sum of import duties, levies, and excise taxes) are above the global median for raw materials (43rd percentile) and near or at the top 10 percent of countries globally

for capital, intermediates, and consumption goods (7th, 11th, and 9th percentile, respectively) (Figure 3). The overall structure is also highly complex with numerous ad-hoc and opaque exemptions that further complicate compliance for importing firms (Figure 3.3).

Figure 3.3. Nigeria's tariffs are among the highest in the world, especially for capital, intermediate and consumer goods.



Source: own elaboration based on Nigeria's customs data and UN Trains data.
Note: the variable plotted is Nigeria's normalized ranking (0 highest tariffs, 100 lowest) within 170 countries with data.²⁸

- **An anti-export bias in tariffs:** Nigeria’s system of import duties and levies reduces the incentives to export. Nigeria has a cascading scheme in place for import duties and levies—i.e., products upstream in the supply chain (raw materials/intermediates) face lower tariffs and duties than final consumer products. Most countries impose some level of cascading in their tariff schedule to protect final consumer industries which tend to be associated with higher value addition. However, tariff cascading is not innocuous: it distorts relative prices, potentially impacting production efficiency, and Nigeria’s cascading is particularly ‘steep’ compared to other countries. This strategy has created a bias against exporting because domestic producers focus more on exploiting the protected domestic market rather than on exporting.

²⁷ This is supported by interviews with border officials who claim that the closure resulted in the creation of new smuggling routes. For example, in the case of rice, Benin’s imports from Nigeria declined by 84 percent from July 2019 to January 2020, but recovered to pre-closure levels by August 2020, five months before a partial reopening of the borders.

²⁸ To construct the graph, we obtain from UN Trains the simple average tariff for each broad economic category per country; for Nigeria we construct it using customs data. We then classify these categories into Raw materials, Intermediates, Capital goods, Consumer goods and Other. We then calculate the simple average of the BEC categories that correspond to each product group.

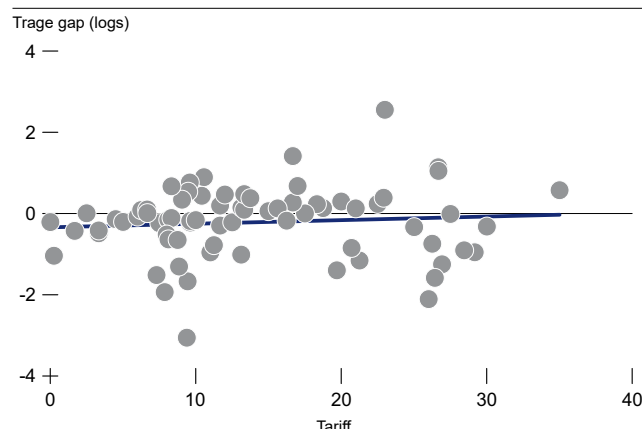
- **Non-tariff measures:** Numerous policies and regulations, also known as non-tariff measures, add costs to exports and imports. While in some cases non-tariff measures ensure product quality and address public safety concerns, often they exist primarily to protect importers from competition. Currently, almost 4,000 products are affected by at least one non-tariff measure (equivalent to 86 percent of traded products and 95 percent of value added). A notable and pervasive non-tariff measure was pre-shipment inspection, which required inspecting goods before they arrived. Although officially abolished in 2019, it has merely been replaced by more onerous procedures upon arrival (International Monetary Fund, 2021).

Import restrictions encourage smuggling and reduce revenues

One of the areas where Nigeria's trade restrictions have had the most impact is customs evasion. Import bans, in combination with unpredictable enforcement and cumbersome customs procedures, result in large volumes of smuggling. New World Bank analysis (Artuc et al. 2022a) provides crude estimates of tariff evasion (i.e., the illegal and intentional non-payment of tariffs), and how it has changed with the introduction of foreign exchange restrictions, based on mirror statistics analysis. Key results from this analysis include:

- **As tariffs go up, evasion increases:** Tariff evasion is higher for goods subject to higher tariffs and import restrictions (Figure 3.4). The average evasion gap²⁹ for a product that is subject to above-median tariffs is about 28 percent, compared to the average evasion gap in low-income countries of 9 percent.³⁰

Figure 3.4. As tariffs increase, evasion increases.



Source: authors' own calculations using COMTRADE.

Note: The graph shows a binned scatterplot of the association between log evasion gaps, defined as log exports to Nigeria reported by partner source country minus log imports recorded in Nigeria, versus tariffs over the period 2010–2019. Observations are grouped into equally-sized bins.

- **Import and FX bans foster evasion:** Evasion gaps are on average significantly higher for products whose import is banned and for those subject to foreign exchange restrictions, suggesting that protectionism induces evasion. Evasion is also highly responsive to tariffs: a 10 percentage-point increase in tariffs leads to an increase in evasion by 1.38 percentage points.

Nigeria lost US\$1.8 billion every year between 2010 and 2019 due to tariff evasion arising from protectionist measures. This is a conservative estimate and is equivalent to 0.4 percent of GDP and 6.6 percent of current overall tax revenues.³¹ Based on this estimate, overall tariff revenues would have been roughly 45 percent higher each year in the absence of evasion.³²

Foreign exchange bans imposed in 2015 led to a substantial drop in reported imports, which fell by more than two-thirds. However, exports to Nigeria of the same products as recorded by trade partners fell substantially less, roughly halving over the same period.

²⁹ Evasion gaps are the result of discrepancies in trade flows reported by countries exporting to Nigeria (mirror imports) and imports reported by Nigerian customs authorities (direct imports reported by Nigeria). To measure potential evasion, discrepancies in trade flows reported by countries exporting to Nigeria and imports reported by Nigerian customs authorities are exploited following Fisman and Wei (2004) using HS6-source country year "trade gaps". The "trade gap" is defined here as the difference between exports to Nigeria reported by source countries and imports reported into Nigeria for each product and year. A correlation between tariffs and trade gaps (defined here as the difference between exports to Nigeria reported by source countries and imports reported into Nigeria at the HS6-country-year level), suggests tariff evasion. For example, importers may choose to misclassify goods subject to high tariffs as goods subject to lower tariffs, a practice that is especially common for differentiated products. Alternatively, importers may choose to declare lower prices than those actually paid and submit falsified invoices.

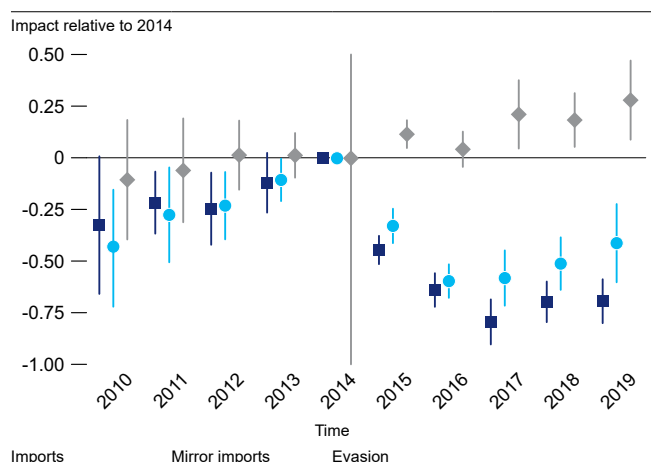
³⁰ See Jean, S., & Mitaritonna, C. (2010). Determinants and Pervasiveness of the Evasion of Customs Duties. CEPII, Working Paper No 2010-26.

³¹ GDP in 2020 was US\$432.8 billion and the tax-to-GDP ratio was 6.1 percent.

³² This calculation does not take into consideration the impact of evasion on trade flows (e.g., stricter enforcement of tariffs might reduce trade flows).

While part of the fall in reported imports may have been driven by slumping growth in Nigeria at that time, the abovementioned discrepancy attests to an uptick in tariff evasion, which increased by roughly 20 to 30 percent (Figure 3.5).

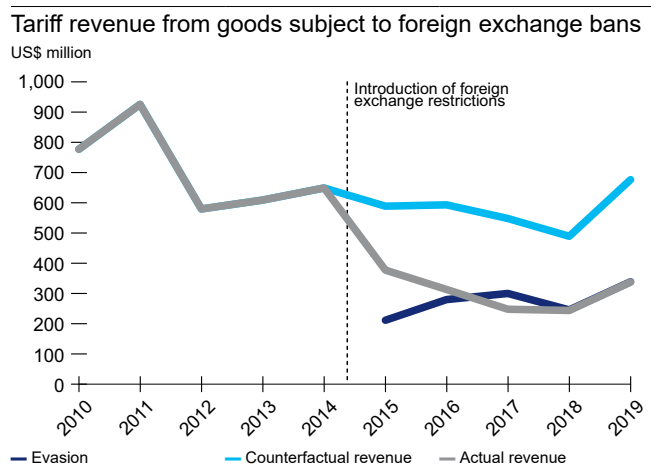
Figure 3.5. Foreign exchange ban led to increased evasion.



Source: authors' own calculations using COMTRADE.

Note: The graph shows event study analyses of the impact of foreign currency restriction on (log) official imports, (log) mirror imports, and evasion gaps. Standard errors are clustered two ways by product and source country. The sample includes only products that were ever subject to import bans. Sample period: 2010–2019.

Figure 3.6. Without tariff evasion, Nigeria's revenues would be significantly higher.



Source: authors' own calculations using COMTRADE.

Note: The graph depicts the evolution of tariff revenue of goods subject to foreign exchange bans (introduced in 2015). The dotted line "counterfactual revenue" depicts the estimated revenue that would have been collected had foreign exchange bans not been introduced. The red line "Evasion" denotes the tariff evasion induced by the introduction of foreign exchange restrictions. Sample period: 2010–2019.

The revenue impact of foreign exchange bans alone between 2015 and 2019 was approximately US\$1.4 billion, or about US\$275 million annually (Figure 3.6). This estimate considers revenue that would have been collected from the formally recorded trade that disappeared because of the introduction of the ban. This estimate and those mentioned above are based on preliminary data, and therefore to be interpreted with caution; nevertheless, it is clear that Nigeria's restrictive trade policies cause substantial evasion.

Import restrictions are pushing millions of Nigerians into poverty

Trade can contribute to poverty reduction, although its impact depends on where people live, their occupations and income. In turn, reforms in trade policy—as in all other areas of policy—create winners and losers. Trade can influence household welfare through direct price effects in two ways: i) trade policies have an impact on the prices of products that households need to buy, and ii) they influence how households generate income by changing the prices of the goods they produce.³³

Distortionary trade policies can decrease overall purchasing power and, in turn, increase poverty.³⁴

The 2019 border closure, for example, coincided with a significant rise in inflation, including for domestically produced goods. In principle, households' exposure to protectionist price shocks depends on the specific goods that they buy; but it is apparent that buying local goods, which poorer Nigerians might do more, offers little insulation against such price shocks. Indeed, when Nigeria's land border was closed in 2019, the prices of both imported and local varieties of rice increased. Since international and domestic markets are so integrated, it may be difficult to escape the price increases and purchasing power drops brought about by protectionist policies.

³³ There are also indirect effects. For example, trade can alter the mix of jobs—and the earnings from those jobs—available in the economy through its impact on private investment, and by exposing domestic firms to international competition. Trade policy may also indirectly influence household welfare because tariffs are a source of government revenue, which could determine spending on health, education, and social protection, and may be reduced as trade is liberalized.

³⁴ This section in part draws on the World Bank's 2022 Nigeria Poverty Assessment.

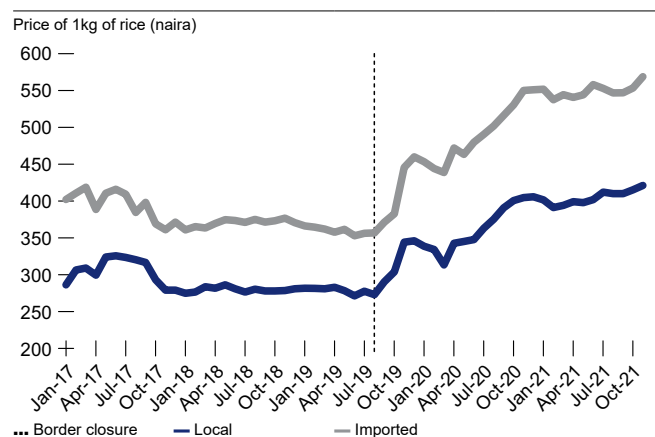
The price increases recorded between mid-2019 and 2020, following the border closure, meant that households needed to spend around 1.8 percent more to maintain the same level of welfare. Although welfare losses during this time were not fully attributable to the border closure, they could have increased poverty by around 1.1 percentage points. This is estimated by calculating the “compensating variation”, i.e., the amount of money needed to maintain household welfare at the same level while prices rise (Figure 3.8).³⁵

Preliminary World Bank estimates suggest that import bans caused the prices of affected goods to increase by as much as 38 percent. Conversely, the removal of foreign exchange restrictions would lead to sizeable price reductions (Artuc et al. 2022b). This is in line with previous findings in the literature: Treichel et al. (2012) estimated that replacing import bans with tariff duties would result in a 9.4 percent increase in household real income for all income groups, and a 10 percent increase for the first (poorest) quartile of the income distribution. This is because import

prohibitions hurt poorer households relatively more. The largest welfare gains for households across all income groups would come from eliminating the import ban on household supplies, followed by that on textiles and clothing. More recently, Dabelan and Nga (2018) estimated that eliminating import bans would reduce national poverty rates by as much as 2.6 percentage points.

Reductions in tariffs and levies are likely to lead to increased welfare. New analysis using the “household impacts of tariffs” tool looks at the value of what households produce as well as what they consume.³⁶ The analysis considers what would happen if trade were fully liberalized in Nigeria: while this is unlikely, at least in the short run, it remains a useful benchmark for assessing trade policy. According to household impacts of tariffs analysis, fully liberalizing trade would increase household income—the amount of goods households can buy in naira terms—on average by 3.8 percent and reduce the share of people living in poverty by 2.3 percentage points. This is because liberalizing trade

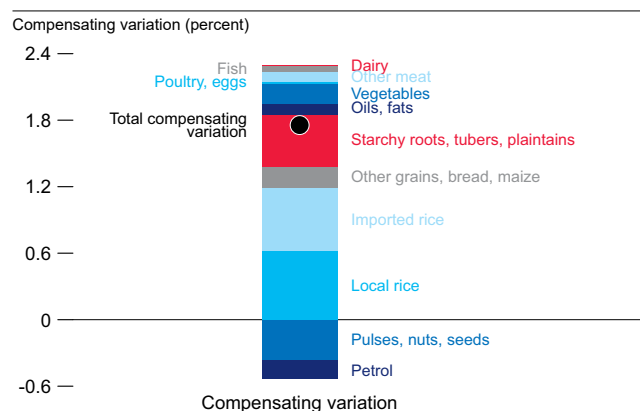
Figure 3.7. The price of both imported and domestic rice increased after the border closure.



Source: 2018/19 NLSS (for consumption data), NBS (for price data), and World Bank estimates.

