

MOVING TOWARD A MIDDLE-CLASS SOCIETY

NIGERIA ON THE MOVE: A JOURNEY TO INCLUSIVE GROWTH



NIGERIA SYSTEMATIC
COUNTRY DIAGNOSTIC JUNE 2019





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GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Official Exchange Rate Effective as of September 30, 2019

Currency Unit = Nigerian Naira (NGN)

USD\$1=N361

WEIGHTS AND MEASURES

Metric System

ACRONYMS and ABBREVIATIONS

CBN	Central Bank of Nigeria
ERGP	Economic Recovery and Growth Plan
ERGP	Economic Recovery and Growth Plan
FAO	Food and Agriculture Organization
GDP	gross domestic product
GHS	General Household Survey
HNLSS	Harmonized Nigeria Living Standards Survey
IFC	International Finance Corporation
LSMS	Living Standards Measurement Study
NPC	National Population Commission
SCD	Systematic Country Diagnostic
SME	small and medium enterprise
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
WDI	World Development Indicators

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EXECUTIVE SUMMARY

Frequently referred to as the Giant of Africa, Nigeria is growing slower than its population and large numbers of people are poor. With gross national income per capita of US\$2,100 (in 2017; Atlas method, WDI), Nigeria is classified as a lower-middle-income country. It is richly endowed, has a relatively young, rural, and multiethnic population, and accounts for the largest economy and population in Africa. It has the potential to become an economic powerhouse through the effective management of its abundant resources, including plentiful agricultural land, marine fisheries, hydropower, oil and gas, unexploited deposits of minerals and metals, a young labor force, and a strong entrepreneurship culture. One-fifth of the population is in the middle class. However, significant poverty persists despite the government's effort to reduce the high poverty rate. Measured according to the US\$1.90-a-day per capita purchasing power parity poverty line, it is estimated that 42.8 percent of Nigeria's population was living in extreme poverty in 2016. Poverty has been rising in rural areas and in the northern zones, while the situation in the southern zones has generally been improving. Nigeria needs more inclusive economic growth, so more people can exit from poverty, and the country can evolve into a society with a sizable middle class, a viable social contract between the government and the people, and peace and prosperity across the nation.

A key development challenge in Nigeria revolves around economic growth, which has had a limited impact on reducing poverty and building shared prosperity. The realization of inclusive growth is the underlying objective of the government's economic program, the Economic Recovery and Growth Plan (ERGP). To achieve more inclusive growth and reduce poverty, the government and people of Nigeria must meet the challenges of creating opportunities for gainful employment for the growing population and enhancing human capital to take advantage of these opportunities. This calls for private sector-led growth, combined with a more active government role in human capital investment. Cognizant of this, the government has set job creation and human capital development among its development priorities. To foster inclusive growth, it will need to intensify its efforts to address the sources of the country's fragility by adopting measures to improve security, social inclusion, public service delivery, and the sustainable use of natural resources, while continuing to undertake initiatives to realize greater transparency and eliminate corruption.

This Systematic Country Diagnostic (SCD) examines the challenges the government and people of Nigeria face in achieving the twin goals of poverty reduction and shared prosperity. It identifies key constraints and presents possible pathways for moving forward. Reflecting the multifaceted nature of the development challenges in Nigeria, the list of constraints is rather long. Based on available evidence and feedback gained through stakeholder discussions, 10 key constraints have been identified. The SCD examines these within a framework that posits productive people, dynamic enterprises, and sustainable assets as the pillars of the foundational conditions for generating inclusive growth. These are part of a sound macrofiscal framework for addressing the constraints that depends on strong governance and institutions (table ES.1). The SCD establishes the priorities and links among these 10 constraints and proposes four possible pathways to tackle the constraints. The four pathways are (1) *breaking oil dependency*, (2) *building human capital to bridge the north-south divide*, (3) *promoting private sector-led growth*, and (4) *rebuilding social contracts* (table ES.2).

Table ES.1. Key Constraints	
<i>Sound macrofiscal framework</i>	High dependency on oil for government revenues and export earnings creates economic instability
<i>Strong governance and institutions</i>	Lack of good governance, including federal-state coordination, transparency, and accountability, undermines the successful delivery of public services
<i>Productive people</i>	Continued internal conflicts undermine development and security
	Demographic pressure erodes the benefits of economic growth and exacerbates social instability
	Low human capital outcomes, particularly in the north and rural areas, increases regional inequities
<i>Dynamic enterprises</i>	Difficult access to land and technology condemns agriculture to low productivity
	Administrative barriers and limited financial intermediation impede nonfarm small and medium enterprise (SME) development
	Limited domestic, regional, and global integration constrains firm productivity
<i>Sustainable assets</i>	Infrastructure gaps limit market development
	Environmental degradation and climate change impose costs on people and businesses

Table ES.2. Pathways
I. Breaking the oil dependency
II. Building human capital to bridge the north-south divide
III. Promoting private sector-led growth
IV. Rebuilding social contracts

The Nigerian economy is dependent on oil through direct and indirect channels, despite the diminishing contribution of oil to growth. The share of oil and gas revenues in gross domestic product (GDP) has been steadily declining and is only about 10 percent today. Nonetheless, oil and gas still account for about 90 percent of Nigeria's exports and about half of consolidated government revenue.¹ The oil price shock of late 2014 and the aftermath pushed the economy into recession in 2015 and 2016 and precipitated a major federal and state budgetary crisis. It decreased Nigeria's already low government revenue and expenditure to alarmingly low levels in 2016 and a fraction of the levels in any peer country. In addition to this direct impact, oil has spillover effects on non-oil sectors through the dependence of public administration on oil revenue and through the wealth effects of oil on non-oil investments. This makes Nigeria's balance of payments and government budget vulnerable to swings in oil prices. Growth and investment have been negatively affected by repeated oil-price-driven boom-and-bust cycles. While stronger non-oil growth of the Nigerian economy has been a positive development, non-oil revenue must expand if the government is to sustain even the current low level of public investment.

¹ Oil and gas revenues nonetheless constitute over 70 percent of federally collected revenues; that is, revenues collected centrally and paid into the federation account for distribution to the three tiers of government.

Formal and informal institutional arrangements shape all aspects of Nigeria's development trajectory.

As highlighted by *World Development Report 2017: Governance and the Law* (World Bank 2017a), policy making is shaped by the political and social processes through which individuals and groups with unequal power interact as they pursue conflicting interests in an evolving environment. The complex political economy is a challenging backdrop for federal-state coordination. It is affecting the quality of public service delivery and shaping the avenues of transparency and accountability. The lack of transparency and accountability is providing space for corruption. The weaknesses in the social contract between the government and the people mean that citizens have low expectations in their interactions with the state and tend not to seek or demand broadbased public good, and these weaknesses are undermining the incentives for domestic revenue mobilization. The resulting revenue shortfalls and inadequate human capital investments represent constraints on the development of strong human capital and a productive labor force. They also influence the interactions of the federal and state governments with the private sector and the regulatory responses of these governments in seeking to foster open, competitive markets and dynamic enterprises. They likewise represent constraints on the development of sustainable assets, especially private financing for public infrastructure, which requires the strong commitment of the federal and state governments.

Internal conflicts create violence, insecurity, and fragile situations. Though only some regions are affected by conflict and violence, the impacts are felt throughout the country. Nigeria ranks in the bottom 10 percent of all countries in political stability and the absence of violence and terrorism, according to the Worldwide Governance Indicators and the global peace index.² There are currently four geographies of conflict in Nigeria: the North East, the Niger delta, the Middle Belt, and the urban crucible. The conflict in the North East has affected nearly 15 million people and set back an already lagging region by disrupting public services, infrastructure, and economic activity. Across the six states of the North East, infrastructure damage has been quantified at US\$9.2 billion, and the accumulated output losses have been put at US\$8.3 billion (World Bank 2017b). Conflict also creates immeasurable, but significant damage through human capital losses, with long-term consequences. Thus, access by youth and children to education, skills training, and health care has been severely affected by internal conflict.

High population growth rates and demographic pressures pose challenges to the government's efforts to reduce poverty through various channels.

The fertility rate of 5.5 children per woman is well above the rates in regional and structural peers. The demographic structure of the household is significant in defining the poverty status of an individual. Because larger households tend to invest less in education per child and experience reduced access to health care, clean water, and sanitation, larger household size tends to be associated with reduced overall human capital growth. The population ages 15–64 (the working-age population) is projected to grow by 35 million—an annualized rate of 2.9 percent—over the next decade.³ The number of new jobs needed over the period is estimated at about 20 million based on current labor force participation rates. Demographic pressures and rapid urban growth in northern and central Nigeria may also exacerbate conflict. Most households in the north are dependent on agriculture or livestock for

² See IEP (2018); WGI (Worldwide Governance Indicators) (database), World Bank, Washington, DC, <http://info.worldbank.org/governance/wgi/index.aspx#home>.

³ World Bank Databank population estimates and projections.

their livelihoods and fuelwood for their domestic energy, and a rapid rate of population growth is likely to continue to intensify the competition for land, water, and forest resources. Without jobs, there is a risk of social instability, especially in urban areas. To ensure that cities do not become dominated by vast slums, people will need access to basic infrastructure, especially clean water and sanitation, roads, electricity, and affordable housing.

Although the federal government has achieved progress in health, education, and safety nets over the last decade, Nigeria still faces human capital challenges, especially in rural areas in the north. Health indicators are poor given Nigeria's level of wealth. The stunting rate, infant and under-5 mortality rates, and maternal mortality ratio are among the highest in the world, while life expectancy is among the lowest. One Nigerian under-5-year-old in three is chronically malnourished, according to the 2018 Nigerian Nutrition and Health Survey. Water and sanitation services are scarce throughout the country, with a few local exceptions, such as Abuja, and the poor and rural areas have less access. In Nigeria, only one-third of the bottom 40 percent of the income distribution (the bottom 40) have access to improved water, and only half have access to improved sanitation. Nigeria lags in adult literacy and school enrollment rates, indicating that the human capital stock is smaller in Nigeria than in peer countries. Half of Nigerian adults ages 15–49 are illiterate, many of them women. The acquisition of skills thus becomes more difficult, reducing the prospects for gainful employment, that is, a job that pays a living wage and allows individuals to support their families.

A rapidly growing population and scarce opportunities for gainful employment represent a mounting challenge in Nigeria. Between 2011 and 2016, the labor force grew by 20 percent, but the share of workers fully employed declined from 78 percent to 66 percent, while unemployment and underemployment grew.⁴ Many low-income households are trapped in low-productivity subsistence activities, primarily in agriculture or self-employment in services and industry. Given the variability of agriculture and self-employment earnings, a significant share of the population moves in and out of poverty. Wage employment in industry is low, though Nigeria has the largest installed manufacturing base in West Africa. General Household Survey (GHS) data of 2011 show that 10 percent of the working-age population is employed in wage jobs, and 54 percent are employed in government. Despite the country's strong entrepreneurial culture, the business environment does not foster a dynamic private sector. Nigeria ranks 146th globally on the doing business index, and the key areas of weakness relate to the poor quality of government services as well as infrastructure, such as the unreliable supply of electricity.⁵ The shortage of productive jobs not only prevents poverty reduction, but also poses threats to peace.

There are large gender gaps in Nigeria across human capital, economic empowerment, and voice and agency. These gaps tend to be more pronounced in the north because of weak social norms, fragility, conflict, and violence. Gender gaps in basic and secondary education are particularly pronounced. Although the gap is closing in the south overall, more girls than boys are out of school (32 percent versus 28 percent, respectively),

4 World Bank estimates based on General Household Survey (GHS) 2011 and 2016.

5 See Doing Business (database), International Finance Corporation and World Bank, Washington, DC, <http://www.doingbusiness.org/data>.

and average completion rates in primary, junior secondary, and senior secondary school are consistently lower among girls than boys by about 4–5 percentage points (FEM 2017; World Bank 2015a). Women farmers in Nigeria produce considerably less than men per hectare. In northern Nigeria, the gender gap in agricultural productivity is 28 percent because of women's lower access to factors of production and the lower returns to these factors. Woman-owned enterprises tend to be small, informal, and less profitable. While over 50 percent of firms are woman-owned, these firms largely involve self-employment. The monthly profits of woman-owned small and medium enterprises (SMEs) are 52 percent lower than those of the SMEs of men (World Bank 2018a). Men are twice as likely as women to have wage employment when working. Only about 4 percent of women receive wages for their work versus 8 percent of men, and women earn about 76 percent of men's earnings for similar work.⁶ Women often have less power than men in household decision making. Data of the Demographic and Health Surveys show that almost half of all women do not make decisions on their own health care, major household purchases, or visiting family members (NPC and ICF International 2014).

Nigeria's agricultural sector is largely uncompetitive, even though it is the third largest sector in the economy. The agriculture sector accounts for 22 percent of GDP and over 70 percent of Nigeria's population is engaged in some aspect of agricultural production.⁷ The government's objective is to develop a sustainable agricultural sector by increasing agricultural productivity, achieving self-sufficiency in food production, ensuring balanced nutrition, creating gainful employment, reducing rural poverty, and generating foreign exchange earnings. However, over the past 20 years, value added per capita in agriculture has risen by less than 1 percent annually, and yields are significantly below potential, especially in the main staple crops. Farms in Nigeria are small (80 percent are less than 5 hectares), reliant on rain rather than irrigation, and use minimal tools or machines. Farmers have limited access to improved inputs and technologies. Agricultural value chains are underdeveloped because of poor infrastructure, inefficient land markets, constrained access to finance, the unpredictable policy environment, and the dearth of market information. Land administration remains a severe stumbling block for the development of the agricultural sector. It is a source of land disputes and intercommunal violence in some areas, and it keeps rural people attached to small-scale subsistence farming. It often leads to limited access to technologies in agricultural production, limited links between farmers and markets, and limited access to financing.

The prospects in job creation depend on more private sector-led growth, but the business environment remains challenging in Nigeria, especially among smaller enterprises. The economy is characterized by three conditions that make markets highly susceptible to anticompetitive practices: (1) highly concentrated markets, with a small number of dominant firms with significant market share; (2) high barriers to entry, some of which are created by the conduct of dominant firms, and some of which are inadvertently imposed through government regulations; and (3) limited exposure to foreign competition because of trade barriers. The lack of competition in key sectors, such as construction materials, pushes up input prices and reduces the overall competitiveness of Nigerian firms, including smaller enterprises. Unstable electric power supply is another

6 See WEF (2017); LSMS-ISA, Nigeria (Living Standards Measurement Study–Integrated Surveys on Agriculture, Nigeria) (database), World Bank, Washington, DC, <http://surveys.worldbank.org/lsms/programs/integrated-surveys-agriculture-ISA/nigeria>.