Note: Figure shows price movements for the goods labelled “Rice local sold loose” and “Rice, imported high quality sold loose” in NBS price data.

Figure 3.8. Changes in welfare and poverty linked to price changes after the border closure.



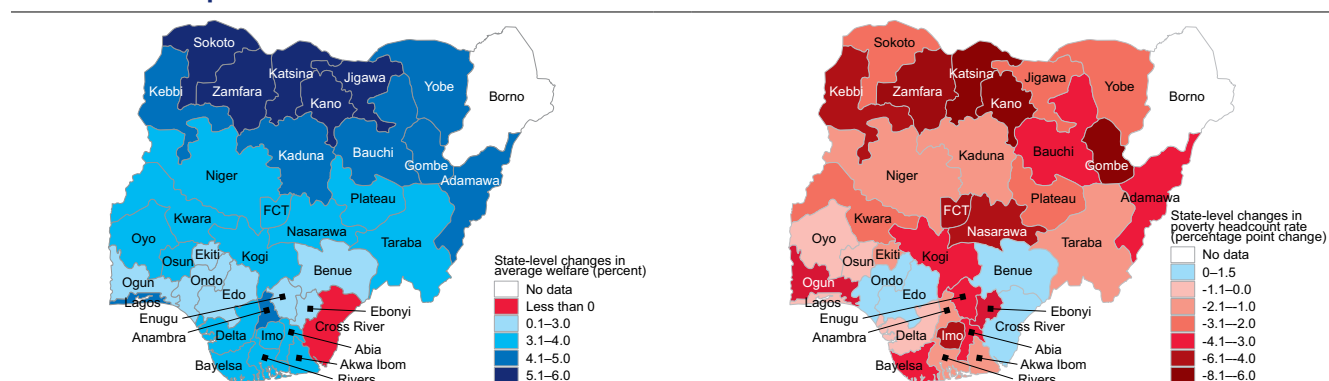
Source: 2018/19 NLSS (for consumption data), NBS (for price data), and World Bank estimates.

Note: Estimates exclude Borno. Welfare losses calculated for purchased goods only; own-produced items are excluded from the calculations.

³⁵ This can be calculated by multiplying the change in price for each good—from NBS price data—by the share of the consumption basket devoted to purchasing that good—taken from the 2018/19 NLSS. In previous analysis, including the Nigeria Development Updates from June 2020 and June 2021 (see World Bank (2020) and World Bank (2021)), purchased food and own-produced food were not separated out. However, here the analysis focuses on purchased food only. This is because only purchases would be exposed to price shocks.

³⁶ Full details will be available in Artuc, E., G. Porto and B. Rijkers. Welfare Enhancing Evasion: Evidence from Nigeria, Mimeo. The household impacts of tariffs Simulation Tool can be accessed at <https://www.worldbank.org/en/research/brief/hit/>

Figure 3.9. The impact of liberalizing trade would vary by state depending on what households consume and produce.



Source: 2018/19 NLSS (for consumption data), NBS (for price data), Humanitarian Data Exchange (for map shape files), and World Bank estimates.

Note: Estimates exclude Borno. Poverty calculated using Nigeria's national poverty line. Income and poverty changes were calculated using the HIT model, in which 2018/19 NLSS data were incorporated. Income captured by households' consumption, a measure of their welfare. NBS price data from 2015 to 2017 and information on previous trade policies were used to estimate the pass-through from trade policies to prices.

would lower prices, and the resulting gains in purchasing power outweigh any income losses for households producing the goods that end up being cheaper.

Even without full liberalization, targeted reductions to trade barriers for key consumer goods would make a major difference. If trade levies (i.e., taxes on imports that are additional to tariffs) on rice, sugar and wheat were reduced by 50 percent, overall welfare would increase by 0.8 percent and extreme poverty could decrease by 0.4 percent (Figure 3.9). However, these results vary from state to state, with some northern states seeing the largest total reduction in poverty. In Benue and Kebbi, on the other hand, poverty would increase slightly as gains in terms of consumer expenditure would not exceed losses for producers.

Trade policy reforms could reduce production costs for firms while preserving revenues

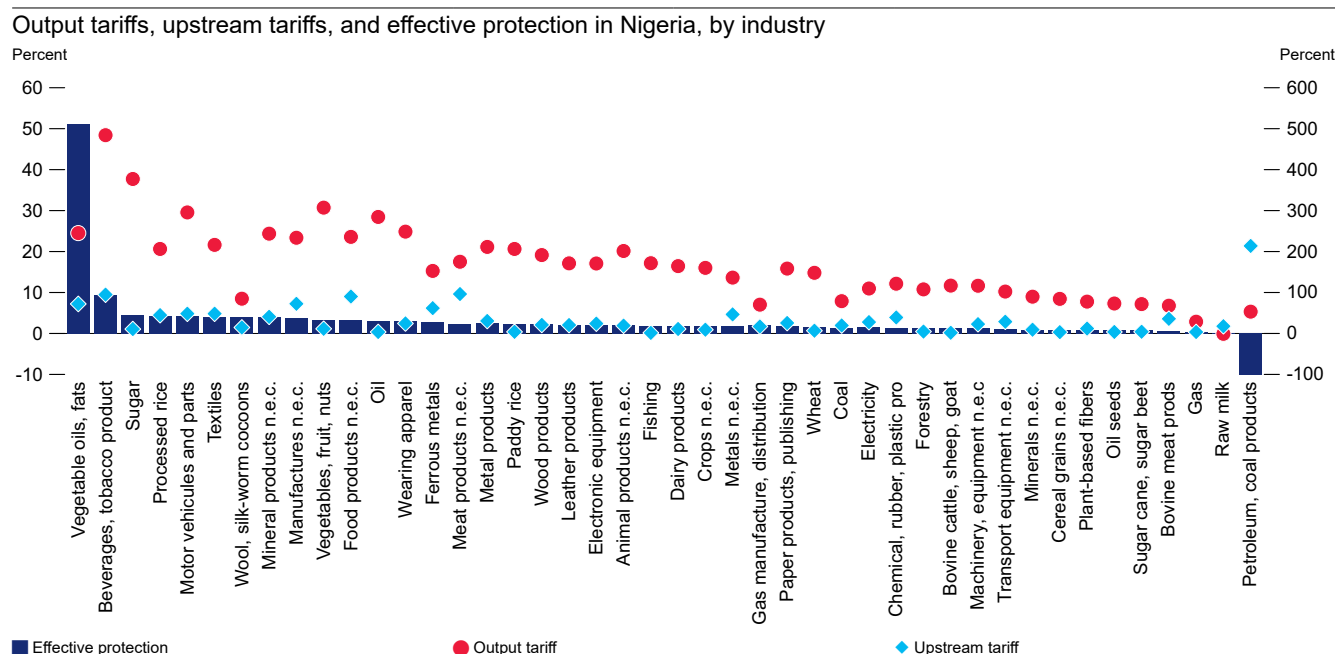
Trade policy reforms that reduce tariffs on upstream sectors can help firms become more competitive and integrated into global value chains. In modern production processes, firms rely on imported inputs to produce finished goods. These inputs are manufactured

in multiple locations, and cross borders many times before they are assembled into a final product. For example, a mobile phone manufacturer will require as inputs a circuit board, keyboard and display produced by upstream manufacturers in other countries. Tariffs on these inputs would increase their cost, which would be passed on to the cost of the mobile phone. Tariffs can, in turn, affect the competitiveness of firms in two ways: they increase the prices of imported inputs necessary for completing their products, and reduce the incentives for firms to export by making the domestic market artificially more attractive (via effective protection) than the unprotected export market.

New analysis shows that the average industry in Nigeria pays 13.7 percent more for its inputs than what it would have paid in the absence of tariffs and other related taxes (Ganz 2021).³⁷ The total output of an industry can be divided into three parts: the intermediate consumption of commodities (goods), the intermediate consumption of services, and the value added. This offers three ways to measure how much higher production costs are due to the existence of import taxes in Nigeria: as a share of total output (the orange points plotted in Figure 9); as a share of intermediate consumption of both goods and services; or as a share of the intermediate consumption of

³⁷ This analysis draws on two tools developed by the World Bank: the [Tariff Reform Impact Simulation Tool](#), which allows for the estimation of the impact of tariff reform on fiscal revenue; and the [Upstream Tariff Simulator](#) (UTAS), which allows us for the estimation of the impact of tariff reform on production costs and effective protection.

Figure 3.10. Import taxes and restrictions result in higher production costs and domestic industry protection.³⁸



Source: Ganz (2021) based on ASYCUDA and NICIS data and the upstream tariff simulator (UTAS) simulator.

Note: industries are classified according to global trade analysis project and ranked by effective protection. Inputs for UTAS: Nigeria's effective import duties (all collected import taxes, excluding VAT, as a percentage of imports) and 2006 global trade analysis project input-output table for Nigeria, using the homogeneous goods framework (perfect substitutability between imported and domestic varieties). For more details, see UTAS. Effective protection is defined as the difference between the output tariff and the upstream tariff, divided by the share of value added in the industry's output.

goods. The average increase in total output costs (i.e., the upstream tariff) across industries is 3.2 percent; the average increase in the cost of all intermediates is 8.2 percent; finally, the average increase in the total cost of goods used as intermediates is 13.7 percent. Higher production costs in turn make it difficult for Nigerian firms to compete against producers based in countries that levy lower tariffs on inputs.

The government could reform its tariffs to reduce production costs, while still preserving fiscal revenue.

While Nigeria is somewhat constrained in setting of tariffs by the five bands in the ECOWAS Common External Tariff (0, 5, 10, 20 and 35 percent), it still has some flexibility of where to set tariffs within the tariff band structure and how high to set levies beyond these tariffs. We consider a hypothetical scenario in which Nigeria sets effectively collected import duties (tax collected as a share of imports) on consumer goods at 17 percent

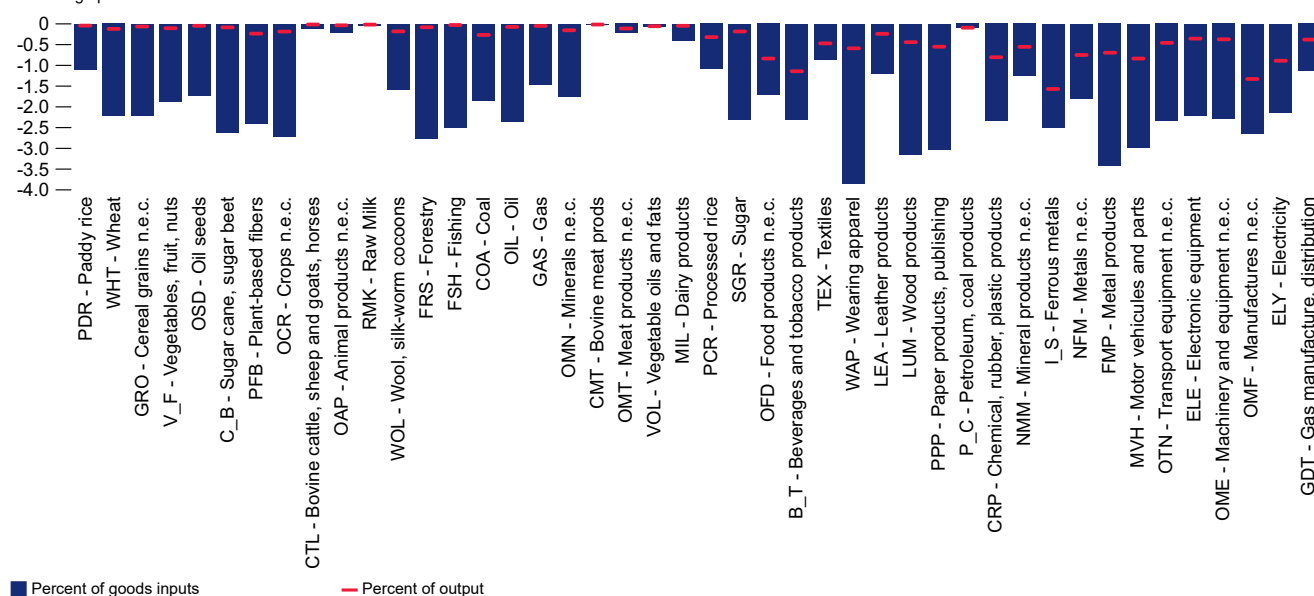
(a flat collection rate almost 3 percentage points below the current average statutory tariff), while cutting import duties on intermediates by 50 percent. This would require removing numerous exemptions on consumer goods while cutting the tariff for intermediates. Tariff revenue collection would increase slightly, but most of that increase is compensated by a reduction in VAT collection associated to slightly fewer imports. Overall, the proposed change implies a 0.5 percent increase in total revenues. However, this reform would reduce the production costs of most industries (Figure 3.11). The upstream tariff as a percentage of total output falls on average 0.3 percent across industries, and 1.8 percent for goods used as production inputs. While this is just an example, it highlights that there is not necessarily a trade-off between tariff reforms that support the competitiveness of local industries and revenue collection.

³⁸ Industries are classified according to global trade analysis project and ranked by effective protection. Inputs for UTAS: Nigeria's effective import duties (all collected import taxes, excluding VAT, as a percentage of imports) and 2006 global trade analysis project input-output table for Nigeria, using the homogeneous goods framework (perfect substitutability between imported and domestic varieties). For more details, see [UTAS](#). Effective protection is defined as the difference between the output tariff and the upstream tariff, divided by the share of value added in the industry's output.

Figure 3.11. Nigeria could reform its tariff schedule to reduce production costs while increasing revenues.

Impact of tariff schedule reform removing exemptions on consumer goods and reducing tariffs on intermediate goods on upstream tariff, by industry

Percentage points



■ Percent of goods inputs

— Percent of output

Source: Ganz (2021) based on ASYCUDA and NICIS data and the UTAS simulator.

Finding the right balance: how industrial and trade policy can contribute to Nigeria's development aims

Increased openness to trade can help Nigeria achieve longstanding policy goals of economic diversification and industrial development. Nonetheless, widespread skepticism remains about the benefits of increased integration. In recent years, trade policy has moved in a protectionist direction, with an escalation of import restrictions through higher tariffs and levies, import bans, foreign exchange limitations and border closures. The analysis presented in this Spotlight highlights some of the unintended consequences of this policy stance on smuggling and tariff evasion, poverty and consumer prices, and on the production costs of domestic producers.

Nigeria is embarking on an ambitious course towards greater integration and policy reform. This is most evident through its active participation in African Continental Free Trade Area negotiations and its efforts

to develop a domestic implementation plan. African Continental Free Trade Area implementation will require substantial preparation and engagement across the federal and state governments, the private sector and other stakeholders, but holds significant potential for the country to use regional integration in support of private sector-led growth. Nigeria has also developed a new National Investment Policy and is preparing a new Trade Strategy. Moreover, at the sub-national level, state governments across the country are implementing ambitious business environment reforms.

Further continental integration can help enhance the competitiveness of Nigeria's manufacturing sector. By making manufacturing more competitive, Nigeria could leverage regional market integration to achieve economies of scale, lower costs, and increase its broader international competitiveness. Regional value chains can, in turn, offer a stepping stone toward global value chains. Increased competitiveness from regional integration can lead to greater diversification of export products and markets and incentivize domestic

producers to compete with foreign firms. The vibrant entrepreneurial ecosystem in Nigeria would benefit from being connected to technological and process innovations, know-how, diaspora mentorship, research and development. This could include supporting existing networks of research and development institutions to foster innovation.

Trade offers 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. All such effects may contribute to reducing poverty. Yet, the benefits from trade are not automatic. There is a need for careful sequencing, broad consultation, and finding a way to maximize the gains from trade while taking proactive measures to support the adjustment process. This includes understanding how to facilitate labor mobility, as well as the importance of complementary policies such as business environment reforms and supporting skills development. The following policy options provide an overview of the way forward.

Policy options

Why are the measures needed?	What measures are being proposed?		What is the likely impact that measures will have?
	Short-Medium Term (6–18 months)	Medium-Long Term (18–36 months)	
Reform trade policy to safeguard revenues, reduce poverty and support producers			
Nigeria's highly restrictive trade regime has a negative impact on domestic revenues, the welfare of citizens, and the productivity and competitiveness of firms.	<ul style="list-style-type: none">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.Review FX restrictions and import bans on non-food goods, and asses the implications of replacing them with tariffs.Review tariffs to reduce the costs of key inputs for domestic producers.	<ul style="list-style-type: none">Following a review of the impact of existing restrictions, replace import bans and FX restrictions with tariffs.Reform tariff schedule to reduce input costs, including by reducing the number of duties and charges on imports.	<ul style="list-style-type: none"><i>Tariff revenues will increase.</i><i>Prices that consumers face for many key products would be lower, allowing them to increase their consumption and reduce poverty.</i><i>Cheaper intermediate inputs for many industries would foster substantial growth and job creation in these sectors.</i><i>A more predictable trade policy with fewer ad-hoc exemptions could increase investment and production efficiency.</i>

Why are the measures needed?	What measures are being proposed?		What is the likely impact that measures will have?
	Short-Medium Term (6–18 months)	Medium-Long Term (18–36 months)	
Reduce domestic and international trade and transport costs			
Nigeria stands to gain from reforms that address high costs and delays at the border, positioning the country as a logistics hub for the region and a springboard into regional value chains.	<ul style="list-style-type: none">• Advance the simplification and harmonization of documents, streamline and automate procedures, and improve governance, impartiality of decision-making, and availability of information.• Put in place a Trusted Trader Program that makes processes easier and smoother for pre-approved businesses.• Streamline import documentation requirements and enhance the transparency and efficiency of customs procedures, speeding up clearance time.• Address bottlenecks such as port processes and transportation costs.	<ul style="list-style-type: none">• Introduce National Single Window.• Expedite implementation of reforms required for Nigeria’s full alignment with the WTO TFA (high- and medium-priority measures) under the African Continental Free Trade Area.• Continue to expand the capacity of port infrastructure and upgrade roads near ports.	<ul style="list-style-type: none">• <i>The benefits from reducing delays in customs and trade costs are expected to be significantly higher for Nigeria than other African countries. Improved trade facilitation would provide an expanded platform for Nigerian manufacturers and service providers to connect with regional and continental value chains.</i>
Create an appropriate policy and institutional infrastructure to support trade priorities			
Nigeria’s approach to trade policy is based on an outdated policy framework and relies on numerous ad-hoc decisions. Policy making is also fragmented across numerous institutions.	<ul style="list-style-type: none">• Review and update the trade policy and legal framework, including by reviewing, updating or eliminating outdated laws, and establishing a more effective monitoring framework to evaluate the impact of trade policy.• Improve awareness and consultation process around AfCFTA, and advance the implementation of a national AfCFTA Strategy.	<ul style="list-style-type: none">• Strengthen trade policy management, agencies’ implementation capacity, and performance surveillance.• Clearly delineate the role of different institutions in the trade policy process, and improve coordination.	<ul style="list-style-type: none">• <i>Laws and regulations will be updated to create a trade policy framework that is fit to address current challenges and opportunities.</i>• <i>Trade policy formulation will improve, and become more independent from ad-hoc institutional interventions.</i>• <i>Trade policy strategy will become embedded in the national development and poverty reduction strategy.</i>

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Spotlight 2: Investing in Adolescent Girls to Defuse Nigeria's Demographic Timebomb

Summary: *As Nigeria enters a phase of rapid expansion of the working-age population, there is a window of opportunity to benefit from the “demographic dividend”—a period in which the share of those who are working starts to outnumber the share of young and old dependents, and the increase in labor supply boosts economic growth. However, Nigeria’s transition into this window of demographic opportunity has been sluggish. Nigeria’s persistently high fertility rates, especially in the northern regions and among adolescent girls, the poor, and those with low educational attainment, threaten to derail the demographic transition. Poverty, low prevalence of and demand for modern contraception, and lack of quality secondary schools and job market opportunities, all contribute to high rates of teenage pregnancy, early marriage, and low educational attainment among Nigeria’s adolescent girls. To reap the demographic dividend, Nigeria must kickstart the stalled demographic transition and ensure that the children of today have the means to grow into healthy and productive adults. On these fronts, Nigeria’s performance thus far has fared poorly compared to its structural and aspirational peers. Policy recommendations focus on ensuring adolescent girls remain in school longer, and are provided opportunities and services to enable their school-to-work transition.*

Introduction and Context

Nigeria’s demographic transition has stalled, prolonging its placement as a “pre-dividend” country with a decline in fertility rates that lags other countries and regions.³⁹ The country’s population structure remains heavily skewed towards young dependents because of high fertility rates.

Figure 3.12 (Panel A) plots the rate of decline in Total Fertility Rate (TFR)⁴⁰ over the last two decades among countries in the African continent and provides three categorical breakdowns: (a) countries where TFR decline has been less than 0.05 per year are categorized as having a “stalled” transition; (b) countries where TFR decline has been between 0.05 and 0.1 per year are categorized as “early transition”; and (c) countries where TFR decline has been more than 0.1 per year are categorized as in “transition”.⁴¹ Nigeria is one of only four countries in Africa with TFR above 5 and a pace of decline of TFR of less than 0.05 a year, along with Niger, the Republic of Congo, and the Gambia. Most other countries with a stalled demographic transition have TFR below 3 and mostly lie in Northern Africa (Egypt, Morocco, Libya, Algeria, and Tunisia) and Southern Africa (South Africa, Botswana, and Eswatini).

Nigeria’s prospects of reaping the demographic dividend are grim, owing to persistently high fertility rates. Between 2020 and 2050, Nigeria’s working age population is projected to increase by 132 million. This represents 20 percent of the expected increase in the

39 A country is classified in a pre-dividend typology when the working-age population is projected to grow within the next 15 years, and the total fertility rate is above four. Early dividend countries follow a similar definition, except they have a total fertility rate below four. The demographic dividend, which is in essence an economic surplus, is triggered when, owing to the fast decline of fertility, the working-age population becomes relatively larger and the dependency ratio for young people becomes more favorable.

40 The World Health Organization (WHO) defines the TFR as the average number of children a hypothetical cohort of women would have at the end of their reproductive period, if they were subject during their whole lives to the fertility rates of a given period and if they were not subject to mortality. It is expressed as children per woman.

41 A decline in TFR of 0.05 a year roughly corresponds to a decline by 1 child every 20 years.

working age population across all of Sub-Saharan Africa, and places Nigeria second only to India among countries expected to see the largest growth in their working-age population by 2050. Advancements in medical sciences and public health have ensured a rapid decline in child mortality rates in Nigeria and Sub-Saharan Africa. However, the decline in fertility rates have not kept pace with the decline in child mortality, as Nigeria's TFR has failed to diminish substantially over the last five decades.

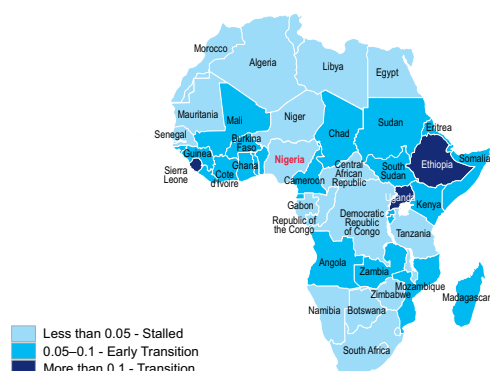
Figure 3.12 (Panel C) shows that the TFR in Nigeria has declined by only 0.7 percentage points over the last 30 years, from 6 in 1990 to 5.3 in 2018. As expected, the TFR is higher in rural areas compared to urban

areas, but it has only declined by 0.5 percentage points in the latter compared to 0.4 percentage points in the former over the last 30 years. Comparing Nigeria's trends in TFR with other regions and countries, Figure 3.12 (Panel D) shows that the decline in TFR in Nigeria lags those in sub-Saharan Africa and other regions across the globe. For example, South Africa's TFR declined from 6 in 1960 to 2.4 in 2019.

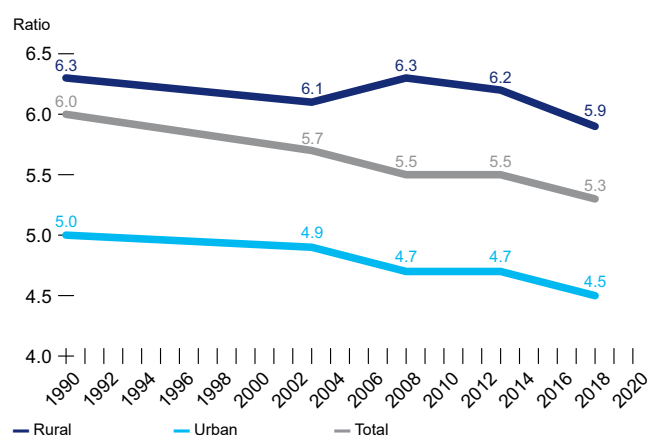
Fertility rates in Nigeria are highest in the North, among women in the poorest quintile, and among women with no secondary education. Figure 3.12 shows the TFR disaggregated by urban/rural zones, education level of the mother giving birth, and wealth

Figure 3.12. Nigeria's Stalled Demographic Transition.

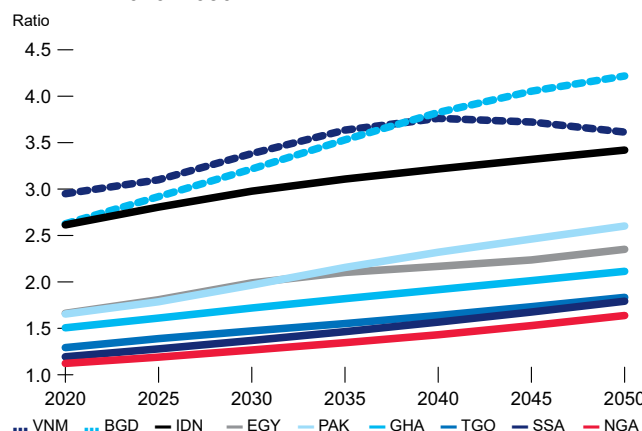
Panel A. Rate of TFR decline over the last two decades



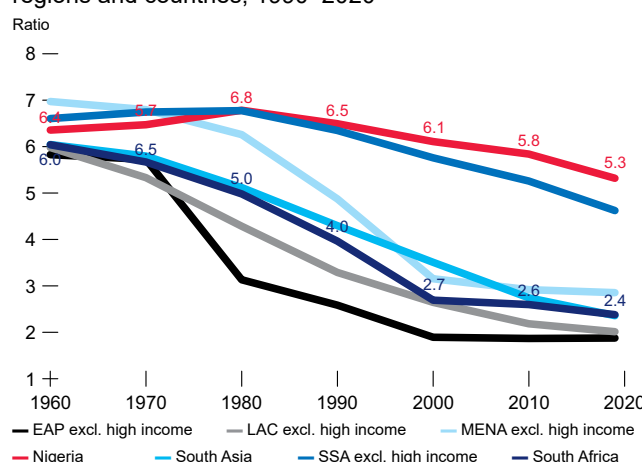
Panel C. Nigeria's TFR, rural and urban areas, 1990–2020



Panel B. Ratio of working age population (15–64) to young dependents (0–14), Nigeria and peer countries, 2020–2050



Panel D. Rate of TFR decline, Nigeria and comparator regions and countries, 1990–2020



Source: World Bank estimates based off WDI (Panel A; Panel C; and Panel D) and UN World Population Prospects (2019) (Panel B).

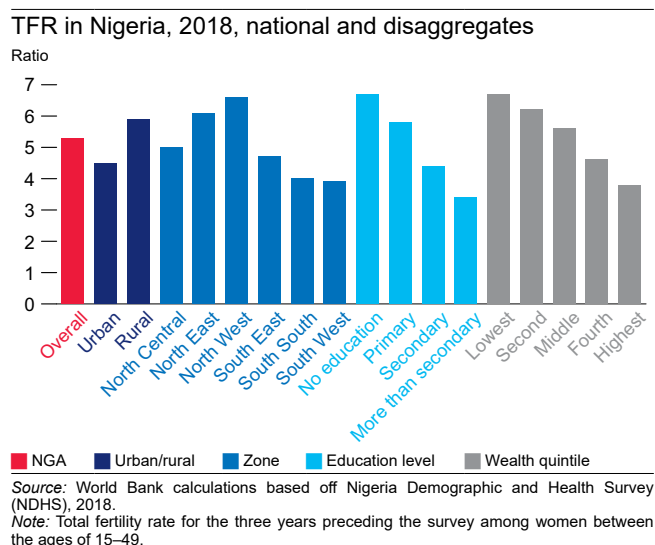
quintile. The North West region in Nigeria has a TFR of 6.6, which would be the second-highest fertility rate of any country in the world, behind only Niger. On average, the state with the lowest TFR is Lagos with 3.4, and the state with the highest fertility rate is Katsina with 7.3. Similarly, the TFR among women with no education (6.7) is almost twice that among women who have completed secondary education (3.4), and the TFR among women in the poorest quintile (6.7) is 3 percentage points higher than among women in the richest quintile (3.8).

This stall in the demographic transition dims Nigeria's prospect for a demographic dividend in the near future. The demographic transition is the phase in which the conditions to capture a demographic dividend are created, because of declines in child mortality and fertility, and the increase in the share of working-age population relative to dependents. Figure 3.12 (Panel B) plots the ratio of the projected working-age population (15–64) to the projected population of young dependents (0–14) in Nigeria and peer countries between 2020 and 2050.^{42,43} It shows that in 2050, for every young dependent, Nigeria will only have 1.5 people in the working-age population, compared to 2.1 in Ghana, 2.6 in Pakistan, 3.4 in Indonesia and 4.2 in Bangladesh. In other words, comparator countries will have a greater share of economically active people who contribute to the economy.