7 The Agriculture Promotion Policy 2016–2020, Federal Ministry of Agriculture and Rural Development.

factor that negatively affects the competitiveness of Nigerian firms. Access to finance, especially among microenterprises and SMEs, and foreign exchange restrictions are among the issues that private sector firms find problematic. To fill the gaps in shallow domestic financial markets, the Central Bank of Nigeria (CBN) provides financing to selected projects. However, these interventions circumvent market mechanisms and are susceptible to anticompetitive practices. To foster private sector-led growth, government policies need to be calibrated to let market mechanisms function and foster sustainable growth, rather than seeking to engineer quick fixes, which may have negative long-term consequences. Because the prospects for job creation depend largely on smaller, newly established enterprises, government policies need to be geared to creating a level playing field so that these enterprises can compete with the established incumbents.

Limited national, regional, and global economic integration constrains the productivity of Nigerian firms. The total factor productivity of the manufacturing sector is between two and three times higher in Côte d'Ivoire, Ethiopia, and Ghana and almost five times higher in Kenya than in Nigeria. The restrictive exchange rate and trade policies adopted during the 2014–15 crisis have also aggravated the situation because they pose barriers against the sourcing of intermediate goods efficiently for local manufactures. Access to a wide range of affordable intermediate goods is necessary for firms to take advantage of scale economies, reduce production costs, and improve export competitiveness. With a more open trade policy, this access would foster more competition among firms and increase the overall productivity of the economy.

Nigeria faces large infrastructure financing gaps; especially the gaps in electricity and transportation infrastructure are affecting economic development. Access to energy is low. Approximately 80 million people lack access to electricity. Electricity supply is unreliable despite the transition from a publicly owned to a largely privately owned sector. Following the passage of the Electric Power Sector Reform Act (2005), Nigeria's power sector was unbundled; the privatization of distribution and generation companies was completed in 2013. The operational and financial situation of the electricity sector remains problematic because of weak governance and inadequate contract enforcement. The road network is extensive, but much of it is in poor condition, and large gaps exist, especially in rural areas, in connecting people to markets. In the context of rapid urbanization, investments in urban transportation and infrastructure will be necessary. The limited expansion of public transport as urban populations grow is a major constraint on the productivity of urban economic activities. It restrains access to economic and social opportunities, especially among the poor.

Nigeria is facing serious environmental degradation, which is eroding the natural resource base and threatening the country's development process. Land remains the rural poor's key asset, but land degradation is directly impacting livelihoods. Recent estimates indicate that about 90 percent of the total land area of the country is being affected by some form of soil erosion, ranging from sheet to rill and gully erosion, which are directly harming key systems and livelihoods. Land degradation and environmental insecurity are accelerating in the north, where an intersection of hotspots is leading to increasingly tenuous livelihoods. Water resources are abundant, but availability varies in space and time, and they are under pressure from human interventions. Water shortages, especially in the north, have occurred because of the

increased demand for irrigation, water supply, and energy generation. Environmental degradation harms not only agricultural productivity, but also regional peace and stability.

To overcome these challenges, the SCD identifies four possible pathways, which are complementary and can be implemented most effectively together, as follows:

Breaking the oil dependency will be a key pathway for reducing macroeconomic and fiscal risks and diversifying the economy. It calls not only for a robust countercyclical fiscal policy stance, but also for disciplined and clearly defined rules-based approaches and strong fiscal institutions that can resist political pressure. This will require changes in how federal and state governments interact in allocating budget resources. Intensifying the effort to raise revenues from a broader domestic tax base will be part of this pathway. This pathway will also require non-oil sectors to export more to reduce Nigeria's dependence on oil for hard currency earnings; it will likewise require changes in current trade and monetary policies.

Building human capital to bridge the north-south divide will be another key pathway to restore peace and reduce poverty. The lack of gainful employment opportunities is a key source of poverty and regional conflict. Building human capital will be increasingly important so that people across Nigeria can create and take advantage of opportunities. To make the best use of limited fiscal resources, this will require reforms in federal and state resource allocation, with a special focus on outcomes in education and health-related investments in the north. Developing a clear national minimum educational standard, improving the measurement of education and health outcomes, and linking the measures to fiscal transfers will be required in this effort. In addition to bridging the big gap between North and South, empowering women through investment in the education and health of girls, easing opportunities in the labor market, expanding reproductive rights, and improving women's voice and agency will be crucial to achieving success in this pillar.

Promoting a private sector-led growth is the third pathway. Continued efforts to improve the business environment, in combination with more open trade policy, will be necessary. Closing infrastructure gaps, especially in road connections and electricity supply, deepening domestic financial markets, and promoting integration in the regional and global economies are all parts of this pathway. The innovative use of digital technologies may enable Nigeria to overcome some of these challenges more quickly and cost-effectively. Intensified efforts to mobilize more private financing for public infrastructure investment will also be an integral part of this pathway. This will call for the government and the CBN's interventions to be designed to strengthen market mechanisms, stimulate more competition among firms, and create dynamic enterprises and markets.

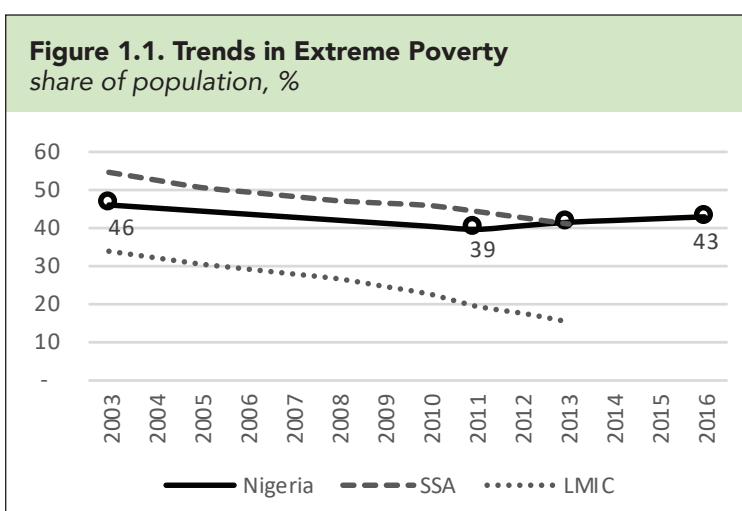
Rebuilding social contracts is the fourth pathway, which also serves as a precondition for the other three pathways. Improved security, the greater transparency and accountability of public investments, and better public service delivery are among the building blocks for strengthening social contracts between the government and the people. Improvement of the management of natural resources, such as oil and gas, land regulations, cooperation with neighboring countries to address conflicts and violence, especially in the Lake Chad region, and supporting the people who are affected by conflicts, especially women and children, will be integral parts of this pathway.

COUNTRY CONTEXT

Frequently referred to as the giant of Africa, Nigeria is growing slower than its population and large numbers of people are poor. Of the roughly 600 million people who live in extreme poverty globally today, more than 400 million live in Africa, and over 90 million live in Nigeria. As one of the world's most populous countries, Nigeria's prosperity has implications for Africa and the world. In Nigeria, by 2030, 120 million people (45 percent of the population) will be living on less than US\$1.90 a day, that is, they will be living in extreme poverty.⁸ Yet, Nigeria is not a poor country. It is large and richly endowed, and it has reached lower-middle-income status in per capita gross national income. A large gap exists between its achievements and its potential in economic development, social outcomes, and poverty reduction. To shed light on this gap, this chapter discusses (1) the poverty and social inclusion issues involved in both monetary and nonmonetary poverty, (2) economic growth performance, (3) the key challenges Nigeria faces in fostering more inclusive growth, and (4) vulnerability and sustainability issues.

Poverty and Social Inclusion

The extreme poverty rate is high in Nigeria; eliminating it by 2030 will be a challenge. Measured by the US\$1.90-a-day per capita purchasing power parity poverty line, 42.8 percent of Nigeria's population was living in extreme poverty in 2016 (figure 1.1).⁹ The performance of Nigeria diverged from that of other



Sources: WDI; World Bank 2016a, 2019a.

Note: Poverty rates are calculated as the share of the population living below the World Bank's international poverty line of US\$1.90 in purchasing power parity. Nigeria's poverty rates for 2003, 2011, 2013, and 2016 are computed from surveys; other years are imputed.

lower-middle-income countries, especially beginning in 2011. World Bank data show that the average extreme poverty rate for these other countries was 16 percent in 2013. Given the growth in recent years because of a rebound in the global economy, poverty in these countries is now likely to decrease, and the gap between Nigeria and the average across lower-middle-income countries will widen.

A sizable share of the population is vulnerable to falling into poverty, especially in the north. People's welfare status can change for reasons ranging from new economic opportunities to increased

expenses from a health emergency. According to findings of the 2015–16 General Household Survey (GHS), about half of households fell into poverty at some point during 2011–16, reflecting the high degree of

⁸ See World Poverty Clock (database), World Data Lab, Vienna, <https://worldpoverty.io>.

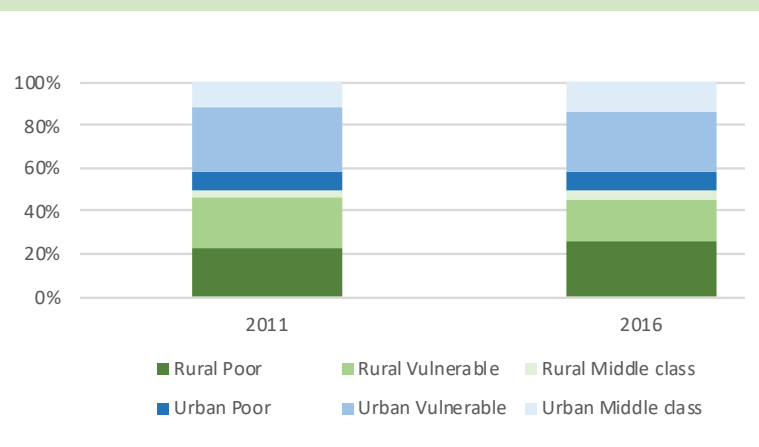
⁹ Rather than national poverty lines, the World Bank relies on an international poverty line to enable cross-country comparisons. Extreme poverty is measured using the US\$1.90-a-day per capita purchasing power parity poverty line. Given the lack of comprehensive and reliable census data, estimates for the number of people living in extreme poverty in Nigeria vary across surveys.

vulnerability of the population. During this period, 17 percent were chronically poor in all three waves of the survey; 55 percent of the population was in poverty at least once; and 45 percent were never poor. The frequency of upward and downward mobility (or churning) differs significantly by location. Mobility across the income distribution differs considerably in rural and urban areas and regionally. In the south, more than 70 percent of the population surveyed was not poor, while, in the north, the share of people who had never been poor was significantly lower, at 25 percent (World Bank 2019a).

Inequality and income polarization have been increasing.¹⁰ The Gini coefficient increased from 0.36 to 0.42 between 2011 and 2016 and is on the higher end relative to other middle-income countries. This trend of growing inequality differs from the downward trend in Sub-Saharan Africa (World Bank 2016b). The increase in inequality in Nigeria is occurring hand-in-hand with income polarization, that is, incomes are converging at the upper and lower ends rather than in the middle of the income distribution.¹¹ Wide polarization is associated with increased risk of social conflict and tension. In Nigeria, income polarization also has a regional dimension because incomes in the north and south are converging, respectively, toward a lower and a higher average income (Clementi et al. 2017).¹²

The size of the middle class in Nigeria has not grown appreciably. The middle class in Nigeria is defined as those households that are not poor and that face 10 percent or less probability of falling into poverty.¹³ The size of the middle class stagnated at around 21 percent of the total population between 2011 and 2016, with the majority of the middle class in urban areas (figure 1.2). Nigeria's middle class is comparable in size with Indonesia's, but smaller than that of Kazakhstan (44 percent in 2016), Mexico, Peru, and Chile (estimated at 55 percent in 2010) (Pittau and Zelli 2018).

Figure 1.2. Population Distribution, by Welfare Status
share of population, %



Source: World Bank calculations based on data of the 2015–16 General Household Survey.

Middle-class households differ from poor households in household structure, labor market characteristics, and assets. First, middle-class households are smaller. They include fewer children and exhibit a lower dependency ratio, explanatory factors of the higher number of working-age adults in middle-class

10 Inequality estimates are based on data of the 2010–11 GHS and 2015–16 GHS.

11 Apart from income dispersion, polarization involves convergence on local mean incomes, that is, people at the bottom of the income distribution converge toward a local mean income, while people near the top converge toward another, higher mean.

12 This SCD reflects a recognition of the diversity within Nigeria and disaggregates the analysis at the subnational level where possible. In political discourse, Nigeria is often divided into six regions, plus the Federal Capital Territory of Abuja. The six regions are North West, North Central, North East, South West, South South, and South East.

13 The thresholds associated with the poor, the vulnerable, and the middle class are estimated by Molini, Oseni, and Corral (2014).

households. For example, middle-class households have an average of 3.6 persons versus 7.7 persons in poor households. Second, though both the middle class and the poor exhibit similar rates of labor market activity, the poor work in low-productivity sectors (frequently, agriculture) and have lower educational attainment. For instance, household heads with secondary and postsecondary educational attainment are significantly more likely to be in the middle class relative to other economic categories. Third, middle-class households have a higher asset index, reflecting a higher share of ownership of household assets (such as refrigerators, air conditioning units, automobiles) and access to basic services (for example, piped water, improved sanitation, and electricity).

The poor are more likely to live in the north, in rural areas, and in large households and to have lower educational attainment (table 1.1; figure 1.3). Both location and the demographic structure of the household play a significant role in defining a person's poverty status. The risk of being poor is greater in the north irrespective of individual or household characteristics, perhaps indicative of fewer economic opportunities. Individuals with higher education have significantly lower chances of being poor, which reflects higher household incomes. Persons living in households with more children and elderly persons are also more likely to be poor because the earnings of the few working-age adults are needed to support the many dependents. Though men show a higher probability of being poor than women, individuals living in woman-headed households are more likely to be living below the poverty line. In addition, poor housing conditions and low asset ownership are correlates of poverty. Ownership of many consumer durables is strongly linked to not being poor. Individuals living in houses with improved roof and floor are more likely not to be poor.