Adolescent girls are a crucial demographic group to fast-track Nigeria's demographic transition. There are several reasons why addressing the needs of adolescent girls and empowering them presents Nigeria with the best opportunity to harness a demographic dividend. First, adolescents between the ages of 10 and 19 constitute an estimated 23 percent of Nigeria's

population in 2020, and will continue to represent more than 20 percent of the population by 2050.⁴⁴ Second, and similar to TFR, Nigeria's adolescent fertility rate of 104 births per 1,000 women aged 15–19 is very high compared to its income level, and substantially higher than average in the northern regions of the country.⁴⁵ Nigeria's adolescent fertility rate has failed to decline below 100 over the last 50 years, and its pace of decline lags that of Sub-Saharan Africa and peer countries. It is also worth noting that Nigeria recorded increases in birth rates by girls aged 10 to 14 between 2007 and 2017.⁴⁶ Third, and most importantly, interventions that help adolescent girls reach their full potential, by increasing their education and skills and delaying childbearing and early marriage, can create a virtuous cycle that improves adolescent and child health and paves the way for women empowerment—ultimately leading to higher economic growth.⁴⁷

Figure 3.13. The TFR in Nigeria is highest in the North, among females with no education, and among the lower wealth quintiles.



42 Structural and aspirational peers are identified in the World Bank Systematic Country Diagnostics for Nigeria (2019). Available at: <https://openknowledge.worldbank.org/handle/10986/33347>

43 Population projections are estimated using the “medium” variant scenario in the World Population Prospects data. Available at: <https://population.un.org/wpp/>

44 Population projections are estimated using the “medium” variant scenario in the World Population Prospects data. Available at: <https://population.un.org/wpp/>

45 The WHO defines the AFR as the annual number of births to women aged 15–19 per 1,000 women in that age group. It is also referred to as the age-specific fertility rate for women aged 15–19.

46 United Nations. 2020. *Fertility among young adolescents aged 10 to 14 years*. Available at: <https://www.un.org/en/development/desa/population/publications/pdf/fertility/Fertility-young-adolescents-2020.pdf>

47 Canning, D., Raja, S. and Yazbeck, A.S. eds., 2015. *Africa's demographic transition: dividend or disaster?* World Bank Publications.

Constraints to Demographic Transition Through the Lens of Nigeria's Adolescent Girls

Adolescent girls are a key demographic group to break the intergenerational transmission of poverty in developing countries.⁴⁸ Previous analysis from Nigeria supports this view. With adolescents likely to be the second-largest demographic group, after young children, for the foreseeable future, policies that help adolescent girls realize their potential will help Nigeria kickstart its stalled demographic transition. On the demand side, three constraints are assessed: (i) economic deprivation and poverty; (ii) constraining social norms that curtail demand for family planning; and (iii) low child health outcomes which raise the need for more children. On the supply side, four constraints are assessed: (i) lack of access to quality secondary schools; (ii) inequity in access to quality health and reproductive services; (iii) lack of opportunities in the labor market; and (iv) insufficient national laws and regulations. The linkages of demand- and supply-side constraints with adolescent well-

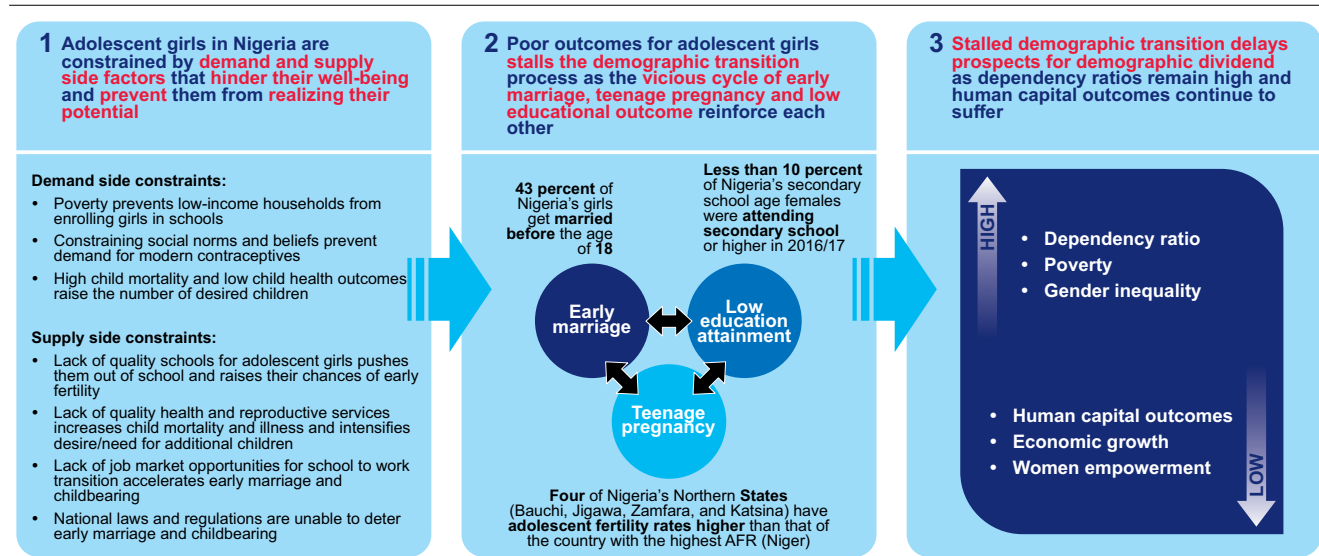
being and early marriage, teenage pregnancy, and low educational attainment are established using recent data, where available.⁴⁹

Demand-Side Constraints

A high poverty rate is one of the strongest determinants of early marriage and high fertility rates among adolescent girls. Prevalence of early marriage and teenage pregnancy in Nigeria is much higher in the lower wealth quintiles. Figure 3.15 (Panel A) shows that compared to 68 percent of women aged 20–49 who were married before the age of 18 in the poorest quintile, only 17 percent of women in the richest quintile were married before the age of 18 in 2016/17. Similarly, compared to almost 200 births per 1,000 women aged 15–19 in the poorest quintile, Nigeria reported 35 births per 1,000 women aged 15–19 in the richest quintile.

Poverty also restricts demand for adolescent girls' education. Female educational attainment—one of the

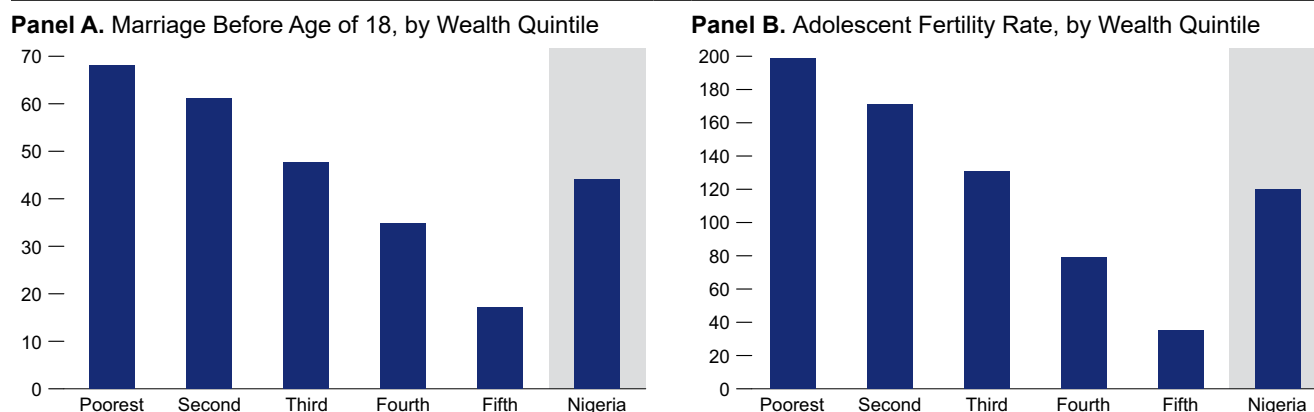
Figure 3.14. Adolescent well-being, demographic transition, and consequences for potential demographic dividend in Nigeria.



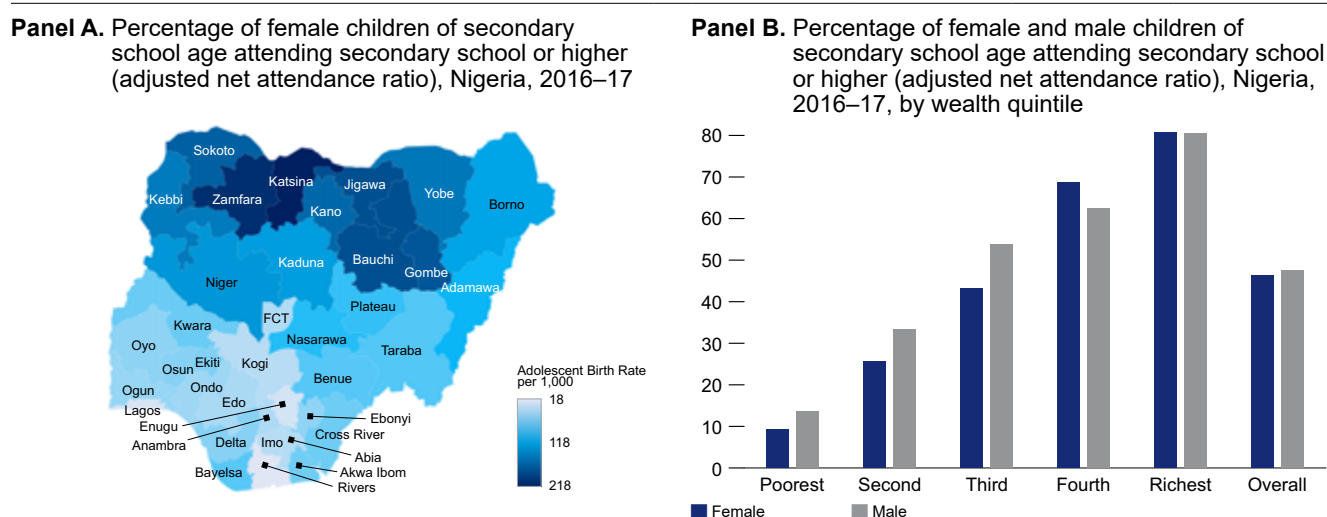
Source: Adopted from: Bergstrom, K. and Ozler, B., 2021. Improving the Well-Being of Adolescent Girls in Developing Countries.

48 Levine, R., Lloyd, C., Greene, M. and Grown, C., 2008. Girls Count: A global investment & action agenda.

49 While this section provides several correlational analyses linking demand- and supply-side constraints with indicators of adolescent well-being, these should not be interpreted as causal. More careful analysis is needed to establish causality and isolate the impact of individual constraints on outcomes of interest.

Figure 3.15. Early marriage and teenage pregnancy rates in Nigeria in 2016/17, by wealth quintile.

Source: World Bank calculations based off data from UNICEF, Multi-Indicator Cluster Survey (MICS) 2016/17.

Figure 3.16. Percentage of Nigerian children of secondary school age attending secondary school or higher, by location and wealth quintile, 2016/17.

Source: World Bank calculations based off UNICEF, Multi-Indicator Cluster Survey (MICS) 2016/17.

strongest predictors of fertility rates—is much lower in the north than in the south of the country (Figure 3.16, Panel A). In 2016/17, the percentage of Nigerian girls of secondary school age attending school was just 9.3 percent in the poorest wealth quintile compared to 80.6 percent in the richest quintile, a staggering gap of 70 percentage points (Figure 3.16, Panel B). For poor households and their families, it is difficult to cover the direct and indirect cost of schooling. Although Nigeria's universal basic education (UBE) Program aims to provide nine years of free, compulsory, and universal primary education to all children, the three years of

senior secondary education are not free. In 2015, around 18 percent of Nigerian girls aged 6 to 16 who were out of school reported the monetary cost of schooling among the main reasons for their predicament.⁵⁰ Another constraint identified by families for not sending their daughters to school was losing a key income earner who is critical to meeting their basic family needs, as girls are often more involved in generating family income in rural areas.

Compared to the regional average, or to structural and aspirational peers, the use of modern contraceptive

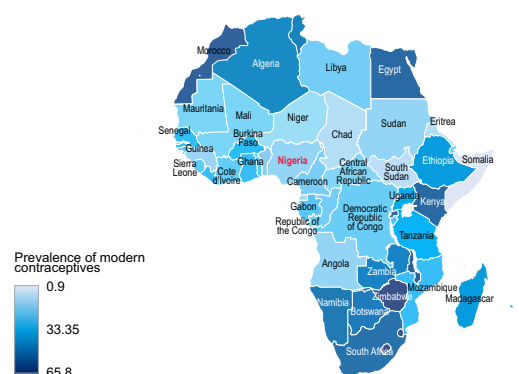
50 2015 Nigeria National Education Data Survey (NEDS). Available at: <https://shared.rti.org/content/2015-nigeria-national-education-data-survey-neds>

methods for family planning in Nigeria is low. Figure 3.17 (Panel A) shows that only 12 percent of Nigerian women aged 15–49, who were married in 2018, used modern contraceptive methods for family planning, lagging the Sub-Saharan African average (27.5 percent) and considerably behind some aspirational peers such as South Africa (54 percent).⁵¹ The percentage of Nigerian women using modern contraceptive methods has remained largely the same in the last decade, only

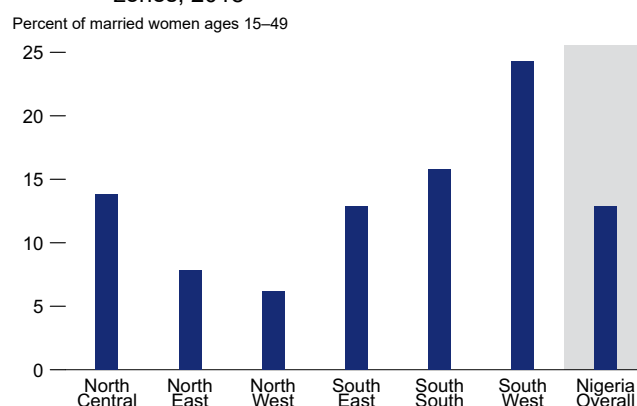
increasing by two percentage points between 2008 and 2018. Compared to the national average, and similarly to trends in TFR, there is substantial variation across geopolitical zones and states in the use of modern contraceptive methods. For example, 24 percent of married Nigerian women aged 15–49 in the South West use modern contraceptive methods, compared to 6 percent in the North-West (Figure 3.17, Panel B). However, even in the south, modern contraceptive

Figure 3.17. Nigeria has very low prevalence of modern contraceptives nationally, and especially in the North East and North West.