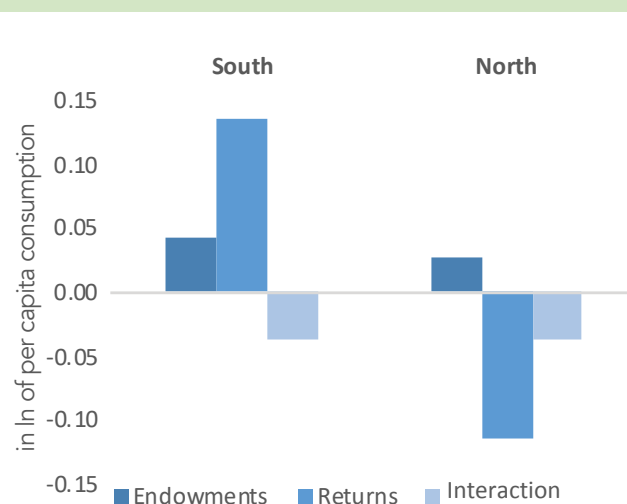
There are large gender gaps in Nigeria across the domains of human capital, economic empowerment, and voice and agency. These gaps tend to be more pronounced in the north.

Table 1.1. Selected Household Indicators, by Macrozones, 2011–16, %

	South		North	
	2011	2016	2011	2016
Children ages 0–6	11	13	18	20
Children ages 0–14	31	34	42	47
Adults	58	58	48	50
Education				
No education	16	13	44	42
Primary education	28	28	30	30
Junior secondary	11	10	8	7
Senior secondary	40	45	16	21
Tertiary education	15	17	7	8
Employment				
Employed	73	71	70	67
Unemployed	5	7	5	6
Not in labor force	33	35	31	34
Wage-employed	11	11	5	4
Farm-employed	24	21	30	30
Self-employed	38	39	36	34

Source: World Bank calculations using data of the 2010–11 and 2015–16 General Household Surveys.

Figure 1.3. Oaxaca Decomposition of Differences, Per Capita Consumption, 2011–16



Source: World Bank calculations using data of the 2010–11 and 2015–16 General Household Surveys.

- **Human capital.** Nigeria's fertility rate and maternal mortality ratio are among the highest in the world. Nigeria's maternal mortality ratio (814 deaths per 100,000 live births) exceeds ratios in regional comparator countries with lower per capita gross national income. The high fertility rate (5.5 births per woman) is a key contributing factor in poor maternal health outcomes. Gender gaps in basic and secondary education are particularly pronounced: more girls are out of school than boys (32 percent versus 28 percent, respectively), and completion rates of primary, junior secondary, and senior secondary school are, on average, consistently lower among girls than boys by about 4–5 percentage points.
- **Economic empowerment.** Women farmers in Nigeria produce considerably less per hectare than men because of lower levels of access to factors of production and lower returns to these factors. Woman-owned enterprises tend to be small, informal, and less profitable. Over 50 percent of all firms are woman-owned, but these firms largely involve self-employment. Monthly profits are 52 percent lower among woman-owned small and medium enterprises (SMEs) than among the corresponding man-owned SMEs. Men are twice as likely as women to have wage employment: only about 4 percent of women receive wages for their work versus 8 percent of men, and women earn about 76 percent of men's earnings for similar work.
- **Voice and agency.** There is a high incidence and acceptance of gender-based violence. Almost one-third of women and girls ages 15–49 report that they have experienced physical or sexual violence. Women have lower agency in household decision making. Data of the Demographic and Health Surveys show that almost half of all women do not make decisions on their own health care, major household purchases, or visiting family members (NPC and ICF International 2014). Nigeria ranks 118th among 134 countries on the gender equality index (British Council 2012; UNDP 2016).¹⁴ The emphasis placed on the childbearing and child raising roles of women affects the educational attainment of girls, especially secondary-school completion, and, consequently, the human capital of women and girls. The socioeconomic status of women and girls lags in the north relative to the south. Over two-thirds of girls in the north ages 15–19 are unable to read, compared with fewer than 10 percent in the south; in the north, only 3 percent complete secondary school, and 76 percent are married by age 18 in the North West (British Council 2012; NPC and ICF International 2014).

Impact of economic growth on poverty

The impact of economic growth on poverty reduction was weak in Nigeria during 2004–16.¹⁵ This can be measured using the growth elasticity of poverty which measures the change in poverty for every 1 percent increase in gross domestic product (GDP) per capita. Between 2004 and 2016, the elasticity in Nigeria was estimated at –0.5. This was well below the average of –1.1 in Sub-Saharan Africa and –2.0 in the rest of the world. For every 1.0 percent increase in GDP per capita, the poverty rate declined by only 0.5 percent, or less than one-quarter of a percentage point. This elasticity is among the lowest globally. Given

14 See also GII (Gender Inequality Index) (database), United Nations Development Programme, New York, <http://hdr.undp.org/en/content/gender-inequality-index-gii>.<http://hdr.undp.org/en/content/gender-inequality-index-gii>.

15 The growth elasticity of poverty is estimated using data of the 2003–04 Nigeria Living Standards Survey and the 2015–16 GHS.

that poverty in Nigeria is widespread and inequality is widening, the benefits of growth have only marginally accrued to the poor.

The population at the bottom of the income distribution have borne the brunt of recent anemic economic growth, resulting in rising poverty since 2011. Using the Nigerian national poverty line, the poverty rate grew from 35.0 percent to 38.8 percent during 2011–16, equal to an increase of 17 million in the number of poor persons. During this period, total GDP grew by 3.6 percent a year. Gains were significantly diluted by rapid population growth, such that annual GDP per capita growth was only 0.7 percent a year. However, GDP and household consumption growth are not the same. Total average per capita consumption growth was 1.2 percent, while the bottom 40 percent of the income distribution (the bottom 40), comparable with the poor, saw consumption fall by 1.4 percent during 2011–16.

Large and growing regional disparities in poverty suggest that economic growth may not have been evenly distributed. During 2011–16, the poverty rate in the north rose from 49 percent to 60 percent, while it fell in the south, to 11 percent, indicating growing divergence in incomes in the country. While state and zone GDP data are lacking, information on changes in consumption (a proxy for income) can be illustrative. Much of the population in the north saw declining consumption (except for the wealthiest 5 percent) unlike in the south, where even the poorest households experienced modest improvements in welfare. The lack of convergence in regional poverty rates may be indicative of low internal migration among the poor, but there is limited nationally representative data on this issue.¹⁶

Structural constraints on the translation of growth into poverty reduction

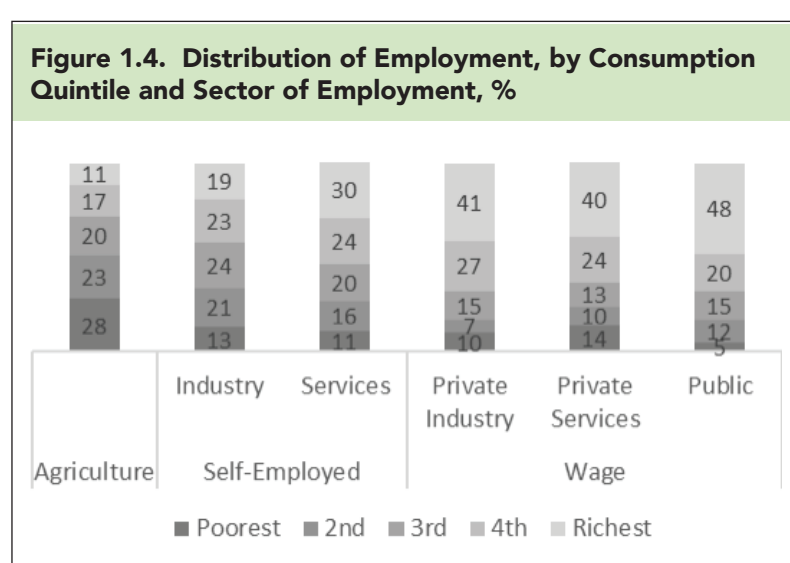
The economy created relatively few jobs, thereby preventing people from benefiting from growth. The main channel for escaping poverty and entering the middle class is through gainful employment, that is, a job that pays a living wage and allows individuals to support their families. Between 2011 and 2016, the labor force grew by 20 percent, but there was not a commensurate increase in employment opportunities (table 1.2). This adversely affected the poor and even the middle class because these groups are dependent on jobs for their livelihoods. Of a total 81 million in the labor force in 2016, one-fifth were underemployed (working less than full time), and 14 percent were unemployed. In 2011–16, the share of the fully employed declined from 78 percent of the total labor force to around 66 percent, indicating that economic growth was not accompanied by job creation. It appears that not only was the trend in welfare indicators disconnected from macrotrends, but job market conditions also worsened during the period.

¹⁶ Oyeniyi (2013) concludes that close to 70 percent of internal migrants moved from rural to urban areas. Almost two-thirds of respondents migrated for economic reasons and, sometimes, in search of better social services, such as education and health care. Most migrants found employment and better access to education and health facilities.

Table 1.2. Changes in Aggregate Labor Market Indicators

Indicator	Total labor force	Fully employed	Underemployed	Unemployed
Cumulative growth 2011–16, %	20	5	-32	180
Share in 2016, %	N/A	66	20	14
Contribution to the total change in the labor force, percentage points	N/A	3	6	11

Sources: World Bank estimates based on data of the National Bureau of Statistics.



Source: World Bank 2015a.

Little productivity improvement in the agriculture sector is a key reason for the persistence of high poverty rates.

Low skills are trapping the poor in low-productivity subsistence activities (World Bank 2015a) as are market and service delivery failures in electricity, insurance, and credit markets. The agricultural sector has a higher share of the poor relative to other sectors (figure 1.4). Agricultural employment has been rising as a share of total employment, from 30 percent to 48 percent by 2010–16, while agricultural production expanded an average of

2 percent a year.¹⁷ Structural transformation in agriculture has been slow. Low productivity of farm households and few opportunities in rural nonfarm labor markets are key reasons for the persistence of poverty in rural areas. Improving agricultural productivity is thus key to growth and poverty reduction, as well as the development of the nonfarm sector, such as food processing and retailing, in rural areas (FAO 2012). Low-income groups also work in industry and services, but in a self-employment capacity, which is usually an indication of low productivity and low pay. In contrast, the sectors that have seen expansion, such as telecommunication and pharmaceuticals, are mostly in urban areas, remain unequally distributed across zones, require high technical skills, and are not labor intensive or sufficiently large to absorb nonfarm labor and facilitate the structural flows from low- to higher-productivity industries.

Improvements in smallholder farmer productivity are hindered by structural and systemic constraints.

About 80 percent of farmers are smallholders, that is, they each have less than 5 hectares of land; but many smallholders (about half) have less than 1 hectare of land. Smallholders produce an estimated 90 percent of

¹⁷ While primary agriculture accounts for 48 percent of total employment, over 70 percent of Nigeria's population is engaged in some aspect of agricultural production. Because cultivated land has not expanded as dramatically, the increase in agricultural employment is likely to mean that hours of work per worker were reduced (data of the National Bureau of Statistics).

empowerment, social norms fostering higher fertility, and low contraceptive use.¹⁹ The persistence of high under-5 mortality rates and stunting also undermines growth because of the long-term implications of ill-health on cognitive development, productivity and the human capital stock. Reductions in under-5 mortality account for about 11 percent of recent economic growth in low- and middle-income countries.

Not enough jobs are being created for the youth, who are characterized by lower human capital relative to adults. The second-largest demographic group after children is youth ages 15–29, accounting for almost one-third of the total population. More than 8 young men and women in 10 are literate, but only 9 percent had postsecondary educational attainment in 2011–16, compared with 15 percent among adults. High literacy rates among youth have not translated into better jobs. Instead, youth exhibit the highest unemployment and inactivity rates; only one-third of all youth are employed. Among working youth, around 45 percent report that they are self-employed in nonfarm enterprises, and 42 percent are farmers. The latter share has grown over the years, reflecting the difficulties faced by young people in finding formal sector jobs. Between 2011 and 2016, the poverty rate among youth rose by 6.3 percentage points, while, among adults, the increase was 2.5 percentage points. This highlights the economic vulnerabilities faced by youth, which are manifest in a low level of readiness to enter the labor market with competitive skills.

Though Nigeria has been rapidly urbanizing, mobility constraints within cities and between cities and rural areas may slow the process and limit overall productivity gains and the expansion of the middle class. An estimated 48 percent of the population lives in urban areas (above the Sub-Saharan African average of 38 percent). By 2050, an estimated two-thirds of the population is expected to reside in urban areas. Urbanization in Nigeria is more of a rural push than an urban pull. The expansion of the urban population appears to be driven mostly by demographic factors; it is not necessarily linked to greater demand for labor in urban manufacturing or services. Low agricultural productivity, the limited quality and availability of services, and narrow economic opportunities contribute to poverty and rural-urban migration, but not to urban wage-job growth. For instance, despite the lack of robust job creation, Lagos is growing rapidly, at 5.8 percent annually (Aliyu and Amadu 2017). Ibadan, the third largest metropolitan area, is expected to grow from more than 3.0 million inhabitants today to 5.6 million by 2033 (Rouhana and Bruce 2016).

Nonmonetary poverty

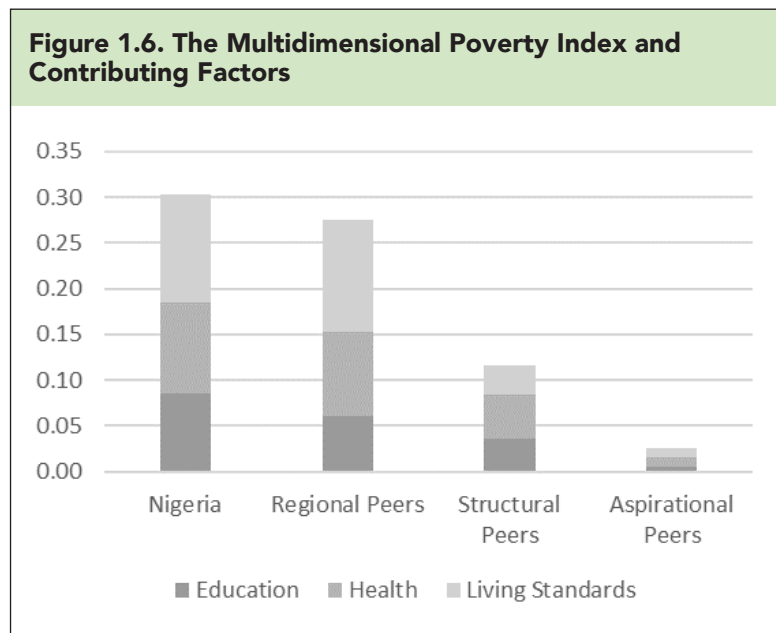
Human welfare is affected not only by income, but also by living conditions and access to services, such as education, medical care, clean water, public infrastructure, and integration into society (for example, social inclusion).

Multidimensional poverty affects about half of Nigeria's population. Multidimensional poverty is measured using indicators of health, education, and living standards (Alkire and Robles 2017).²⁰ Individuals are identified as multidimensionally poor if they are deprived in at least one of the three dimensions. This type of

19 Contraceptive prevalence is low: 85 percent of married women do not use any contraception method (NPC and ICF International 2014).

20 Health is measured based on mortality (any age) and nutrition. Education is measured by years of schooling and attendance. Living standards are measured by access to electricity, improved sanitation, drinking water, flooring, cooking fuel, and asset ownership.

deprivation is measured using the multidimensional poverty index, which seeks to capture both breadth and depth.²¹ Nigeria's index is 0.3, and all three dimensions contribute similar amounts (figure 1.6). A benchmark against its regional, structural, and aspirational peers shows that Nigeria does not perform as well, though it is close to the average of regional peers. Globally, Nigeria's index is in the middle of the distribution of developing countries, while the best and worst index scores are in Kazakhstan (0.0) and Niger (0.6).



Source: Alkire and Robles 2017.

The insufficient availability of critical public services is a significant driver of low educational attainment, poor health, and inadequate living standards. Rural areas lag urban areas, and the poor lag the nonpoor in accessing basic services. This is true for all public services, ranging from health and schooling to electricity and clean water. The gap between urban and rural areas is large. For example, an estimated 85 percent and 35 percent of urban and rural households, respectively, have access to electricity. However, within urban and rural areas, the poor endure tougher living conditions. The incidence of the use of unsafe water from open sources

in rural areas is almost twice as high among households in the bottom quintile of the income distribution. Likewise, the poor have lower access to health care services. Thus, only 10 percent of children in the lowest income quintile and 63 percent in the richest quintile have Penta 3 vaccination, that is, full immunization.²²

The population's low access to essential services is exacerbated by the lack of universal coverage of key identification systems. The accurate identification of beneficiaries is important in the provision of health benefits and enhancing financial inclusion, safe and orderly migration, crossborder services, voting, education, and social safety nets. Key identification systems suffer from low population coverage, affecting the government's ability to provide services, especially to vulnerable groups such as the poor, women, and rural communities. Fewer than 50 percent of residents have any ID card at all, and only 9 percent of individuals have a national identification number. The births of only 30 percent of children and 9 percent of children in the poorest quintile have been registered, meaning they are not targeted for critical health services such as immunizations. An estimated 33 percent of those who do not have IDs report that the

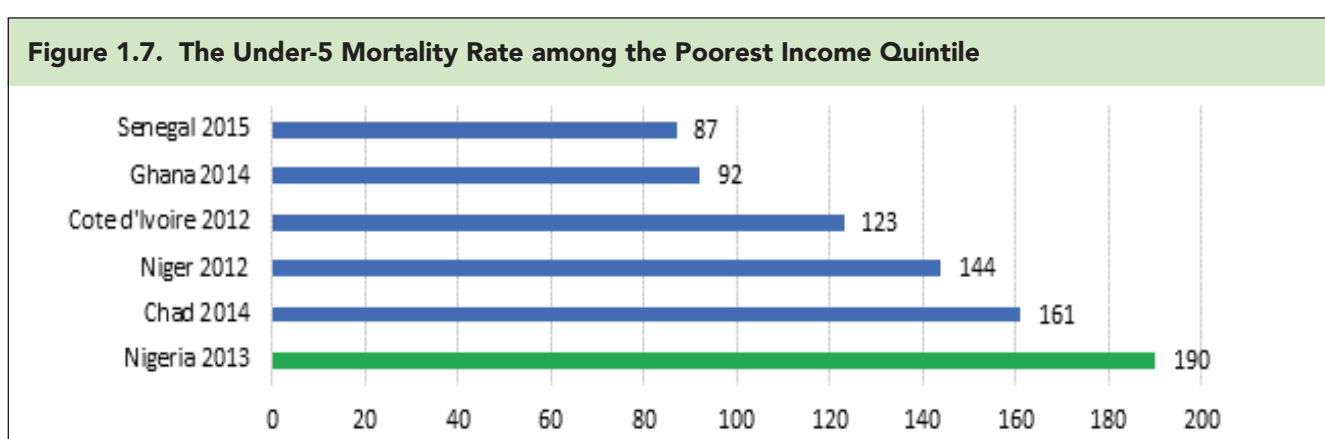
21 The index is calculated by multiplying the incidence of poverty (the percentage of people identified as multidimensionally poor) by the average intensity of poverty across the poor. It reflects both the share of people in poverty and the degree to which these people are deprived.

22 See Nigeria: Multiple Indicator Cluster Survey 2016–2017 (database), National Bureau of Statistics, Abuja, Nigeria; United Nations Children's Fund, New York, <http://microdata.worldbank.org/index.php/catalog/3002>. The Penta 3 vaccination, also known as the pentavalent vaccine, or 5-in-1 vaccine, is a combination vaccine with five individual vaccines conjugated into one and intended to protect people from multiple diseases.

IDs are too difficult to obtain, while approximately 20 percent report they lack the necessary supporting documentation.²³

Health, water, and sanitation issues

Nigeria's fertility, stunting, and infant and child mortality rates and maternal mortality ratios are among the highest in the world, while life expectancy is among the lowest (figure 1.7; table 1.3). The worrisome health indicators among the poorest quintile are particularly surprising given Nigeria's level of wealth.



Sources: ANSD and ICF International 2016; GSS, GHS, and ICF International 2015; INS Côte d'Ivoire and ICF International 2013; INS Niger and ICF International 2013; INSEED and ICF International 2016; NPC and ICF International 2014.

Table.1.3. Health, Nutrition, and Fertility Outcomes, Nigeria and Peers

Peer group	Total fertility rate, births per woman	Maternal mortality ratio, modeled estimate, per 100,000 live births	Infant mortality rate, per 1,000 live births	Under-5 mortality rate, per 1,000 live births	Prevalence of stunting, height for age, under-5-year-olds, %	Life expectancy, years
Nigeria	5.5	814	65	100	44	53
Regional	4.5	409	44	62	28	62
Structural	2.5	100	22	27	32	72
Aspirational	2.1	60	14	17	18	72
Sub-Saharan Africa	4.8	547	52	76	34	60
Lower-middle-income countries	2.8	257	37	49	32	68

Source: WDI.

Note: Estimates based on the Demographic and Health Surveys show the maternal mortality ratio at 576 for the seven years preceding the 2013 survey. See NPC and ICF International (2014).

Two Nigerian children in five ages under 5, that is, 14.5 million children, are chronically malnourished. Nine states in the North East and North West exhibit rates of child stunting that exceed 50 percent. Stunting

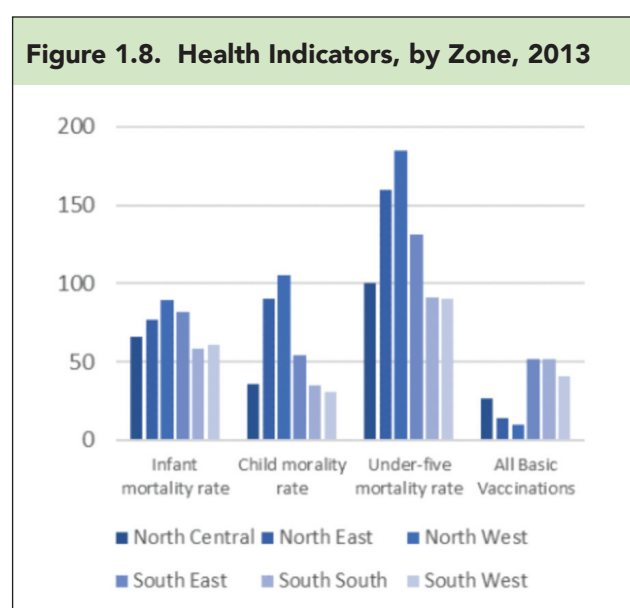
23 2018 data, Global Findex (Global Financial Inclusion Database), World Bank, Washington, DC, <https://globalfindex.worldbank.org/>.

in early life has long-term effects on cognitive development, school achievement, economic productivity in adulthood, and maternal reproductive outcomes (Dewey and Begum 2011). Stunting is a result of multiple factors, including inadequate food or care, lack of access to clean water and sanitation, and poor health (NPC and ICF International 2014). In Nigeria, inadequate food or care is the primary factor affecting stunting (Skoufias 2016). Resolving this issue would involve assuring children a minimum acceptable diet and immediate and appropriate breastfeeding.

Nigeria is on the verge of becoming the country with the highest under-5 mortality rate in the world (figure 1.8). Infant and child mortality rates have been declining across Africa and low-income countries, including Nigeria, though slowly, in recent years. Global analysis has shown that high child mortality rates can also drive high fertility rates because of the fear that children may die.²⁴ This leads to a vicious cycle that results in the allocation of fewer resources and reduced incentives to invest in each child's health and education. Three diseases (malaria, diarrhea, and pneumonia) account for 74 percent of postneonatal under-5 deaths in Nigeria. These diseases are susceptible to cost-effective and evidence-based technologies. However, the current coverage and utilization of these life-saving interventions are limited. Full immunization coverage is low, at 23 percent, especially among the poor.²⁵ Vaccination coverage is low and declining. It is at only 14 percent in the North West.

The maternal mortality ratio in Nigeria has remained high, the fourth highest ratio in the world.

Maternal deaths account for 32 percent of all deaths among women ages 15–49. The lack of progress



Source: NPC and ICF International 2014.

on key maternal health outcomes reflects the need for better basic health services. Antenatal care, skilled birth attendance, and the contraceptive prevalence rate have changed little in the last 25 years and are below the average in Sub-Saharan Africa. Women's health is at risk because of child marriage and early childbearing, anemia, inadequate birth spacing, and high fertility.

Water, sanitation, and hygiene are critical to achieving good health and avoiding illness. However, many people lack access. Inadequate access increases the risk of contracting neglected tropical diseases, such as soil-transmitted parasitic helminth infections, schistosomiasis, and trachoma, which are all endemic across Nigeria. Improving access to water, sanitation,

24 The infant mortality rate is a measure of the frequency of the deaths of infants between birth and age 1. It represents the annual number of deaths of infants ages under 1 per 1,000 live births. The child mortality rate refers here to deaths among children ages 1–4 per 1,000 live births. The under-5 mortality rate measures the probability of dying between birth and age 5. It represents the annual number of deaths of children ages under 5 per 1,000 live births.

25 An added dimension is that the poor have less access to health care services (see above).

and hygiene will help address Nigeria's chronic undernutrition. For households without safe water, improved sanitation, and effective hygiene practices, waterborne disease is a constant threat to health and keeps people out of the workforce or school, but in poverty. Unsafe water, sanitation, and hygiene conditions enable the transmission of enteric pathogens that can cause diarrhea and environmental enteropathy and can lead to chronic problems with absorbing nutrients. This can then lead to stunting, wasting, and unhealthy loss of weight.

Water and sanitation services are scarce in most of the country, and the poor and rural areas experience lower access. The bottom 40 and rural residents are particularly disadvantaged. Only one-third of the bottom 40 have access to improved water, and only half have access to improved sanitation. Though the access of the top 60 percent of the income distribution is significantly better, it is also not universal.²⁶ Access to piped water on the premises in urban areas fell in 1990–2015 from about 30 percent to 10 percent, respectively (table 1.4). Less than a third of Nigerians have access to improved and unshared sanitation facilities, and only 6 percent make use of sewerage systems. Though almost 80 percent of the urban population has access to improved sanitation, less than 5 percent has access to a sewerage system, raising questions about the effectiveness of municipal services. Inequality in access to improved water and sanitation is largely explained by poverty, followed by location in rural areas (World Bank 2017c).

Table 1.4. Key Indicators, by Location, Nigeria, 2015, %

Indicator	Rural	Small town	Urban	State capital	Total
Improved water	54	59	73	74	61
Basic water	37	43	58	61	45
Improved water on premises	24	28	43	49	31
Piped water on premises	4	6	13	12	7
Fixed-point sanitation	79	85	94	97	85
Improved sanitation, including shared	64	72	84	89	73
Improved sanitation, unshared	27	29	31	30	29
Sewerage	3	4	12	6	6

Source: World Bank 2017c.

Education issues

Nigeria lags in adult literacy and school enrollment rates, which indicates that the human capital stock is smaller in Nigeria than in peer countries. Relative to regional peers in Sub-Saharan Africa, Nigeria's performance is lagging in many key education indicators, affecting both the stock (working-age adults) and the flow of human capital (children and youth in school) (table 1.5). There is an even larger gap between Nigeria and its structural peers in investment in education over the years. Only half of Nigerian adults ages 15–49 are literate; many of the illiterate are women. Skills acquisition is typically more difficult among the illiterate though it is essential for productivity and adding value. Moreover, the education system has not been able to achieve a high degree of inclusiveness: Nigeria has the highest number of primary out-of-school children (8.7 million) (UIS and UNICEF 2015).

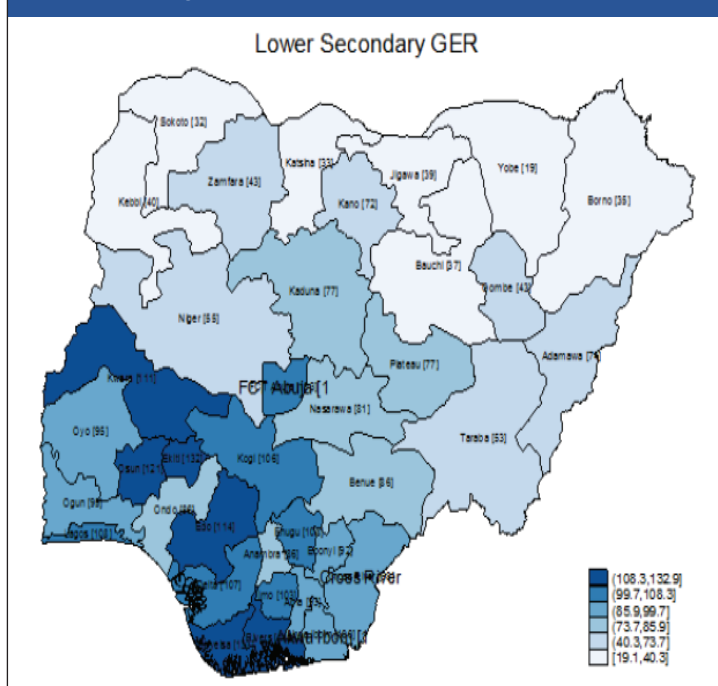
²⁶ The top 60 have access rates of 75 percent (World Bank 2017c).