Panel A. Countries in Africa by contraceptive prevalence, any modern method (percent of married women ages 15–49), last available year



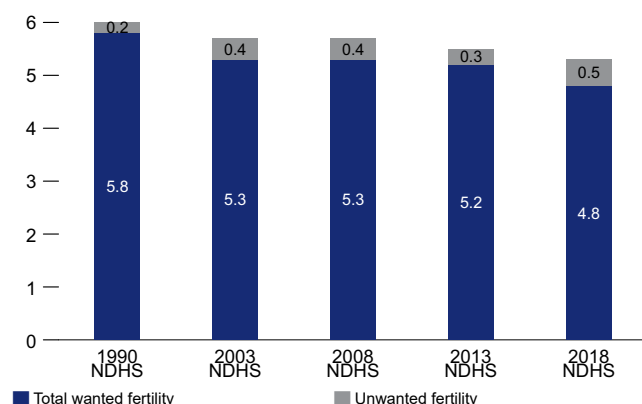
Panel B. Contraceptive prevalence, any modern method (percentage of married women aged 15–49), by zones, 2018



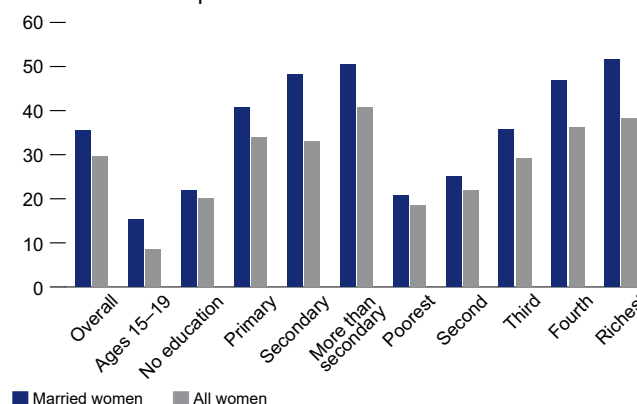
Source: World Bank Calculations based on World Development Indicators (Panel A) and Nigeria Demographic and Health Surveys (NDHS), 2018 (Panel B).

Figure 3.18. Most fertility in Nigeria is wanted fertility with low demand for family planning, especially among adolescents.

Panel A. Trends in total wanted fertility and unwanted fertility, 1990–2018, Nigeria



Panel B. Total demand for family planning (met and unmet) of women aged 15–49, by education level and wealth quintile



Source: World Bank calculations based off Nigeria Demographic and Health Surveys (NDHS), 2018.

⁵¹ DHS, most recent available year is 2018 for Nigeria, 2017 for sub-Saharan Africa, and 2016 for South Africa. Available at: https://data.worldbank.org/indicator/SP.DYN.CONM.ZS?most_recent_value_desc=false

prevalence among married women ranges between 13 and 24 percent, lower than the national averages in Burkina Faso, Ghana, and Senegal, and lower than the average for low-income countries (29 percent)

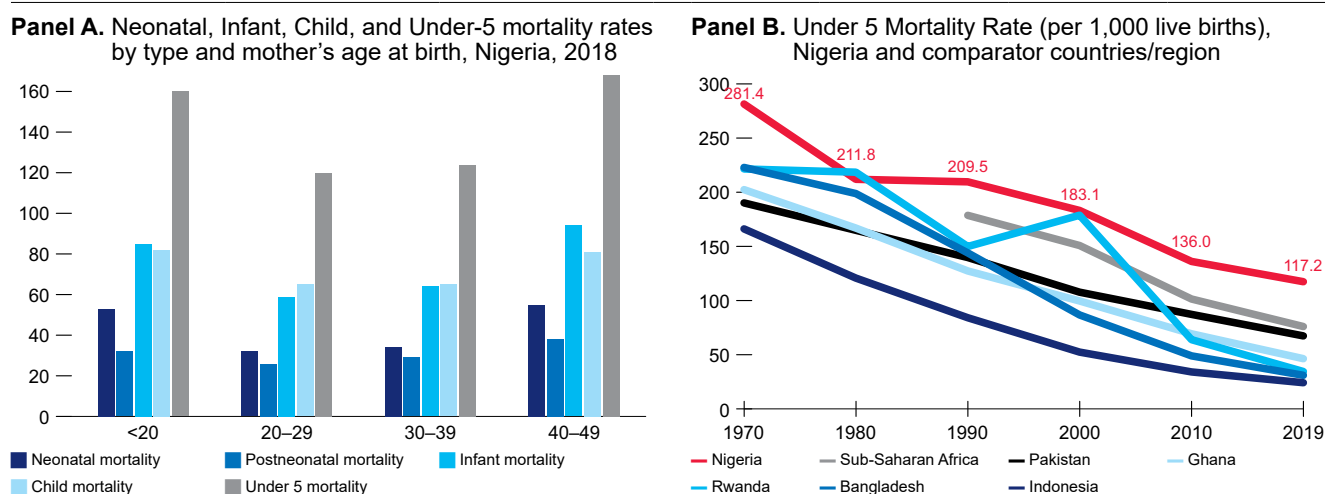
Demand for family planning is especially low for adolescents between the ages of 15 and 19. Figure 3.18 (Panel A) shows the trends in wanted and unwanted fertility in Nigeria between 1990 and 2018. It reveals that the gap between actual and wanted fertility is very small, reflecting both a desire for large families and the relative realization of desired family size. As with the use of modern contraceptive methods, there is national variation in demand for family planning. 50 percent of married women who have more than secondary education demand family planning services, compared to 20 percent of married women with no education (Figure 3.18, Panel B). Total demand for family planning is 15 percent among married adolescents between the ages of 15 and 19.

Although there has been progress in reducing the Infant Mortality Rate (IMR) and Under-Five Mortality Rate (U5MR), Nigeria is still among the countries with the highest U5MR and IMR, causing women to have more children in the hope that more

of them survive beyond childhood. Nigeria's U5MR has declined from 183 per 1,000 live births in 2000 to 117 per 1,000 live births in 2019. Yet, Nigeria has the worst U5MR of any country in the world. In the North West, U5MR is 187 per 1,000 live births, higher than the national average in the year 2000.

The risk of neonatal, post-neonatal, infant, child, and under-five mortality is substantially higher for adolescent mothers. U5MR in 2018 was 160 per 1,000 live births among adolescent mothers, compared to 120 among women aged 20–29 and 124 among women aged 30–39. Similarly, the infant mortality rate—defined as the number of deaths of children under one year of age, and expressed per 1,000 live births—was 85 among births by adolescents, substantially higher than 59 among the 20–29 age group, and 64 among the 30–39 age group. In developing countries such as Nigeria, wanted fertility often depends on infant and child mortality rates, as families consider the need for additional children to replace potential losses. Therefore, when a country decreases its infant and child mortality rates, it can trigger a fertility decline as more children survive into adulthood.⁵² Not only do women who begin childbearing early are more likely to have more children throughout their lives, but there is also a greater risk

Figure 3.19. Nigeria has the highest under-5 mortality rate in the world despite a rapid decline in the last 50 years, largely due to the high prevalence of childbearing among adolescents.



Source: World Bank calculations based on Nigeria Demographic and Health Surveys (NDHS), 2018 (Panel A) and World Development Indicators (Panel B).

52 Conley, D., McCord, G.C. and Sachs, J.D., 2007. Africa's lagging demographic transition: Evidence from exogenous impacts of malaria ecology and agricultural technology.

of death, disease, and illness for the mother and their children, constraining their ability to contribute to society.

More than one-third of Nigeria's children under five are stunted, severely denting their hopes of realizing their full potential. In 2018, close to 37 percent of children between the ages of 6 and 59 months in Nigeria were stunted, or too short for their age.⁵³ The prevalence of stunting widely varies across geopolitical zones. In the North West it is 57 percent, or 20 percentage points more than the national average. In contrast, the prevalence of stunting is 18 percent in the South East, less than half the national average. With 2 out of every 5 children under the age of five stunted, Nigeria's prospects for reaping the demographic dividend in the near-term look even more distant, as studies consistently show that stunting in early life is associated with lower educational attainment, productivity, and wages during adulthood.⁵⁴

Supply-Side Constraints

More than one in five primary schools in Nigeria do not have a junior or senior secondary school within 3 km radius and one in ten primary schools do not have a junior or senior secondary school within 5 kilometer radius. Lack of access to a secondary school is much worse in northern states than in southern states. 32 percent primary schools in northern states do not have a junior secondary school within 3 kilometer radius as compared to just 8 percent primary schools in southern states⁵⁵. The expansion of secondary school infrastructure has not kept pace with the rapid growth in primary enrollment or the rising transition rates to secondary schools. Nationally, there is an acute

shortage of secondary schools, with only 31,000 junior secondary schools and 23,000 senior secondary schools compared to 112,000 primary schools, implying a ratio of approximately 3.6 primary schools for every junior secondary school and 4.9 primary schools for every senior secondary school. The lack of secondary schools is significantly greater in the north, with an average of 4.1 primary schools for every junior secondary school. COVID-19 has further affected access to schooling among Nigeria's adolescents, with girls in the north most likely not to return when schools reopened.

Adolescent mothers are less likely to give birth in the presence of skilled providers, and often cite distance from health facilities and lack of providers as barriers to accessing health services. Between 2008 and 2018, the percentage of Nigerian women giving birth in presence of a skilled birth attendant increased from 39 percent to 43 percent. Despite this improvement, fewer than 40 percent of newborns delivered in Nigeria in 2018 were born in a health facility.⁵⁶ In the five years preceding the survey in 2018, only 31 percent of adolescent mothers delivered in the presence of skilled birth attendants compared to 46 percent in the 20–34 age group and 43 percent in the 35–49 age group,⁵⁷ significantly increasing the risk of death and illness for both child and mother. In a study of utilization of skilled birth attendance considering 400 women in northern Nigeria, lack of healthcare providers and lack of supplies and equipment were found to be major barriers to accessing skilled birth attendance, along with poverty.⁵⁸

Adolescents and young girls in Nigeria face limited labor market opportunities in their school-to-work transition. According to NBS, Nigeria's youth aged 15–24 faced unemployment rates of 53 percent at the end of 2020 (Figure 3.20).⁵⁹ Both unemployment and

53 Nigeria Demographic and Health Surveys (NDHS), 2018.

54 McGovern, M.E., Krishna, A., Aguayo, V.M. and Subramanian, S.V., 2017. A review of the evidence linking child stunting to economic outcomes. *International journal of epidemiology*, 46(4), pp.1171–1191.

55 National Personnel Audit 2008.

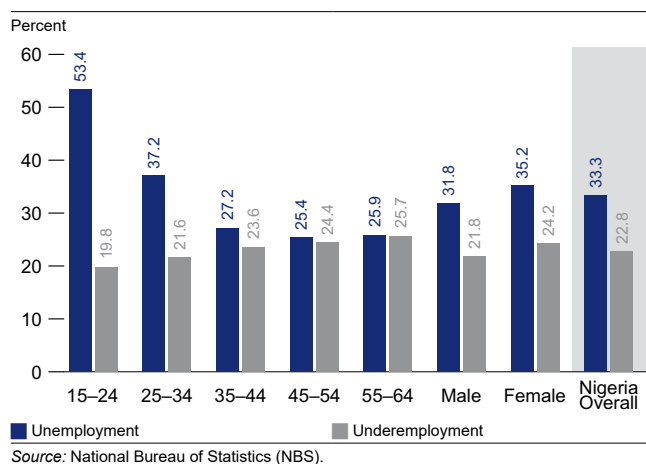
56 Nigeria Demographic and Health Surveys (NDHS), 2018.

57 Ibid.

58 Adewemimo AW, Msuya SE, Olaniyan CT, Adegoke AA. 2014. Utilization of skilled birth attendance in Northern Nigeria: a cross-sectional survey. *Midwifery*. PMID: 24139686. Available at: <https://pubmed.ncbi.nlm.nih.gov/24139686/#:~:text=Barriers%20to%20SBA%20utilisation%20identified,husband's%20approval%20and%20affordable%20service>.

59 NBS defines unemployment rates as the percentage of the labor force population who could not find at least 20 hours of work in the reference period.

Figure 3.20. Nigeria's youth faced an unemployment rate of 53 percent at the end of 2020.



underemployment rates were higher for women. When women do work, they consistently earn less than men.⁶⁰ Recent research shows that unemployment can accelerate the transition to motherhood for women.⁶¹ In Nigeria, about 65 percent of working women in households with children under five worked less than 40 hours per week, compared with 57 percent of working women in households without children under five.⁶² Poor female labor market outcomes and high fertility rates reinforce each other. Higher participation of women in the labor force, especially when combined with secondary education completion, is associated with lower fertility rates, while higher fertility rates tend to decrease women's work rates.⁶³ Not only do poor labor market outcomes discourage young women from participating in the market and increase their likelihood of having more children, but they also take away from young women's contribution to the economy, thereby reducing the prospects of a demographic dividend.

Despite the existence of national laws and the ratification of relevant international treaties, **child marriage continues to plague Nigerian society.** Nigeria passed the Child Right Act in 2003 that guarantees the rights of all children in Nigeria. Part III of the Child Rights Act includes protection from child marriage, as well as punishments for the act on the adult parties involved. However, only 26 out of Nigeria's 36 states have so far adopted the Act, while 10 northern states where child marriage rates remain high have yet to adopt it.⁶⁴ Even in some northern states that have adopted the Act, provisions against child marriage is yet to be incorporated in state laws, making it inadequate to protect children from forced marriages.⁶⁵ As a consequence, Nigeria has one of the highest rates of child marriage in the world, much higher than peer countries, with around 44 percent of Nigerian women currently aged between 20 and 49 married before the age of 18.⁶⁶ It is estimated that child marriage costs Nigeria about US\$7.6 billion in lost earnings and productivity every year.⁶⁷

The inability of Nigeria's laws and regulations to prevent child marriage also stems from incongruities in the relevant laws. Although the Child Rights Act of 2003 stipulates the minimum age of marriage to be 18, the Constitution states that "any woman who is married shall be deemed to be of full age."⁶⁸ Efforts to remove this inconsistency have so far met with stiff opposition in the Nigerian senate, as lawmakers and religious leaders in the northern states often cite Islam's lack of an age requirement for betrothal as a justification for early marriage.⁶⁹

60 World Bank. 2022. Closing Gaps, Increasing Opportunities: A Diagnostic on Women's Economic Empowerment in Nigeria. Washington, DC: World Bank.

61 Andersen, S.H. and Özcan, B., 2021. The effects of unemployment on fertility. *Advances in Life Course Research*, p.100401.

62 World Bank. 2021. *Good Jobs for a New Generation: Delivering Quality Jobs for Young Nigerians After COVID-19*. Available at:

63 Bloom, D.E., Canning, D., Fink, G. and Finlay, J.E., 2009. Fertility, female labor force participation, and the demographic dividend. *Journal of Economic growth*, 14(2), pp.79-101.