Table 1.5. Educational Indicators, Nigeria and Peers, %

Location	Adult literacy	Enrollment rates				
		Preprimary gross	Primary net	Primary gross	Secondary gross	Tertiary gross
Nigeria	51	42	64	94	56	10
Regional	66	48	83	101	49	10
Structural	80	47	95	109	87	40
Aspirational	95	81	93	106	98	47

Source: WDI.

Map 1.1 Junior-Secondary Gross Enrollment Rates, by State
% of school-age children



Source: World Bank 2015b.

Educational indicators vary significantly across regions, gender, and income groups, setting the stage for large endowment gaps in the future.

In the south, the share of the population with no education ranges between 5 percent and 8 percent, while, in the north, the range is between 32 percent and 69 percent. Even enrollment rates vary significantly (map 1.1). For example, the gross primary and junior enrollment rates range from a low of 17 percent in Yobe to 133 percent in Bayelsa. The problem of out-of-school children is prominent in the north and in rural areas. The out-of-school rate is higher among girls than boys, 32 percent versus 28 percent (World Bank 2015b). The completion rates in primary education among boys is about 80 percent, but only 66 percent among girls (Rustad and Østby 2017). While access to schooling is rising among the more affluent quintiles, it is declining among

the bottom 40, widening the gap and reducing the human capital of vulnerable groups.

Social inclusion issues

Gender inequality is frequently overlooked, but it is significant, especially in access to services and participation in economic activities. This is more of a problem in the north than the south. Nigeria ranks 118th among 134 countries on the gender equality index (British Council 2012; UNDP 2016).²⁷ The emphasis

²⁷ See also GII (Gender Inequality Index) (database), United Nations Development Programme, New York, <http://hdr.undp.org/en/content/gender-inequality-index-gii>.<http://hdr.undp.org/en/content/gender-inequality-index-gii>.

placed on childbearing and child raising roles among women affects the educational attainment of girls, especially secondary-school completion, and consequently, the level of human capital of girls and women. Moreover, the socioeconomic status of women and girls in the north lags relative to the south. Over two-thirds of girls ages 15–19 in the north are unable to read, compared with less than 10 percent in the south; in the north, only 3 percent complete secondary school, and 76 percent are married by age 18 in the North West (British Council 2012; NPC and ICF International 2014). Women earn less than men for similar work.

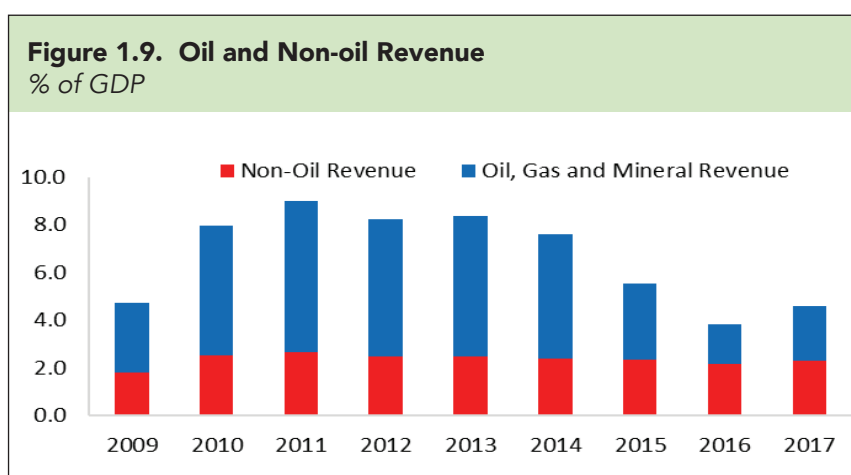
Beyond the poor, other population groups experience social exclusion, which limits their economic and social opportunities. Some of the groups most vulnerable to social inclusion are orphans, the disabled, internally displaced persons, and women and girls who have been associated with Boko Haram. Because the economic opportunities among these groups are narrow, they are more likely to suffer from monetary poverty as well. Women and children are especially vulnerable to stigmatization, and conservative social norms make their access to public services, such as health care, education, economic resources, and livelihoods difficult.

- ***The number of orphans and vulnerable children*** are estimated at 17.5 million (in 2010), among whom over 7 million have been orphaned by HIV/AIDS. Health and development issues are significant among these children. Yet, an estimated 95 percent lack medical, material, and educational assistance.
- ***Disabled populations.*** An estimated 25 million Nigerians have at least one disability, and 3.6 million of these face significant difficulties in functioning (World Bank 2011). Physical infrastructure is not adequate to meet the special needs of the disabled, and most of the expenditures on programs to address these needs are supplied through private funds and charitable spending rather than government funds. These barriers exacerbate the integration of the disabled into the community and economy.
- ***Internally displaced persons*** have become socially excluded though, prior to their dislocation, they may have been members of strong communities. The number of internally displaced persons in Nigeria is estimated at 1.9 million.²⁸ These people face adverse economic impacts because of displacement, which exacerbates the chronic poverty they already tend to experience. By 2016, because of displacement, more than 800,000 people had stopped receiving regular incomes, and only 53 percent of the individuals who had received some income prior to displacement continued to receive any income. This situation is more acute among displaced populations living in camps. The chance of earning some income is 16 percentage points higher if the displaced are living with host families rather than in camps (World Bank and UNHCR 2016).
- ***Women and girls who have been associated with Boko Haram*** often face marginalization, discrimination, and rejection by family and community members when they return, particularly if they have become pregnant. They are viewed with fear and suspicion and can be excluded by the community representatives in charge of determining who benefits from humanitarian or development aid resources. Most of the women who experienced these extreme forms of violence, except the girls from Chibok, have not received mental health services or other specialized services (HRW 2014).

28 August 2018 data of DTM (Displacement Tracking Matrix) (database), International Organization for Migration, Geneva, <https://displacement.iom.int/>.

Economic Growth Performance

Nigeria's growth performance and overall development trajectory are best understood through the lens of how the country's oil wealth has been managed. Natural resource rents from oil or other commodities can have a profound effect on economic and social development, especially if they represent a significant share of GDP.²⁹ The effects occur through multiple channels, ranging from macroeconomic stability and governance to human and physical capital accumulation. Nigeria's natural resource rents are mostly comprised of oil rents and a modest contribution of forest and gas rents. The share of oil rents in GDP is high though falling, averaging 25 percent in 2000–09 and 10 percent in 2010–16.



Source: WEO data of 2015.

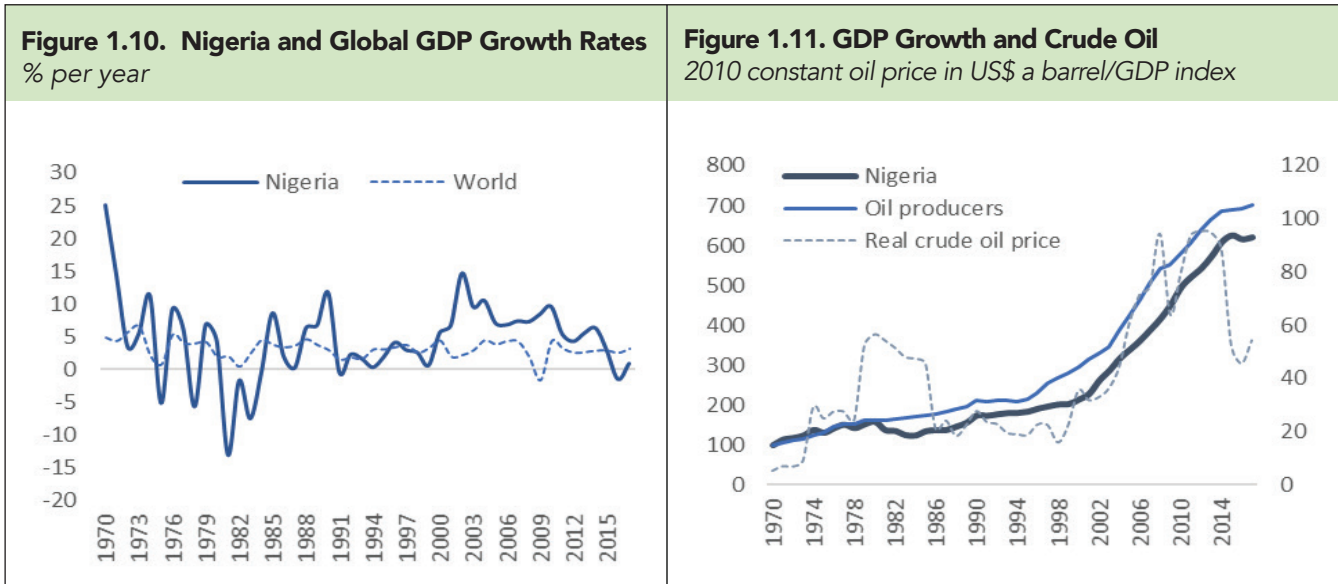
Oil has played a disproportionate role in the Nigerian economy because it dominates in both export earnings and public revenue. Nigeria began producing oil in the late 1950s, and oil rose from only 3 percent of total merchandise exports in 1960 to 43 percent in 1969. By 1974, the share of oil exports exceeded 90 percent. From the 1970s through 2012, the oil sector accounted for

about 80 percent of total federation receipts. In 2015 and 2016, a simultaneous decline in oil prices and production caused the share to fall to 63 percent.³⁰ Oil revenue is extremely volatile, and, in Nigeria, the standard deviation of oil revenue is significantly larger than that of non-oil revenue (figure 1.9). Oil has not only affected long-term growth in Nigeria, but it has also undermined Nigeria's short-term macroeconomic stability, which is a necessary condition for sustainable long-term growth.

Between 2000 and 2014, Nigeria's GDP growth exceeded global performance, coincidental with a sharp increase in oil prices. Nigeria's economic growth has been more volatile than global growth, but remained higher than global growth in 2000–14 (figure 1.10). During that period, the annualized growth rate of Nigeria's GDP was 6.1 percent versus a global growth rate of 2.6 percent. Nigeria was one of the few countries that did not succumb to the 2008–09 global financial crisis, largely because of prudent counter-cyclical fiscal policy. The period 2000–14 saw relatively high crude oil prices (figure 1.11). At the same time, the share of oil in GDP contracted from 31 percent to 10 percent thanks to strong private sector growth, especially in the service sector, such as telecommunication.

²⁹ Natural resource rents are defined as the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents. Oil rents are the difference between the value of crude oil production at regional prices and the total cost of production.

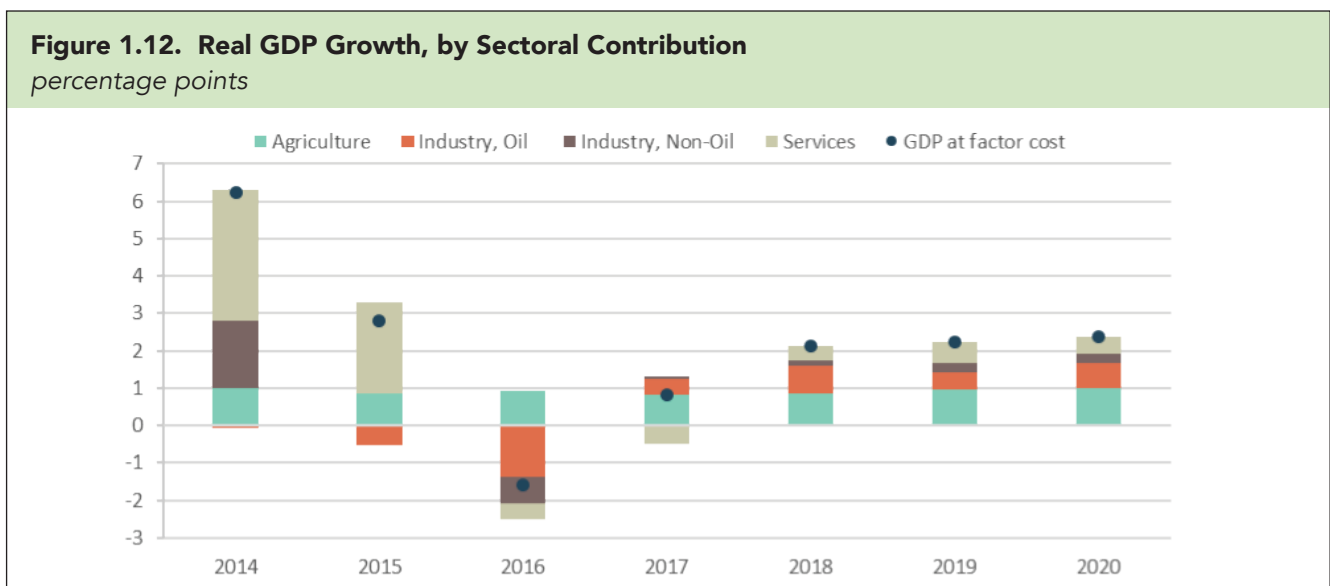
³⁰ Production shortfalls in 2016 were largely caused by attacks on oil infrastructure, though a secular decline in production has been observed since the mid-2000s, when production peaked at 2.5 million barrels a day before falling to 2.1 million barrels a day in 2015. Budina and van Wijnbergen (2008) report oil revenue for the 1970s and 1980s.



Sources: National Bureau of Statistics; WDI.

Sources: National Bureau of Statistics; World Bank.

Since 2014, the Nigerian economy has been facing substantial challenges, with a pronounced economic slowdown as oil prices hovered around half the level of mid-2014 until the recent uptick. While the oil sector accounts now for only 10 percent of Nigeria’s GDP, oil revenues still constitute about half of consolidated government revenue and 90 percent of goods exports. Lower oil prices and the exchange rate policy of multiple exchange rates and foreign currency restrictions have significantly affected the fiscal and external accounts, reducing government revenues to only 5.9 percent of GDP in 2016 and resulting in the doubling of the general government deficit, to about 3.9 percent of GDP in 2016. The economy officially entered recession in the second quarter of 2016 and emerged from recession in late 2017 as oil prices and production recovered. Agriculture and the fledgling non-oil industry grew moderately, but services continued to contract (figure 1.12). The Central Bank of Nigeria (CBN) tightened monetary policy to stabilize rates in the investor and exporter foreign exchange window, spurring the return of foreign inflows. Nonetheless, inflation remains persistently high. Fiscal deficits are large, and stagnating non-oil revenues are impeding capital budget implementation. The outlook is not favorable because of the vulnerability associated with oil sector shocks.



Source: World Bank calculations based on National Bureau of Statistics data.

Long-term determinants of growth

Growth analysis points to policy areas that have supported as well as hindered Nigeria's economic progress, such as macroeconomic management, trade openness, and investment. The determinants of Nigeria's GDP growth can be assessed using a standard cross-country panel framework (Raggl 2017). The model includes variables such as education, government consumption, inflation, openness, investment, and an indicator of institutional quality, as well as variables designed to capture natural resource rents, which are critical in Nigeria's growth.³¹ The analysis covers 1970–2014 and examines the economic, political, and institutional characteristics of 151 countries. The results underscore the importance of macroeconomic management and stability to growth. Specifically, the model indicates the value of trade openness and investment to growth.

Poor educational and health outcomes dim the prospects of sustained growth. The model finds that education is positively associated with growth and that this effect is more pronounced in countries with lower GDP per capita, such as Nigeria. The share of the Nigerian population with no secondary education declined from 75 percent to around 65 percent between 1999 and 2011. Cohen and Soto (2007) estimate that, between 2010 and 2020, the average years of schooling of Nigerians ages 15 years and above would only increase by one year, from 5.1 to 6.1 years, because of the continued low quality of educational services. This result is confirmed with microlevel data showing that firm productivity is directly associated with worker educational attainment. According to the World Bank's human capital index, children born in Nigeria today will only be able to realize 34 percent of their productive potential by age 18 (see above). Nigerian children lag in all six human capital index indicators measuring survival, schooling, and health and almost consistently place below regional and global averages (figure 1.13). The two indicators on which they perform especially poorly are stunting and learning outcomes, as measured by test scores. Nigeria's high stunting rates translate into over 11 million Nigerian children at risk of dying or not developing to their full potential. Without stunting, children are 33 percent more likely to escape poverty as adults and become productive individuals, earning incomes that are up to 50 percent higher than those of their stunted peers. Given that Nigeria's human capital base remained relatively small, effective spending in education would have a large positive impact on future growth.

31 The model's growth determinants include the level of GDP per capita at the beginning of each period to control for conditional convergence effects. Human capital is proxied by the share of the working-age population with tertiary educational attainment. To reflect relative trade openness, the model includes the ratio of imports, plus exports, to GDP, controlling for the country's population and geographical size. The inflation rate, government consumption, and investment are added to the basic regression model. The analysis uses alternative specifications to capture the effects of natural resource rents. It tests the growth impact of the magnitude of oil rents, as well as how oil rents interact with a dummy variable for the quartile distribution of oil rents as a share of GDP in the entire set of countries for each period. In each period, the countries are ranked according to the magnitude of the oil rents, and four dummy variables are created for each of the quartiles. The dummy variable takes the value of 1 for the quartile in which the country is ranked and 0 otherwise. This variable is interacted with the original oil rent variable.

Figure 1.13. Human Capital Index Components



Source: World Bank.
 Note: Harmonized test scores are taken from Patrinos and Angrist (2018) and are measured in units equivalent to the Trends in International Mathematics and Science Study.

The analysis indicates that natural resources can be either a blessing or a curse, and, if institutional quality is taken into account, natural resources make a modest, but positive contribution to growth.

The model confirms the negative association between natural resources and institutional quality found in other studies.³² However, after one has controlled for both the rule of law and corruption in Nigeria, natural resources appear to have had a positive and statistically significant effect on growth. This highlights the importance of developing strong and resilient institutions to manage Nigeria's dependency on oil effectively. Natural resource rents represent a valuable income stream, but, without an adequate system of checks and balances, competition between interest groups vying for control of these resources can promote patronage and clientelism, encourage political corruption, or even fuel armed violence. These detrimental effects on the institutional environment can discourage productive investment and inhibit the long-term growth of the nonresource sectors, further intensifying the economy's dependence on natural resources (Badinger and Nindl 2014; Beck, Levine, and Loayza 2000; Hodler 2006; Lane and Tornell 1996; Mehlum, Moene, and Torvik 2006; Raggl 2017). A study of the political economy of the oil sector in Nigeria shows how the dysfunctional system of checks and balances in the sector facilitated the unproductive diffusion of oil wealth (Gboyega et al. 2011).

Nigeria's economic surge was caused by productivity gains resulting from reform, but much more can be achieved in seeking to realize the country's full potential. Nigeria's commodity supercycle ended in 2014.³³ The analysis focuses on three distinct subperiods: the initial oil boom (1971–84), the prolonged downturn in oil prices (1985–99), and the more recent oil boom (2000–14). It reveals three key findings that shed light on the constraints to growth in Nigeria (table 1.6). The first is that, in 2000–11, when Nigeria experienced the greatest surge in productivity, economic reforms and efforts to create more inclusive political institutions marked the transition from military rule to democracy. Most governance indicators moderately improved during this period, underscoring the importance of institutional quality. The second finding is related to the large productivity gaps that exist across sectors even if the resource sector is excluded, which suggests that the Nigerian economy is not fully leveraging the potential productivity gains from reallocating labor and capital. Policies designed to boost productivity in the agricultural sector and remove constraints on factor mobility could accelerate growth and facilitate the economy's structural transformation. The third finding is that there is complementarity among total factor productivity, capital intensity, and skill intensity, which confirms the importance of investment, education, and trade openness.

32 Following Hall and Jones (1999) and Sala-i-Martin and Subramanian (2013), Raggl (2017) accounts for the potential endogeneity of institutional quality by using instrumental variables for institutional quality through a two-stage least squares method; the share of people speaking English or another European language is used as an instrument for the institutional quality variables (rule of law and corruption index). Raggl uses rule of law and corruption indexes from V-Dem (Varieties of Democracy) (database), V-Dem Institute, University of Gothenburg, Gothenburg, Sweden; Helen Kellogg Institute for International Studies, University of Notre Dame, Notre Dame, IN, <https://www.v-dem.net/en/.V-Dem>.

33 Data are drawn from the World Bank's ongoing Nigeria growth and competitiveness study. All references to GDP growth in this section are per capita.

Table 1.6. Growth Decomposition, Nigeria, 1971–2014
per capita annual average percentage change

	GDP growth	Human capital	Physical capital	Total factor productivity
1971–2014	0.9	0.2	0.5	0.2
1971–84	–2.2	–0.4	2.5	–4.3
1985–99	0.7	0.5	–0.9	1.2
2000–14	3.9	0.4	0.3	3.2

Source: Data of the World Bank's ongoing Nigeria growth and competitiveness study.

Over 1971–2014, physical capital accumulation was the primary driver of growth in Nigeria. However, this pattern is not consistent across all subperiods, and it largely reflects the rapid accumulation of physical capital that occurred between 1971 and 1984, as oil revenues were flowing in. Total factor productivity growth was deeply negative during this period, and GDP contracted. Previous studies have found that the oil boom caused an increase in economic inefficiency, as the capacity-utilization rate fell from about 80 percent in the mid-1970s to 40 percent by 1984 (Sala-i-Martin and Subramanian 2013). By contrast, the 2000–14 period was characterized by rapid total factor productivity growth, supported by more modest but significant gains in human and physical capital. This period marked Nigeria's return to democracy and the launch of major economic and governance reforms, including the privatization of state-owned enterprises, civil service reforms, enhanced banking sector supervision, and trade reforms (Okonjo-Iweala and Osafo-Kwaako 2007). Capital utilization also increased over this period.

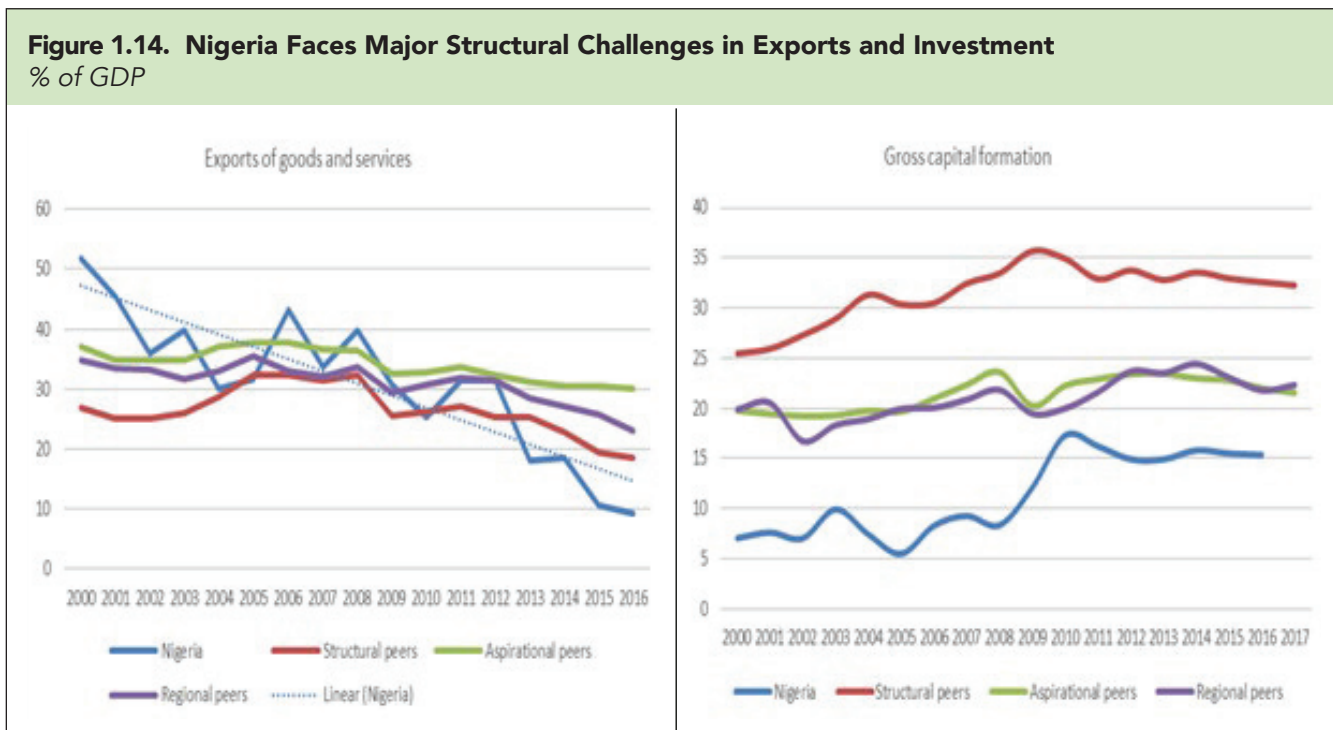
The progressive increase in total factor productivity from 1985–99 to 2000–14 illustrates the slow sectoral shift from agriculture to services. Shifts in employment between sectors have contributed to Nigeria's economic growth, but this effect is entirely explained by productivity differences between the resource and nonresource sectors. Employment has declined in Nigeria's least productive sectors, such as agriculture and manufacturing, and increased in the most productive sectors, including some services, such as trade, finance, information and communication technology, and the entertainment industry. Recent sectoral growth studies have revealed a vast disparity in labor productivity between Nigeria's resource and nonresource sectors, as well as significant productivity gaps within the nonresource economy (Lennon 2016). These disparities are large by international standards, and they suggest that reallocating resources, especially labor, from the least productive sectors to the most productive ones could yield even more significant gains in overall productivity. The nonresource sectors with the highest labor productivity are services, including wholesale and retail trade, finance, insurance, real estate, and construction, while productivity is lowest for utilities, the public sector, and agriculture. Given that utilities are key service inputs for the private sector, robust policies and regulations to improve their productivity will also positively impact aggregate productivity.

The decline in the share of agricultural employment was not consistent across the entire period. Changing oil prices drove sectoral employment trends. Agricultural employment fell rapidly from the 1970s until the mid-1980s, when oil prices were high. This trend reversed between the 1980s and 2000, when oil prices fell, and agricultural employment rose. Agricultural employment fell again between 2000 and 2014 when oil prices recovered. The relationship between oil prices and agricultural employment is reversed in wholesale and retail trade. As oil prices rise and the share of agricultural employment falls, employment in wholesale and retail trade increases, and, since the 1980s, whenever oil prices have declined, so has the share of employment in wholesale and retail trade. Despite the enclave nature of oil production, there is evidence that economic activity in other sectors increases when oil prices are high. While detailed sectoral data are not available, changes in light output (luminosity) in different states over time indicates a marked uptick in economic activity during periods of high oil prices. This trend appears to be especially strong in southern Nigeria.