64 Human Rights Watch. 2021. *Nigerian States Should Protect Girls by Ending Child Marriage*. Available at: <https://www.hrw.org/news/2021/09/24/nigerian-states-should-protect-girls-ending-child-marriage#>

65 Ibid.

66 UNICEF, Multi-Indicator Cluster Survey (MICS) 2016/17. Data based on

67 World Bank. 2018. *The Cost of Not Educating Girls: Educating Girls and Ending Child Marriage: A Priority for Africa*. Available at: <https://documents1.worldbank.org/curated/en/268251542653259451/pdf/132200-WP-P168381-PUBLIC-11-20-18-Africa-GE-CM-Conference-Edition2.pdf>

68 Constitution of the Federal Republic of Nigeria. 1999. Available at: <http://www.nigeria-law.org/ConstitutionOfTheFederalRepublicOfNigeria>

69 Human Rights Watch. 2021. *Nigerian States Should Protect Girls by Ending Child Marriage*. Available at: <https://www.hrw.org/news/2021/09/24/nigerian-states-should-protect-girls-ending-child-marriage#>

Policy Measures to Accelerate the Demographic Transition to Harness the Demographic Dividend

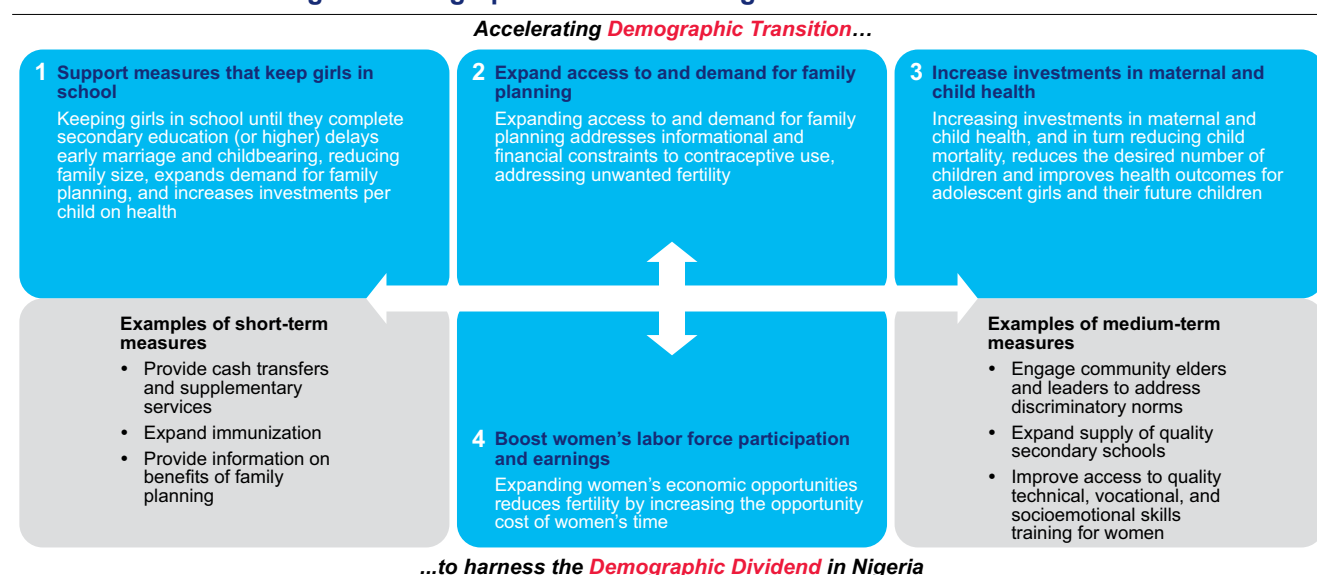
To accelerate Nigeria's sluggish demographic transition and realize the demographic dividend, this note proposes policy recommendations around **four complementary pillars**. Together, the four pillars aim to achieve two key objectives to take advantage of the demographic window of opportunity in the near term. First, the policy measures will help Nigeria accelerate the demographic transition by reducing high fertility and child mortality rates, causing a shift in the age structure. Second, the measures will allow Nigerian youth, particularly girls, to effectively contribute to the economy as they become equipped with the necessary skills and capabilities. The four pillars are presented below (in summary).

Figure 3.21 illustrates the mutually reinforcing nature of these policy actions, and how targeting support to adolescent girls can accelerate progress across all pillars. Table 3.1 highlights the need for the policies proposed, the short- and medium-term actions to support the policies, and the likely impact the policy measures will have.

Policy Message 1: Support measures that help keep girls in school, to delay marriage/pregnancy and improve learning outcomes.

There is an urgent need to expand access to secondary schools, and make it free for poor households who find it hard to cover the direct and indirect cost of **secondary schooling**. Although Nigeria's universal basic education (UBE) Program aims to provide nine years of free, compulsory, and universal primary education for all children, the three years of senior secondary education are not free. For poor families, sending their daughters to school means losing a key income earner who is critical to meeting their basic family needs, as girls are often more involved in generating income for the family in rural areas. Keeping girls in school will require removing the direct cost of schooling and compensating parents for the forgone income. In terms of school access, the lack of secondary schools is significantly greater in the north, with an average of eight primary schools for every secondary school. For girls to transit to or complete secondary school, the government should provide the necessary infrastructure to create safe learning spaces in their communities.

Figure 3.21. Targeting adolescent girls with holistic support is critical to reducing fertility and accelerating the demographic transition in Nigeria.



Note: World Bank Illustration. Additional measures are highlighted in Table 3.1.

Policy Message 2: Expand access to and demand for family planning.

Nigeria needs to implement strategies that improve access to and increase demand for family planning services. There is a need to prioritize improvement in demand for family planning—as current unmet needs for family planning are low across the country—by focusing on both inter-personal and societal behaviors and norms, and engaging with women’s groups and community, religious and traditional leaders. Other policies should focus on providing information on the pros and cons of different family planning methods, and targeting family planning vouchers to adolescent girls.

Policy Message 3: Increase investments in multi-sectoral interventions that improve maternal and child health outcomes.

Increasing fiscal resources available for health and social protection programs—focusing on those that come with evidence of reducing child mortality and stunting and improving maternal mortality rates—will diminish the need for more children. In 2019, Nigeria’s low public expenditure on education and health reflected its standing as the country with the sixth lowest Human Capital Index (HCI) in the world.⁷⁰ There is a need to reduce the high child- and under-five mortality rates and to increase the utilization of maternal health services, especially among adolescent girls. Concurrently, interventions should be expanded to reduce childhood stunting, as this is strongly associated with lower productivity and earnings during adulthood. Despite the government launching several safety net programs in recent years, social protection coverage remains low, even if well targeted. Social protection measures that improve the demand for human capital services, and health measures that provide cost-effective preventative interventions to reduce under-five mortality, must be prioritized.⁷¹

Policy Message 4: Support programs and interventions that address constraints to women’s participation in the labor force and increase their earnings.

Nigeria needs to prioritize interventions that address constraints to women’s economic empowerment, including helping the school-to-work transition for adolescent girls. There is growing global evidence that ensuring economic opportunities for women is an important entry point for reducing high fertility and early childbearing, and ensuring better education, health, and nutrition outcomes for children. Measures that provide adolescent girls with a comprehensive set of vocational, socio-emotional, and technical tools to navigate the labor market seem to hold the most promise.

70 World Bank, 2020. The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19

71 These include including maternal tetanus toxoid vaccination, exclusive breastfeeding, clean-cord care, kangaroo mother care, immunizations, vitamin A supplementation, prevention of mother-to-child transmission of HIV, and expansion of the use of insecticide-treated mosquito nets.

Table 3.1. Nigeria needs to ensure adolescent girls remain in school longer and are provided services and opportunities as they come of working age.

Why are the measures needed?	What measures are being proposed?		What is the likely impact the measures will have?
	Short-Medium Term (6–18 months)	Medium-Long Term (18–36 months)	
Policy Message 1: Support measures that keep girls in school.			
<ul style="list-style-type: none">• Less than 10 percent of secondary school-age girls in the lowest wealth quintile attend secondary school, compared with 80 percent in the richest quintile.• 23 percent of primary schools in Nigeria’s north do not have a junior or senior secondary school within 5 km of their communities, compared to 5 percent of primary schools in southern Nigeria.	<ul style="list-style-type: none">• Provide safe learning spaces to adolescent girls, in which they meet inside or outside of school to socialize and receive vocational and life skills training (including on sexual and reproductive health), such as in the World Bank-supported Adolescent Girls Initiative for Learning and Empowerment (AGILE) project.• Expand construction of community secondary schools and / or expansion of primary schools to include JSS and SSS, and renovation of existing secondary schools to provide conducive learning environment in the north of the country.	<ul style="list-style-type: none">• Advocate for reforms, including enacting a law mandating 12 years of free and compulsory education for girls.• Implement social and behavior change communication, including community-level dialogue, and campaigns at the federal, state, and community levels to change discriminatory social norms, increase demand for girls’ education, and reduce the prevalence of child marriage.• Encourage 10 states that are yet to adopt the Child Rights Act of 2003 to increase and enforce the minimum age of marriage of 18 for girls.	<ul style="list-style-type: none">• <i>Decrease in fertility and increased use of contraception. A multi-faceted program for girls in Uganda (Empowerment and Livelihoods for Adolescent Girls - ELA) combining clubs with vocational and life-skills training led to decrease in fertility and increased use of contraception.⁷²</i>• <i>Increase in school enrollment. Bergstrom and Ozler found that school construction can lead to very large gains in educational attainment in areas where schools are far away. They also found a promising impact on reduced/delayed fertility.⁷³</i>
Policy Message 2: Expand access to and demand for family planning.			
<ul style="list-style-type: none">• Total demand for family planning is 15 percent among married adolescents between the ages of 15 and 19.• Prevalence of modern contraceptive method among women aged 15–49 is just 12 percent.	<ul style="list-style-type: none">• Provide vouchers to adolescent girls to access family planning services.• Provide information on the benefits of delaying, spacing, and limiting births, and on the pros and cons of different family planning methods, especially in the north.	<ul style="list-style-type: none">• Engage community leaders in the north and women’s groups to address societal norms and behaviors leading to low uptake of family planning services.	<ul style="list-style-type: none">• <i>Increased demand for family planning services. A family planning (FP) program in India that offered women vouchers to seek care and services with their peers increased visits to an FP clinic for FP and reproductive health services.⁷⁴</i>• <i>Increased use of family planning measures. In Kenya, a 45-minute information session delivered by an outside facilitator with a focused message on the heightened risk of HIV faced by girls having sex with older partners was effective at reducing unprotected sex and consequently pregnancy among adolescent girls.⁷⁵</i>

72 Bandiera, O., Buehren, N., Burgess, R., Goldstein, M., Gulesci, S., Rasul, I. and Sulaiman, M., 2013. Empowering adolescent girls in Uganda.

73 Bergstrom, K. and Ozler, B., 2021. Improving the Well-Being of Adolescent Girls in Developing Countries.

74 Anukriti, S., C. Herrera-Almanza, and M. Karra. 2021. Women's access to family planning: experimental evidence on the role of peers and vouchers. *Forthcoming*.75 Dupas, P., 2011. Do teenagers respond to HIV risk information? Evidence from a field experiment in Kenya. *American Economic Journal: Applied Economics*, 3(1), pp.1–34.

Table 3.1. Nigeria needs to ensure adolescent girls remain in school longer and are provided services and opportunities as they come of working age (continued)

Why are the measures needed?	What measures are being proposed?		What is the likely impact the measures will have?
	Short-Medium Term (6–18 months)	Medium-Long Term (18–36 months)	
Policy Message 3: Increase investments in multi-sectoral interventions that improve maternal and child health outcomes.			
<ul style="list-style-type: none">Nigeria has the third-highest infant mortality rate and the highest U5MR mortality rate in the world.Close to 37 percent of Nigerian children between 6 and 59 months are stunted.	<ul style="list-style-type: none">Expand immunization and vitamin-A supplementation in lagging areas.Expand and provide unconditional cash transfers to women during pregnancy and until the child reaches two years of age.	<ul style="list-style-type: none">Supplement the delivery of cash transfers with advice and counselling on nutrition and health.	<ul style="list-style-type: none"><i>Reduction in childhood stunting. The Child Development Grant Program (CDGP), a multi-faceted program that provided cash transfers and information to extremely poor households, led to large and sustained improvements in children's anthropometric and health outcomes, including an 8 percent reduction in stunting four years post-intervention.</i>⁷⁶
Policy Message 4: Support programs that address constraints to young women's participation in the labor force and increase their earnings.			
<ul style="list-style-type: none">Adolescents and young girls in Nigeria face limited opportunities in their school-to-work transition. In 2020, the youth unemployment rate was 20 percent.A significant portion of young Nigerian women are unable to make the school-to-work transition: boys and girls are equally likely to either attend school or work until the age of 14, after which women's participation drops.	<ul style="list-style-type: none">Provide labor market interventions targeting women and youth with comprehensive job facilitation support, including vocational and socio-emotional skills training.Support adolescent girls by providing mentorship programs and mitigating specific constraints to their participation in the labor market, such as transportation or childcare costs.Deliver comprehensive packages to ultra-poor women that combine grants, training, and linkages to markets and services.Establish vocational and STEM programs to help girls build skills and easily access the labor market.	<ul style="list-style-type: none">Encourage women to become involved in male-dominated occupations/sectors, by broadening the range of programs offered in technical colleges aimed at digital jobs and trades with good employment prospect for women, integrating socio-emotional skills training in the curriculum, supporting the recruitment of female teachers and instructors, and improving facilities in technical colleges to make them more attractive to females.Sustained policy engagement to promote reforms boosting women's labor force participation, including enacting a law against gender-based discrimination in work and laws around parenthood, as well as lifting restrictions on mobility and sectors of work.	<ul style="list-style-type: none"><i>Increase in productivity among women farmers. A psychology-based training called Personal Initiative led to increased profits for women entrepreneurs in Togo, and to increases in surface cultivated, input use, and adoption of cash crops among women farmers in Mozambique.</i>⁷⁷<i>Increased participation of women in male-dominated sectors. The Nigeria Business Process Outsourcing Youth Employment project provided information and communications technology training which significantly increased the likelihood of women working in ICT-enabled service sectors (traditionally male-dominated). This was especially true among women who initially held self-defeating bias against associating women with professional attributes in male-dominated sectors.</i>⁷⁸

76 Carneiro, P.M., Kraftman, L., Mason, G., Moore, L., Rasul, I. and Scott, M., 2020. The impacts of a multifaceted pre-natal intervention on human capital accumulation in early life.

77 Campos, Francisco; Frese, Michael; Goldstein, Markus; Iacovone, Leonardo; Johnson, Hillary; McKenzie, David; Mensmann, Mona. 2018. Personal Initiative Training Leads to Remarkable Growth of Women-Owned Small Businesses in Togo. Gender Innovation Lab Policy Brief, No. 22. World Bank, Washington, DC.