Growth outlook

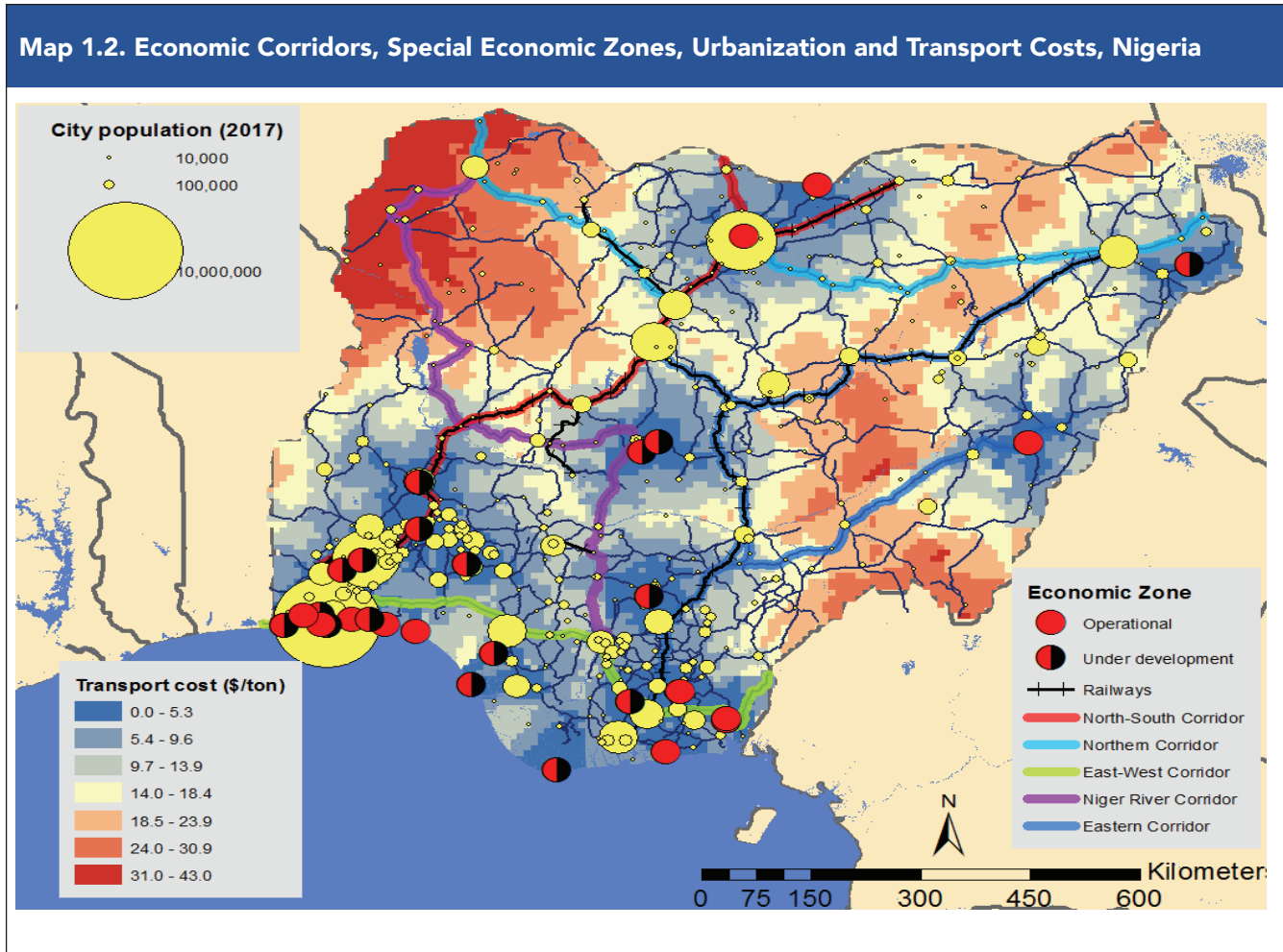
The near- and medium-term growth outlook remains modest and dependent on oil production and prices. Since 2017, usually resilient agricultural growth has been affected by the insurgency in the North East and farmer-herdsmen clashes in the Middle Belt. In 2017, the conflict-induced slowdown was counteracted by government-led investment in the agriculture sector. Now, the disruptions caused by the conflict are becoming persistent. Over the medium term, the agriculture sector outlook remains weakened because of ongoing conflict and increasing climate-related risks, despite targeted government support (import restrictions and subsidized financing schemes). Given this context, the recovery is expected to be slow and largely oil driven. Real GDP is projected to stabilize at around 2.1 percent to 2.4 percent over 2018–20. Oil production is expected to be about 2 million barrels a day in the medium term, but below the government's projections. Non-oil industry and services are expected to grow only slowly because of subdued consumer and investment demand. Nigeria's oil-driven short- to medium-term outlook is particularly sensitive to oil production disruptions and price shocks. Because the CBN continues to manage multiple exchange rates, external shocks may translate into capital flight and the depletion of reserves.

The recent economic downturn highlighted major structural challenges constraining the Nigerian economy. In less than two decades, the ratio of Nigeria's total exports to GDP sharply declined (figure 1.14, panel a). Nigeria's investment-to-GDP ratio began catching up to peers in 2008, but, since 2012, has plateaued at more than 5 percent below the average among peers (figure 1.14, panel b). In an economy with a small middle class, net exports and investments should be major drivers of growth. Yet, Nigeria's performance in these two indicators is deteriorating at a moment when domestic oil production is not expected to expand significantly, and oil prices are expected to remain moderate (at around US\$70 a barrel) over the medium term. Bold policies and initiatives to address Nigeria's infrastructure gap in roads, electricity, and the digital economy and adopt an export-led growth strategy will be needed to secure the future growth of the country.



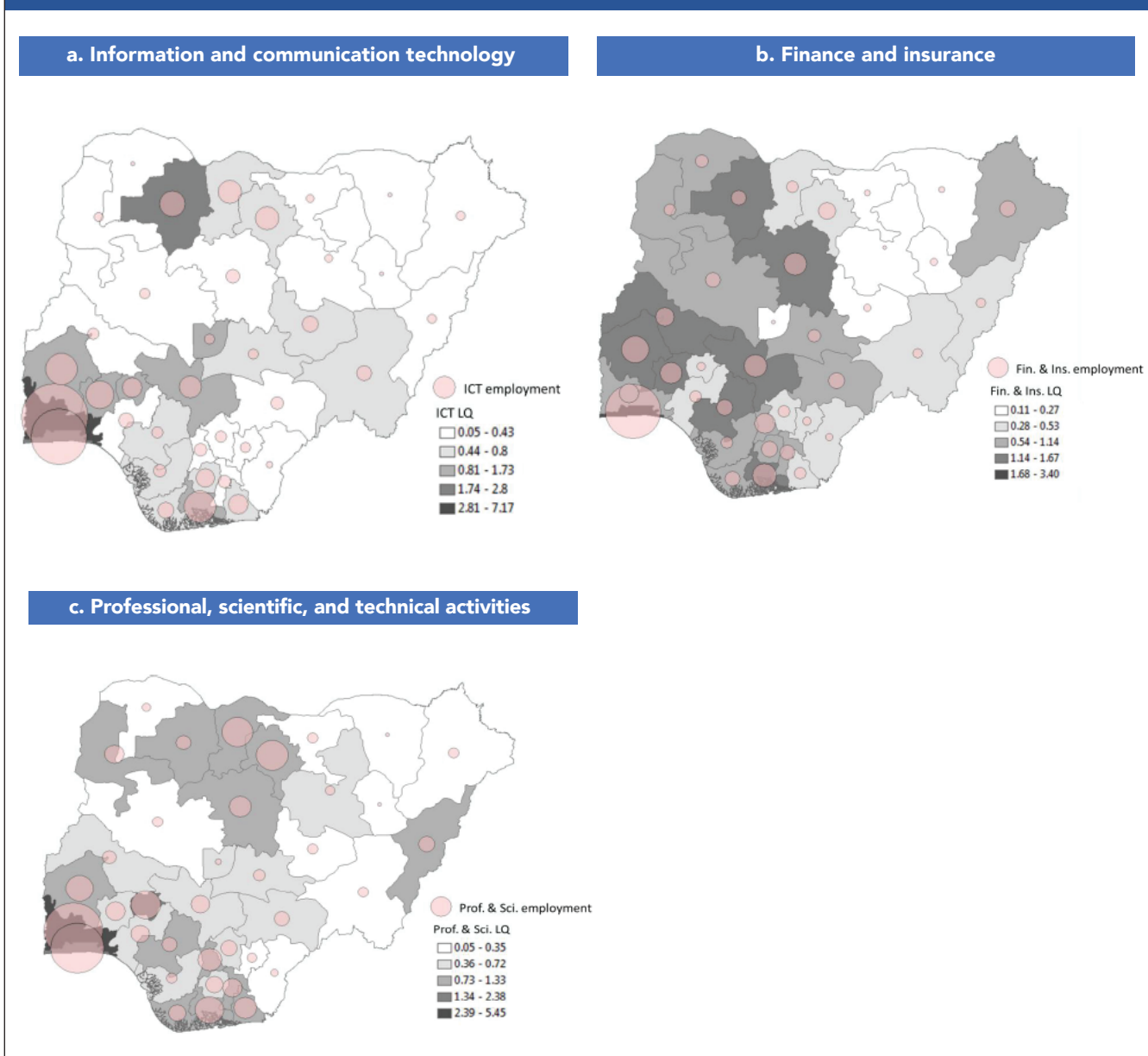
Source: WDI.

Another aspect worth considering for the future growth prospects of Nigeria is the role of economic geography. While households and microenterprises are spread throughout the country, the location of SMEs and larger firms shows distinct spatial patterns. The most important area is Lagos, the surrounding towns, and the corridor to Ibadan (map 1.2). The South West is specialized in high-value services and manufacturing. Lagos alone accounts for 40 percent of registered businesses. Next in importance to the South West is the Abuja-Kano industrial corridor, which includes Jos and Kaduna. These four cities host one-fifth of all registered manufacturing businesses in Nigeria. The third area is the South East around Port Harcourt, Onitsha, and Aba, which houses the oil and gas sector. The North East and North West have a small number of registered firms and remain mostly rural and agriculture based. Nigeria's recent service-led economic growth has also had a distinct spatial pattern (map 1.3). Establishments in information and communication technology and finance and insurance are most numerous in Lagos, and professional, scientific, and technical services are most prevalent in Ogun and Lagos. Thus, economic growth has not emerged evenly across the country. Regional inequality is widening the gap between the rich and poor. The accumulated knowledge of economic geography (World Bank 2009) recommends the promotion of economic integration by investing in people to level human capital outcomes across the country, while maximizing access to markets by connecting leading locations to regional and global markets through regional and global integration initiatives.



Source: World Bank 2017d.

Map 1.3. Employment in High-Growth Service Sectors, by State, Nigeria, 2010



Source: U.K. Department for International Development.

The limited integration of the regions is a drag on the economic growth trajectory in Nigeria. The persistence of large nationwide differences in employment patterns, wages, and prices reflects the low level of integration among Nigeria's regions. There is uneven connectivity between the markets for factors of production and goods and services across Nigeria. The economic distance between regions, especially between the north and south of the country, disconnects firms and regional economies from national home-market effects and dramatically reduces internal and external economies of scale. This reduces the scope for productivity gains and for economic growth. The causes and characteristics of economic distance, which may arise not only from physical distance, but also other factors such as transportation, telecommunication, or interregional cultural factors, needs to be analyzed.

Key Challenges in Fostering a Middle-Class Society

The government is seeking to foster a vibrant middle-class society that corresponds to the country's large population and middle-income status. However, the growth of the economy has not been inclusive, and substantial poverty persists. The government has instituted the Economic Recovery and Growth Plan 2017–20 (ERGP) to meet the challenges (box 1.1). Four relevant challenges are discussed in this section, namely, (1) continuing oil dependence, (2) the weakened social contract, (3) the widening north-south disparity in human capital, and (4) the unrealized potential of the private sector.

Box 1.1. The Nigeria Economic Recovery and Growth Plan

The ERGP was put in place in response to the recession of 2016. It lays out the government's strategy for economic recovery and sustainable growth over the medium term.

The ERGP was developed in a short time frame, given the urgency of the response needed, and in consultation with all key stakeholders. The Ministry of Budget and National Planning led a core group that included government officials, the private sector, and research centers to develop the draft plan. More consultations were held on the draft plan with additional stakeholders, including civil society organizations, the National Assembly, the private sector, and development partners. The plan was approved by the Federal Executive Council (the Cabinet). The ERGP was notable for the speed with which the government was able to bring together the diverse stakeholders and reach consensus around the strategic objectives and key priorities of the plan.

The ERGP identifies the key constraints to growth among the multitude of challenges Nigeria faces. The specific targets are ambitious, and the strategic objectives and key priorities are sound. The three strategic objectives of the ERGP are (a) restoring growth by focusing on achieving macroeconomic stability and economic diversification (away from the dependence on oil); (b) investing in people by increasing social inclusion, creating jobs, and improving the human capital base of the economy; and (c) building a globally competitive economy by tackling the obstacles hindering the competitiveness of Nigerian businesses, notably infrastructure and the business environment.

To facilitate implementation, the government coordinated the development of action plans by ministries, departments, and agencies. These plans contain details on activities, milestones, timelines, key performance indicators, and targets for each of the strategies. Planners held focus laboratories with the private sector to identify the key private sector investments needed to implement the plan.

The continuation of the Buhari Administration provides the opportunity for the government to accelerate the implementation of the ERGP and build on the initial successes. Realizing the ambitious goals of the plan requires sustained efforts over the medium term.

The government has demonstrated some success in restoring macroeconomic stability. Between 2016 and 2018, GDP growth recovered from -1.5 percent to 1.9 percent; annual inflation decreased from 18 percent to 11 percent; and the stability of the exchange rate has attracted significant short- to medium-term inflows (Eurobonds and foreign portfolio investment). The Presidential Enabling Business Environment Council has led in implementing 140 reforms to improve the business environment, which moved Nigeria up by more than 20 places, to 146 th in the World Bank's 2018 Doing Business ranking.^a There are, however, many key targets and priorities of the plan, including non-oil revenue mobilization and the implementation of structural reforms in the power sector, that will require intensified efforts before they can be achieved. The beginning of the second term of the Buhari Administration provides a good opportunity to assess the successes and challenges of the ERGP so far and to adjust and prioritize efforts.

a. See Doing Business (database), International Finance Corporation and World Bank, Washington, DC, <http://www.doingbusiness.org/data>.

Continuing oil dependence

Public finances and the balance of payments are heavily dependent on oil despite the sector's modest share in the economy. Nigeria's crude oil production, including condensate production, in 2016 was 2 million barrels a day. This translates into 3.9 barrels per capita annually or, at US\$70 a barrel, about US\$275 per capita annually.³⁴ Since 2015, the oil sector has accounted for less than 10 percent of GDP. Yet, oil has played a disproportionately prominent role in the economy because it largely finances public services and government investments. Oil has acted not only as an adhesive to hold Nigeria together, but also as a powerful force for social and political fragmentation (Falola and Heaton 2008; Porter and Watts 2017; Soares de Oliveira 2007). The oil-sharing formula distributes revenues among the three tiers of government. Oil taxes are *the* main source of federally collected revenues, reflecting the weakness in non-oil revenue collection at both the federal and state levels.³⁵ Looking back at the history, crude oil and natural gas came to dominate trade by the early 1970s. Presently, they constitute about 90 percent of total exports. Partly because of the real appreciation of the naira, non-oil exports lost their competitiveness. This dependence on oil has meant that the economy is highly vulnerable to oil price shocks. This poses a risk of economic volatility with boom-and-bust cycles.

Because oil and gas play a critical role in Nigeria's development, the government has sought to shield the Nigerian economy from global oil and gas price volatilities. Nigeria was the 13th largest oil producer globally in 2017 (producing 2 percent of total world output), and oil is an important source of revenues, though volatile. Consequently, in 2004, the government established the excess crude account with the primary objective of protecting planned budgets against shortfalls in the short run because of volatile crude oil prices. However, it proved challenging to uphold the arrangement under pressure from the states, which wished to access the funds in the account to meet immediate expenditures.