78 Croke, Kevin; Goldstein, Markus, and Holla, Alaka. 2017. The Role of Skills and Gender Norms in Sector Switches: Experimental Evidence from a Job Training Program in Nigeria. <https://documents1.worldbank.org/curated/en/879141499698936934/pdf/The-Role-of-Skills-and-Gender-Norms-in-Sector-Switches-Experimental-Evidence-from-a-Job-Training-Program-in-Nigeria.pdf>

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Spotlight 3: Bringing Nigeria's Children Back to School

Summary: Nigeria has more than 11 million out-of-school (OOS) children between the ages of 6 and 15, representing 1 in 12 of all OOS children globally. Children from poor rural families in northern states are most likely to be OOS. Solving the OOS children challenge is a race against time: achieving universal access to basic education by 2030 will require growth of the in-school population to be four times higher than the predicted growth of the school-age population. The phenomenon of OOS children has multiple causes, and addressing it will require a combination of interventions. On the demand side, critical measures include reducing the cost of education by eliminating school fees and providing cash transfers, as well as shifting socio-cultural norms that prevent school enrollment. On the supply side, Nigeria needs to expand the availability of schools, optimize their location through geo-referenced data, improve the conditions of dilapidated schools, and ensure safety in and

around schools. It is also critical to involve communities and provide foundational skills to those attending Qur'anic education. Finally, systemic financial and governance reforms are key to improving access to education in a cost-effective manner.

Nigeria's Out of School Children

Nigeria has experienced a significant expansion in access to education during the last few decades. However, the country still has the highest number of out-of-school (OOS) children in the world. 11.1 million children aged between 6 and 15 were out of school in 2020, representing 1 in 12 of all OOS children globally and 22 percent of all children in this age group in Nigeria.

Figure 3.22. Projected share of in-school 6–15 children if in-school population grows at double (5 percent per year) or four-times (10 percent per year) the rate of school-age population (2.5 percent per year).

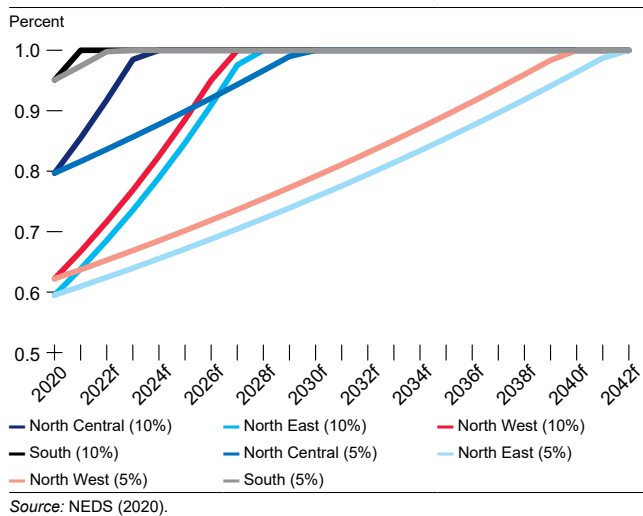
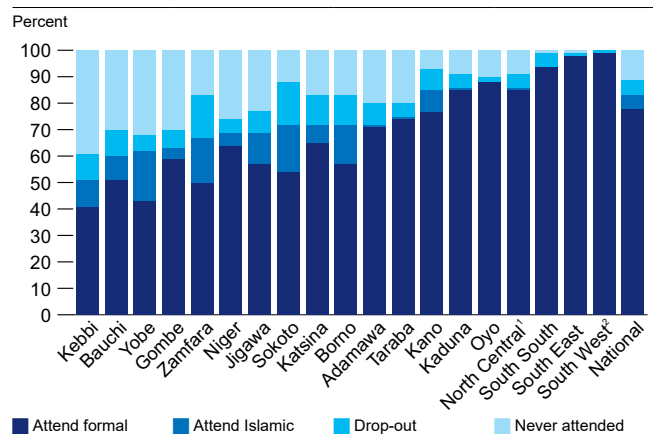


Figure 3.23. School attendance status for children aged 6–15, by state and geopolitical zones.



The number of in-school children aged 6–15 increased from about 20 million in 2003 to 40 million in 2020, but the number of OOS children declined only slightly, from 14.9 million in 2003 to 11.1 million in 2020, as the population of children aged 6–15 grew from 35 million to 51 million during the same period, given the high fertility rate previously mentioned.

Nigeria's OOS challenge, therefore, is a race that can only be won if the rate of increase of the in-school children population is much higher than the rate of increase of the school-age children population. Figure 3.22 shows that the in-school population will have to grow by nearly 10 percent per year in states in the North East and North West to attain universal access to basic education in those states by 2030, and at 5 percent per year to attain it by 2040.

The number and type of OOS children vary widely across states. About 90 percent (or 10 million) of all OOS children in Nigeria come from the northern states, where 1 in 3 school-aged children are out of school. In general, OOS children can be divided into three groups: about half of them have never attended any schooling; 27 percent are drop-outs; and the remaining 23 percent attend traditional Islamic learning centers outside of the formal school system.

What are the main reasons for the large number of OOS children in Nigeria?

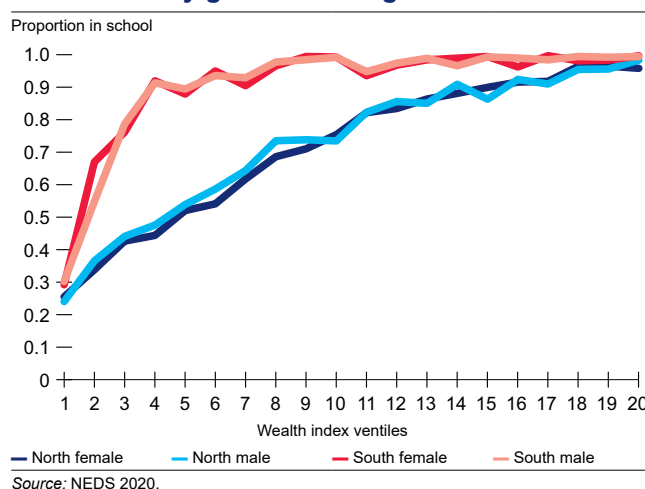
Household poverty is one of the main predictors of school attendance in Nigeria, as stated in Spotlight 2. About 77 percent of all OOS children come from households in the bottom two quintiles of the household consumption distribution.⁷⁹ Children from poor rural households are less likely to attend formal schools in most regions of the country, except the South West. As shown in Figure 3.24, for children in the basic education

age group (6 to 15 years), school attendance is associated with geography and wealth.

Costs associated with educational attainment can be prohibitive for children from poor households.

The Compulsory, Free Universal Basic Education Act of 2004 mandates that the government provide free basic education to every child of primary and junior secondary school (JSS) age; however, a significant number of primary and JSS students report paying school fees. Even among students attending government schools, 43 percent of those attending primary schools, 60 percent of those attending JSS, and 64 percent of those attending senior secondary schools (SSS) report paying examination fees, and between 23 percent (primary) and 52 percent (SSS) students in government schools report paying at least some school fees.

Figure 3.24. Relationship between household wealth and formal school attendance, by gender and region.



The opportunity cost of attending school also matters. For instance, about 21 percent of rural children and 17 percent of urban children mention domestic obligations, and the need to work in a household enterprise or farm, as the main reasons for not attending school.⁸⁰

⁷⁹ The numbers are even larger when considering the household asset index. About 84 percent of all OOS children come from households in the bottom two quintiles of the asset index distribution, and 56 percent of children from the bottom asset index quintile are outside the formal school system.

⁸⁰ Based on NEDS 2020.

Prevalent socio-cultural norms, which tend to impact children from poorer households more significantly, are also contributing to low school attendance, particularly in northern states. Many poor rural families in northern states who cannot afford formal schooling send their children, mostly young boys, to distant locations to acquire Qur'anic education under the Almajiri system. Almajiri children account for almost 1 in 4 Nigerian children aged 6–15 who are denied a formal education. The high prevalence of practices such as child marriage, which results in teen pregnancies and increased domestic obligations, also contributes to low school attendance and performance for girls at the secondary education level. Notably, Nigeria has more than 22 million child brides, the most in the world (UNFPA/UNICEF), which is an important factor affecting the demographic trends mentioned in Spotlight 2.

Safety in and around schools also affects enrollment rates. The number of attacks on educational facilities has increased significantly (De Simone et al, 2021): from 22 in 2010 to 116 in the first half of 2021. In particular, school kidnappings have skyrocketed. In the first six months of 2021, Nigeria recorded three times the number of people kidnapped in or around schools than in any previous year, and four times more kidnapping incidents. School closures due to safety issues impacted an estimated 1.3 million children in the 2020/21 academic year, and prolonged school closures tend to create permanent dropouts. Additionally, a recent study has shown that, in Nigeria, one additional conflict event in a 5-km radius from a child's village during the previous academic year reduced the child's probability of school enrolment by two percentage points (Bertoni et al., 2019). This entails that even attacks not directly targeted at schools affect educational outcomes.

Even if demand-side constraints were addressed, supply-side issues remain a critical bottleneck. About 23 percent of rural school-age children who have never attended school mention the absence of a school nearby as the main reason for their lack of education. Mapping

exercises show that around 4.2 million children aged between 5 and 9 do not have access to a primary school within 2 km, and 6.7 million children aged between 10 and 14 do not have access to a junior secondary school within 3 km. As highlighted in Spotlight 2, the lack of schools also affects the transition to secondary schools. For instance, in Katsina state there is only one junior secondary school for every ten primary schools.

When schools are available, learning conditions are usually suboptimal. About 50 percent of all primary classrooms and 40 percent of all JSS classrooms are reported to be dilapidated (NPA 2018). The average students-per-classroom (SPC) ratio at primary level is 55, but most northern states have an average SPC ratio over 60, and as high as 103 in Katsina. On average, only about 31 percent of primary schools report having a drinking water facility, and 47 percent a toilet facility. Furthermore, the number of available teachers is much lower than that required to maintain a pupil-teacher ratio of 40, as stipulated in the Minimum Standard for Basic Education guidelines of the Universal Basic Education Commission (UBEC).

In addition to supply- and demand-side constraints, Nigeria faces a series of systemic bottlenecks. These include weak capacity for planning, implementation, monitoring, and evaluation; inadequate accountability due to overlapping roles and responsibilities; politicization of teacher management; and lack of commitment to addressing inadequate, inefficient, and inequitable financing. Underfunding of the basic education sector deprives federal and state agencies, schools and teachers of the resources they need. At the same time, there are institutional overlaps and gaps in core oversight and accountability functions at the state and local government level, and between the three tiers of implementing agencies—UBEC, state universal basic education boards, and local government education authorities. Overall, basic education in Nigeria needs both a substantially greater resource mobilization and a more effective use of the resources mobilized.

From challenges to opportunities

Despite its challenges, Nigeria has several opportunities to increase access to education and reduce the number of OOS children. First, there is a strong government commitment to basic education at the federal level and in many states. The UBE program, UBEC intervention fund, and the executing agencies UBEC and state universal basic education boards provide a foundation to refine and scale up the programs aimed at reducing the number of OOS children. Recently, the Nigeria Governors' Forum has shown a strong interest in the use of performance-based financing modalities, which can be adapted to allocate UBEC funds and achieve improved results and effectiveness.

Leadership, institutional and financing reforms must be the cornerstone of a successful strategy. A high level of sustained political commitment is indispensable to catalyzing change. Nigeria also needs to improve its institutional scaffolding so that multiple stakeholders can better coordinate to achieve the common goal of reducing the number of OOS children. Additionally, Nigeria would benefit from rethinking financing mechanisms to increase funding for basic education and the efficiency of expenditures. The current structure provides guaranteed funding for non-salary expenditures under the UBEC fund, but it also presents multiple challenges in terms of equity across states and efficiency. In summary, better leadership, governance, and financing are enabling pillars to maximize the impact of interventions on both the demand and supply side.

Tackling supply-side constraints

Nigeria needs to continue expanding the availability and accessibility of schools. As mentioned in the second spotlight of this report, building schools produces

gains in access and learning outcomes (Ingwersen et al. 2019, Deschenes 2019), and has a positive impact on employment prospects and wages in the long run (Duflo 2001; Akresh, Halim, and Kleemans 2021). The country can benefit from geo-referenced data on the location of current schools to optimize the location of new ones.

Improving access to basic education will require bringing early-grade primary schools closer to communities to encourage the enrollment of young children and establishing more JSS to prevent dropout after grade 6. Dropouts could be contained by using the existing infrastructure of primary schools to provide junior secondary education in locations where there are no secondary schools. Improving infrastructure in existing schools, by adding on to or renovating dilapidated classrooms, is also critical for improving learning conditions.⁸¹ Notably, it is estimated that Nigeria would have to spend US\$2.5 billion to build classrooms to accommodate all OOS children aged 6–15. Another essential step is improving access to Early Childhood Development Education programs for vulnerable children from poor families, who are otherwise more likely to not attend school or to join Almajiri centers.

It is crucial to ensure safety in and around schools. In addition to the creation of safe learning spaces mentioned in the previous spotlight, the development of early-warning systems and the implementation of the Safe Schools Declaration and the recently approved Implementation Guidelines for National Policy on Violence-Free Schools are key measures as part of a gradual process. Additionally, schools can be leveraged to reduce violence in the medium term, and after-school programs can help reduce the probability of children being recruited by criminal or extremist organizations (World Bank, forthcoming).

⁸¹ School infrastructure has been linked to increased enrollment rates, retention rates, and equity (Barret et al., 2019). Prioritizing wash, sanitation and hygiene (WASH) infrastructure and separate toilets for girls can increase adolescent girls' attendance rates. Evidence from Niger shows that a program that constructed schools with separate latrines for boys and girls, a water source, and housing for female teachers in rural areas increased school enrollment by 8.3 percentage points, decreased absences of more than two consecutive weeks by 7.9 percentage points, and had a larger impact for girls than for boys (Bagby et al. 2016).

For those who are not in formal education but attend Islamic schools, a different set of interventions is appropriate. Introducing content from the official curriculum—especially basic literacy and numeracy—into Qur’anic schools can make a strong impact. This strategy can be pursued via different formats, including “integration” of Qur’anic and secular education within the same schools, as well as “articulation”, with children spending some time in Qur’anic schools or informal learning centers to cover the official curriculum in an accelerated fashion (World Bank, 2021). The Better Education Service Delivery for All (BESDA) program, for instance, has been supporting government efforts to provide children with a non-formal basic literacy curriculum, by deploying teachers, offering learning materials and other forms of support.

Finally, it is key to rely on communities to expand the supply of education services. There is strong global and regional evidence on how communities can play a key role in creating and managing schools to reduce the number of OOS children. Sahel countries such as Chad, Mauritania, and Mali have shown that communities can be empowered to manage schools that government services cannot reach.

Addressing demand-side constraints

Easing supply-side constraints will not be enough to tackle the issue of OOS children in Nigeria. Constraints that lead to lower demand for schooling are equally important. On the demand side, it is essential to reduce the cost of education. For example, reducing out-of-pocket expenses on education for children attending government schools, through the elimination of school and exam fees and free distribution of textbooks, will have a positive effect on enrollment and completion rates among children from poor

households. Eliminating fees has also shown additional benefits, such as reduced adolescent marriage and pregnancy and increased employment and financial inclusion (Moussa and Omoeva 2018; Ajayi and Ross 2020; Boahen and Yamauchi 2017).

Properly designed cash transfers or student stipends have been proven effective, when they constraint is the opportunity cost from school attendance.⁸² World Bank-supported projects, such as the Adolescent Girls Initiative for Learning and Empowerment (AGILE), plan to deliver cash transfers for vulnerable adolescent girls in select states. State and federal governments implement such programs in a systematic manner.

Shifting socio-cultural norms is also key for easing non-monetary demand-side constraints, as stated in the first pillar of the solutions proposed under the previous spotlight. This requires the active participation of religious and traditional community. Large-scale multimedia campaigns that use lessons from behavioral science can be complemented with information campaigns about the income-earning benefits of education and the quality of local schools, which are among the most cost-effective interventions to increase education access (World Bank, 2020). In summary, Nigeria would benefit from expanding the range of interventions and scaling up successful efforts, while strengthening governance structures and financing mechanisms for education. Impactful interventions can be adapted from the forthcoming Africa West and Central Regional Education strategy (World Bank, forthcoming).

Reducing the number of out-of-school children and adolescents and the efforts to harness a demographic dividend cannot be considered in silos. Increasing access to schools, with a focus on adolescent girls is one of the key priorities to accelerate the demographic

⁸² Randomized evaluations consistently find that reducing the out-of-pocket cost of schooling or instituting subsidies increases school participation, often dramatically (e.g., Glewwe & Olinto, 2004; Maluccio & Flores 2005; Schady & Araujo 2006; Fiszbein & Schady, 2009). Some studies also show effects on secondary education in countries in West Africa (Blimpo et al., 2016), Ghana (Duflo et al., 2021), and East Africa (Brudevold-Newman, 2019; Masuda et al., 2019). The design of these interventions is as important as their existence. For instance, deferring payment of conditional cash transfers to coincide with the time when fees are required for the next level of education has a greater impact on subsequent enrollment than evenly spaced transfers throughout the year (Barrera-Osorio et al. 2007).

changes that can bring a demographic dividend. Thus, the recommendations that are part of the two spotlights of this report need to be part of a systematic strategy. Building coalitions to increase demand for education, as well as partnerships with stakeholders from communities, the civil society, development organizations, and the private sector is essential to achieving a coordinated approach and providing access to education for every Nigerian child.

<i>Why Reforms Are Needed</i>	<i>Which Reforms Are Critical</i>	<i>What Impact these Reforms Could Have</i>
<ul style="list-style-type: none"> About 43 percent of primary, 60 percent of JSS and 64 percent of SSS students in government schools report paying examinations fees. About 23 percent of primary, 47 percent of JSS, and 52 percent of SSS students in government schools report paying at least some tuition or school fees. 	<ul style="list-style-type: none"> Reduce out-of-pocket expenses for education in government schools. 	<i>Positive effect on enrollment and attendance rates. Reduced adolescent marriage and pregnancy, and increased employment and financial inclusion.</i>
<ul style="list-style-type: none"> In northern Nigeria, widespread socio-cultural norms such as child marriage leads to teen pregnancies and a decline in school attendance and performance. 	<ul style="list-style-type: none"> Shift social norms through appropriate public campaigns. 	<i>Increased attendance rates and reduced child marriages and early pregnancies.</i>
<ul style="list-style-type: none"> About 23 percent of rural school-age children who have never attended school mention the absence of schools nearby as the main reason for their lack of education. 	<ul style="list-style-type: none"> Expand the availability and accessibility of schools, including through non-public provision with public funding (communities), and optimize the location of new schools using geo-referenced data. 	<i>Increased enrollment rates, retention rates, and equity.</i>
<ul style="list-style-type: none"> About 50 percent of all primary classrooms and 40 percent of all JSS classrooms are dilapidated. 	<ul style="list-style-type: none"> Improve school infrastructure, including WASH facilities. 	<i>Increased retention rates and better learning conditions.</i>
<ul style="list-style-type: none"> School closures due to safety issues impacted an estimated 1.3 million children in the 2020/21 academic year. 	<ul style="list-style-type: none"> Ensure safety in and around schools. 	<i>Increased enrollment and attendance rates.</i>
<ul style="list-style-type: none"> 23 percent of OOS children attend traditional Islamic learning centers outside the formal school system. 	<ul style="list-style-type: none"> Integrate secular and religious education and include communities in school management. 	<i>Increased enrollment in formal education and better learning outcomes on foundational skills.</i>
<ul style="list-style-type: none"> Financing for basic education is inadequate and insufficient. 	<ul style="list-style-type: none"> Increase budget allocation to basic education. Institute policies to improve efficiency and equity in funds allocation, including institutional reforms. 	<i>Improvement in adequacy of financing of education. More equitable and efficient distribution of UBEC funds to states.</i>
<ul style="list-style-type: none"> Decision-making in education is fragmented. 	<ul style="list-style-type: none"> Promote institutional mechanisms for a whole-of-government approach to education. 	<i>Better performance of education interventions.</i>

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Nigeria: Key Economic Indicators

Economy	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Real GDP Growth (% yoy)	2.7	-1.6	0.8	1.9	2.2	-1.8	3.6	3.4	3.2	3.2
Nominal GDP (Naira tr)	95	103	115	129	146	154	176	203	235	265
Oil Production (mb/d)	2.1	1.8	1.9	1.9	2.0	1.8	1.6	1.6	1.7	1.7
Oil Price (Bonny light, US\$/bbl)	54	45	55	72	65	41	66	85	75	75
Inflation (% , average)	9.0	15.6	16.5	12.1	11.4	13.2	17.0	15.5	13.5	11.0

Real sectoral growth (% , yoy)	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Real GDP Growth	2.7	-1.6	0.8	1.9	2.2	-1.8	3.6	3.4	3.2	3.2
Agriculture	3.7	4.1	3.4	2.1	2.4	2.2	2.1	3.2	2.5	3.0
Industries	-2.2	-8.9	2.1	1.9	2.3	-5.8	-0.5	1.9	3.2	3.0
Industry-Oil	-5.4	-14.4	4.7	1.0	4.6	-8.9	-8.3	-1.3	3.1	1.2
Industry-NonOil	0.1	-5.0	0.6	2.4	0.9	-3.9	4.4	3.6	3.3	3.9
Services	4.8	-0.8	-0.9	1.8	2.2	-2.2	5.6	4.0	3.6	3.4

Oil GDP	-5.4	-14.4	4.7	1.0	4.6	-8.9	-8.3	-1.3	3.1	1.2
Non-Oil GDP	3.7	-0.2	0.5	2.0	2.1	-1.3	4.4	3.7	3.2	3.4

Source: NBS and World Bank estimates.

External Sector	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Exchange rate - official (N/US\$, end of period)	197	305	306	307	307	380	413	-	-	-
Exchange rate - parallel (N/US\$, end of period)	267	490	363	363	362	465	570	-	-	-
Real effective exchange rate index (end of period)	67	86	99	87	79	79	-	-	-	-
Current Account Balance (%GDP)	-3.2	1.3	3.4	1.6	-3.3	-3.8	-0.4	2.8	1.8	0.9
Exports of Goods and Services (US\$ bn)	49.0	38.4	50.8	66.0	69.9	39.9	50.9	63.2	62.6	60.9
o/w oil and gas exports (US\$ bn)	42.4	32.0	42.3	56.6	54.5	31.4	45.1	52.6	51.3	48.8
Imports of Goods and Services (US\$ bn)	71.9	47.0	50.9	71.6	100.8	72.2	66.1	69.3	72.7	76.2
Net transfers (including remittances) (US\$ bn)	20.2	19.9	22.0	24.1	26.4	21.0	22.0	25.3	26.0	26.6
Net Direct Investment (US\$ bn)	1.6	3.1	2.1	0.2	2.0	0.1	1.5	1.6	1.6	1.7
Net Portfolio Investment (US\$ bn)	0.9	1.9	10.3	0.0	3.1	-3.6	5.9	2.9	2.8	3.5

External Reserves (US\$ bn, end of period)	29	26	39	43	39	35	41	48	51	51
Equivalent months of imports of G&S	5	7	9	7	5	6	5	5	5	5

Source: CBN, FMDQ, Nairametrix and World Bank estimates

Monetary and Financial Sector (% change yoy, end of period, unless indicated otherwise)	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Money Supply (M2)	5.9	17.8	2.3	12.1	6.3	31.0	15.6	-	-	-
Narrow Money	24.1	31.5	-0.9	5.2	-10.4	51.7	17.6	-	-	-
Net Foreign Assets	-18.7	61.8	69.6	18.5	-68.5	26.4	-22.9	-	-	-
Net Domestic Credit	12.1	24.3	-3.5	6.3	31.2	17.6	18.9	-	-	-
Credit to Government	152.0	68.6	-25.4	33.7	94.9	30.8	34.6	-	-	-
Credit to Private Sector	3.3	17.4	1.4	1.9	17.6	12.9	13.8	-	-	-
Monetary policy parameters:						...				
Monetary Policy Rate (absolute rate, end of period)	11.0	14.0	14.0	14.0	13.5	11.5	11.5	-	-	-
Liquidity Ratio (absolute rate, end of period)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	-	-	-
Cash Reserve Requirement (absolute rate, end of period)	20.0	22.5	22.5	22.5	22.5	27.5	27.5	-	-	-
Financial Market Indicators (end of period)										
Stock Market (NSE) Index	28,642	26,875	38,243	31,431	26,842	40,271	41,815	-	-	-
Fitch Sovereign Long Term Foreign Debt Rating	BB-	B+	B+	B+	B+	B	B	-	-	-
Moody's Sovereign Long Term Foreign Debt Rating	Ba3	B1	B2	B2	B2	B2	B2	-	-	-
S&P Sovereign Long Term Foreign Debt Rating	B+	B	B	B	B	B-	B-	-	-	-

Source: CBN, NGX, FITCH, Moody and S&P.

Nigeria: General Government Fiscal Summary - preliminary										
Actual (%GDP)	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Total revenues	7.5	5.9	6.8	8.2	7.4	6.5	6.5	5.7	6.7	7.0
Federally collected	6.4	4.8	5.4	6.6	5.9	5.2	5.0	4.5	5.5	5.8
Oil and gas revenues	3.2	1.6	2.3	3.6	3.0	2.0	1.8	1.3	2.3	2.6
Non-oil revenues and other revenues	3.2	3.1	3.1	3.0	2.9	3.1	3.2	3.2	3.2	3.2
Independent and other revenues	1.1	1.2	1.4	1.6	1.5	1.4	1.5	1.2	1.2	1.2
Total expenditure	10.7	9.7	10.8	11.9	12.0	11.9	13.0	11.5	11.0	10.8
Overall balance (general government)	-3.2	-3.8	-4.1	-3.6	-4.6	-5.4	-6.5	-5.8	-4.3	-3.8
Public Debt (net)	14	19	22	26	28	33	35	36	38	39
Domestic debt	12	16	17	20	22	25	26	26	28	29
External debt	2	3	5	6	6	8	9	10	10	10

Nigeria: Federal Government Fiscal Accounts - preliminary										
Actual (%GDP)	2015	2016	2017	2018	2019	2020	2021	2022f	2023f	2024f
Total Revenue	2.7	2.0	2.4	3.0	2.8	2.2	2.4	1.9	2.3	2.4
Share of federally collected revenues	2.3	1.5	1.8	2.4	2.3	1.7	2.3	1.8	2.0	2.1
Oil, Gas and Mineral Revenue (incl. signature bonus)	1.5	0.7	1.0	1.5	1.4	0.9	1.2	0.5	1.0	1.1
Non-Oil Revenue	0.9	0.8	0.8	0.9	0.9	0.8	1.1	1.3	1.0	1.0
FG Independent revenues and grants	0.4	0.5	0.6	0.6	0.5	0.5	0.1	0.3	0.3	0.3
Total Expenditure	5.0	4.7	5.7	6.1	6.9	6.6	7.4	6.7	6.5	6.5
Recurrent Expenditure	4.4	3.9	4.4	4.7	5.2	5.4	5.0	5.0	5.0	5.0
Personnel Cost (including Pensions)	2.2	1.8	1.8	1.8	1.8	2.1	2.0	1.8	1.6	1.5
Overhead Cost	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Other recurrent (incl. COVID-19 intervention and power sector)	1.0	0.7	1.1	1.0	1.5	1.0	0.8	1.0	1.0	1.0
Interest payments	1.1	1.2	1.4	1.7	1.7	2.2	2.0	2.1	2.3	2.4
Capital Expenditure (incl. COVID-19 intervention)	0.6	0.7	1.2	1.5	1.7	1.2	2.4	1.3	1.2	1.1
Overall Fiscal Balance	-2.2	-2.7	-3.3	-3.1	-4.1	-4.4	-5.0	-4.4	-4.2	-4.1

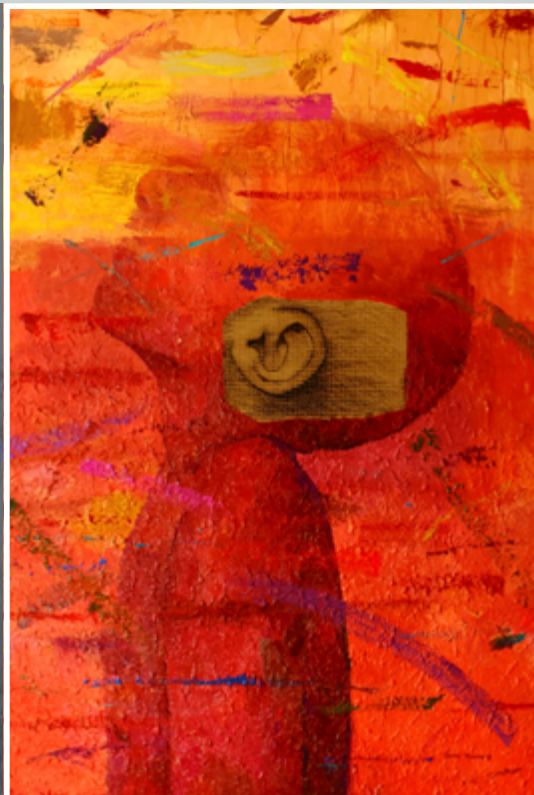
Source: National authorities and World Bank estimates.

Notes: The reported revenue and fiscal balance figures differ from the published FGN budget figures as the World Bank excludes the non-revenue items under international classification. Figures exclude GOEs.

Nigeria Development Update

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Transition *by Jimmy Nwanne*

Jimmy Nwanne is a Nigerian artist who lives and works in Kaiserslautern, Germany. Born in Kaduna, Nigeria, he studied Fine Arts with Painting as his major at Nnamdi Azikiwe University in Awka, Nigeria. Whether as portraiture or composition, Nwanne's works look at the relationship between life, identity and migration. The freedom to make a composition, a portraiture, by rearranging the natural place of something into another, in order to communicate an idea is what is usually being explored. His solo exhibition is slated for 11th of June to the 12th of July 2022 at SACHS Gallery in Lagos, Nigeria.

His work, *Transition*, speaks to the two dimensions man can experience as a being; the physical and the incorporeal. The focus is on one's self-awareness, ability; desire and will to transcend material sense to the sixth sense (the soul), aligning one's consciousness with the universe rather than submitting one's consciousness consciously or unconsciously to the will of the external world.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from Nigeria.