The government has been undertaking efforts over the years to make the oil and gas sector more transparent. The government was among the first to apply to become an implementing country under the Extractive Industries Transparency Initiative, which sets the global standard for promoting the open and accountable management of extractive resources (box 1.2). The administration of President Buhari has intensified the efforts to increase transparency in the sector. Nigeria's national oil company, Nigerian National Petroleum Corporation, began publishing monthly operational and financial reports in the latter half of 2015, disclosing more data than previously. In December 2017, the new national petroleum policy and the national gas policy committed the Ministry of Petroleum Resources to reform its reporting practices for greater transparency. In 2018, the government established a presidential revenue monitoring and reconciliation committee, an important function of which is to reconcile oil revenue transfers more rigorously across government agencies.

³⁴ In comparison, Saudi Arabia produced the equivalent of 119 barrels of crude oil per capita annually.

³⁵ They comprised 39 percent of consolidated government revenues in 2016.

Box 1.2. Pioneering the Use of Multistakeholder Governance in Oil and Gas

In 2007, Nigeria became the first country in the world to support implementation of the Extractive Industries Transparency Initiative through legislation. In February 2019, the international Extractive Industries Transparency Initiative Board recognized Nigeria's pioneering use of multistakeholder governance to disclose data on its upstream extractives value chain and rated Nigeria's progress in meeting the initiative standards as satisfactory, the highest status, which has been granted to only 7 of 52 countries that have joined the initiative to date.

Held up as a model for implementing countries globally by the international board, the Nigeria Extractive Industries Transparency Initiative has published reports identifying more than US\$20 billion of unremitted funds in the upstream petroleum sector. These findings have attracted the attention of the Office of the President, governors, and other policy makers who have taken action to improve Nigeria's domestic revenue mobilization. The policy notes and stakeholder workshops of the Nigeria initiative have highlighted a range of issues and helped shape the direction of reforms in the sector, including the new national petroleum policy published in the Official Government Gazette in 2017.

The Nigeria initiative continues to expand the scope of data disclosure and is also working increasingly closely with other government institutions. The combined impact of greater disclosure and collaborative work with the Office of the Auditor-General for the Federation and others is expected to involve rising petroleum revenue from smaller deductions and withholdings, the reduction in ineligible expenditures, and greater accountability.

Weakened social contract

Political economy in Nigeria is characterized by two dynamics that have shaped the country's development trajectory. The first is the requirement of managing a large, geographically and ethnolinguistically diverse country. The second is the availability of substantial oil revenues and the need to distribute them among the states in the federal system. Together, these two structural factors have facilitated the emergence of a federated state, which, while it has contributed to greater political stability, has not been able to deliver on the agenda of shared growth or prosperity.

The 1999 Constitution restored civilian rule and enshrined federalism as the new political system. The 1999 Constitution also devolves financial resources, political autonomy, and service delivery responsibilities to subnational governments. It gives specific and concurrent legislative powers to federal, state, and local

governments.³⁶ This federal system has emerged as a central institutional mechanism through which resources are distributed, services are delivered, and conflict is managed. A key challenge is the difficulty in achieving coordination, cooperation, and commitment among the tiers of government.³⁷ The contentiousness of resource allocation and weak systems for accountability have created difficulties for the federal system to deliver broadbased public goods.

Nigeria's political settlement is complex.³⁸ A central function of federalism has been to promote equity across states. At the national level, mechanisms exist for cooperation, including equal representation of the constituent states in the Senate, formal and informal rules for reflecting the federal character of the country in the public service, and electoral incentives for the formation of polity-wide national political parties. Yet, to understand the political landscape in Nigeria, it is essential to understand the roles of ethnic and regional groups in contrast to the multiethnic political parties; the centralized control over oil resources versus subnational autonomy; and institutional multiplicity, weak public authority, and endemic corruption versus the existence of asymmetric capabilities in specific public organizations.

The benefits accruing to citizens from the political system are limited, reflecting the weakness of institutions to deliver sufficient good-quality public services. The political system has not effectively distributed resources to the majority of the population as evidenced by the continued poor human development outcomes, small infrastructure stock, inadequate job creation, and high rates of poverty, especially in comparison with other lower-middle-income countries. Yet, Nigeria has an affluent and well-educated elite; thus, the political system has distributed resources unevenly. This may be because more powerful groups and individuals have benefited disproportionately, leaving few resources for most of the population, thereby serving to exacerbate inequality. It may also reflect the inability to manage resources well because of limitations in institutional development, political will, and capacity.

The current political arrangements and the operation of a large bureaucracy preserve the status quo, which is not always ideal in terms of development outcomes. Structural factors and informal institutional arrangements that have shaped Nigeria's development trajectory endure, and changing them to deliver accelerated progress is difficult. They also orient the public sector toward crisis management rather than proactive planning. Nonetheless, crises have also prompted reforms. While many reforms have been superficial, partial, or abandoned, others have gained traction. For example, the rapid progress made by

36 The federal government has sole responsibility for international relations, defense, monetary policy, and specific federal infrastructure (highways, railways, cross-state water resources, security, telecommunication, and labor relations). Shared federal and state responsibilities include taxation, electricity, education, health care, agriculture, and industry. Local government areas are constitutionally responsible for primary education, agricultural development, and health services. The ability of the states to make productive investments in aviation, mining, and railways are constrained by federal authority. Similarly, the power of state governments over electricity is limited to "the generation, transmission, and distribution of electricity to areas not covered by a national grid system," as may be established by federal legislation (Constitution of the Federal Republic of Nigeria 1999).

37 Commitment enables actors to rely on the credibility of policies, so they can calibrate their behavior accordingly. Credible commitment alone, however, is not sufficient; coordination is also needed. Policy effectiveness in the effort to achieve equitable development requires cooperation, particularly the willingness of citizens to contribute to the public good and not free ride (World Bank 2017a).

38 Political settlement refers to the formal and informal institutional arrangements that foster stability by aligning the distribution of power and by aligning the distribution of economic benefits (Khan 2010).

federal organizations, such as the Independent National Electoral Commission, and by subnational units, such as Lagos State, attest to the feasibility and impact of effective governance.

The social contract is weak; the demands of the state on citizens and vice versa are with limited.

Public trust in government is generally low.³⁹ Although a sense of national unity has been successfully forged in Nigeria, the government has been unable to deliver sufficient quality public goods and services to the broader citizenry. The government faces social and economic challenges that have built up over the years and have stretched the capacity and resources of the public sector. Yet, the government has not asked citizens to contribute significantly as is apparent from the low level of tax revenues in total revenues compared with other lower-middle-income countries. The hallmark of a stable nation-state is the willingness of the population to be taxed by the government in exchange for receiving public services.

Organizations channeling citizen demands into the policy process lack capacity and have been subject to political capture.⁴⁰

Civil society organizations, including private interdisciplinary research organizations, have so far played a limited role in analyzing and scrutinizing public policy and financial management at the national or state level. Resource- and information-poor citizens routinely lack the client power to demand more directly from service providers. Citizens have reduced their participation in burdensome public services and opted for more expensive alternatives. For example, household out-of-pocket payments account for the largest share (40 percent) of total public and private spending on education. Strengthening citizen and state trust requires doing development differently, that is, if the public demands services, governments must respond by providing the services in a transparent and accountable manner and with visible results (box 1.3).

39 Share of respondents who believe the government is doing badly or very badly in improving basic health services, addressing educational needs, and maintaining roads and bridges (48 percent); providing water and sanitation (59 percent); and providing a reliable supply of electricity (63 percent). More than 82 percent of citizens surveyed had not contacted a government agency during the year before the survey. See Afrobarometer (database), Democracy in Africa Research Unit, Center for Social Science Research, University of Cape Town, Rondebosch, South Africa, <http://www.afrobarometer.org/results/compendium-of-results>.

40 Drawn from numerous evaluations by the U.K. Department for International Development, including the State Accountability and Voice Initiative.

Box 1.3. Doing Development Differently in Nigeria

Doing development differently calls for wider adoption of adaptive, locally owned, problem-solving approaches in tackling chronic development challenges. The experience in Nigeria shows that the principles of doing development differently can be operationalized in a highly sensitive and complex country environment that requires a nuanced approach. Through a governance, conflict, and gender filter and a program for adaptive learning, teams at the World Bank have focused on understanding not only what to do, but how to do it within the Nigerian context. Five delivery case studies were published on how change happens in Nigeria, all of which emphasize the need for politically smart, adaptive approaches. Some common principles that emerge involve political, managerial, and institutional issues. High-level political interest and reform management increase the incidence of enabling pockets of effectiveness. Implementation units and stakeholder groups have performed more effectively if they are allowed greater autonomy and accountability. Merit-based recruitment has been critical to improving project performance. Inclusive leadership and a conscious investment in local ownership have favored close working relationships and enhanced sustainability.

The Fadama Project series, which implements a community-driven development approach to agriculture, builds on local innovation and scales up slowly to reveal context-appropriate ways to improve the livelihoods of farmers through local planning processes. The delegation by the Federal Ministry of Agriculture and Rural Development of day-to-day implementation coordination, with considerable autonomy, has enabled effective implementation on the ground. Following guiding principles, local development plans have allowed communities the freedom to decide what they need and how to obtain it, which has created local buy-in. Placing Fadama offices under local governments has helped build the capacity of local administrations and improve sustainability.

The Lagos Eko Secondary Education Sector Project relies on strong political leadership, a coalition of reform-minded actors working within and alongside the formal system, and an interactive approach to test out global best practice to raise accountability in secondary education. The Lagos State governor's political clout, combined with his experience in education, has enabled him to ensure the project's successful implementation. The governor set up a delivery unit inside the state education ministry and established a clear reporting structure in which he was involved, thus emphasizing performance and establishing a sustainable institutional footprint. The project coordinator held staff accountable and delegated authority, and staffing remained consistent. The project has also motivated teachers by giving them access to high-quality training opportunities. The Lagos Eko Project's data-driven approach has helped link incentives to performance, motivate better performance, and strengthen the credibility.

The management of the Ebola crisis points to home-grown elements of politically savvy adaptive learning. The Nigerian government defied international predictions and brought a highly contagious epidemic under control through strong leadership, coalitions that built on existing systems, while working around them, and by using real time feedback loops to track cases, detect errors, and make course corrections. Meaningful administrative autonomy in management and operations allowed the Ebola Emergency Operations Center to carry out tasks quickly, while remaining accountable. The Ebola response also highlighted the importance of well-designed incentives, such as shift payment premiums and hazard pay providing compensation for the risks taken by health workers. Early in Nigeria's Ebola response, the adoption of smartphones allowed for real time reporting and data tracking, thus producing high-quality, well-organized data that could be analyzed quickly.

Social cohesion has been deeply affected by the Boko Haram conflict in the North East. The wide geographical spread and high levels of conflict, combined with the limited effectiveness of formal and informal mechanisms to prevent and contain violence, have resulted in widespread suspicion, mistrust, and stigmatization along ethnic, religious, political and geographical lines. The social fabric in the North East has been deeply damaged, eroding social relations between citizens and the government and among ethnic clans, communities and even extended families. Economic, ethnic, religious, political, and geographical divisions have hardened, affecting the way in which any recovery effort is perceived. Restoring social cohesion and trust is the most critical precondition of recovery and peacebuilding, but also the most difficult, given the deep impact of the conflict (World Bank 2015c).

The North East is struggling to overcome the devastation caused by the Boko Haram insurgency and to address the resulting humanitarian crisis. The conflict has affected nearly 15 million people and set back an already lagging region by disrupting public services, infrastructure and economic activity. Though the intensity has abated, the insurgency by Boko Haram continues. The populations of Borno, Yobe, and Adamawa states were most affected by activities of Boko Haram and the military operations in response. Since 2009, Boko Haram has been linked to more than 27,000 civilian fatalities and the abduction of hundreds of children and women.⁴¹ Military counteroffensives, particularly in 2015–16, led to the liberation of several urban and rural areas from Boko Haram. The human, social, and economic losses of the conflict, and the resources needed for the recovery, peace building, and reconstruction of the North East are considerable.⁴² Damage to schools, health facilities, markets and farms, the loss of job opportunities, gender-based violence and the psychological impacts of the crisis are all adversely affecting an entire generation of Nigerians. Economic and social impacts extend beyond the North East to the whole country and the broader Lake Chad region.

Violent conflict represents the breakdown of law and order and undermines one of the key functions of government. Nigeria ranks in the bottom decile of countries on political stability and the absence of violence and terrorism. In the three main conflict-affected areas, violence continues without resolution, though it has diminished in the North East. A sign of intolerable circumstances is when people are willing to abandon their homes, lands, and community—and seek refuge somewhere else as internally displaced persons. Though the number of internally displaced persons has fallen from a high of 3.3 million in 2013 to 1.9 million as of April 2018, there are new cases every year (over 500,000 new displacements in 2018), indicative of continued high levels of insecurity (DTM data). In the Middle Belt of Nigeria where the arid north meets the fertile south, clashes between nomadic herders and sedentary farmers have been increasing because of competition over land resources. The conflict has resulted in significant number of fatalities and displacement with important loss of livestock, crops and livelihoods (box 1.4).

41 Data of 2018 from ACLED (Armed Conflict Location and Event Data Project) (database), Robert S. Strauss Center for International Security and Law, Austin, TX, <http://www.acleddata.com/>.

42 Infrastructure damage has been assessed at US\$9.2 billion, and accumulated output losses at US\$8.3 billion across the six states of the North East (World Bank 2015c).

Box 1.4. Conflicts between Pastoralists and Farmers, Nigeria

Nigeria's population has grown from 33 million in 1950 to about 192.3 million today. This phenomenal increase of the population has put enormous pressure on land and water resources used by farmers and pastoralists. Specifically, the demographic increase has led to an expansion in cultivated farmland and a reduction in available grazing land for pastoralists. In the far north, climatic uncertainty and lower rainfall have made it more difficult to sustain increasing populations, pushing many farmers and pastoralists with livestock southward. This has happened gradually over a period of decades – with an apparent increase over the past decade – and has added to pressure on land and water in central and southern Nigeria.

One of the outcomes of this process has been the blockage of transhumance routes and loss of grazing land to agricultural expansion. The increased southward movement of pastoralists has led to growing conflict with local communities. This is particularly the case along the central axis of Nigeria (also known as the Middle Belt), notably parts of Plateau, Kaduna, Niger, Nassarawa, Benue, Taraba, and Adamawa states. The conflict often exhibits localized dynamics, but primarily involve Fulani pastoralists and local farming communities. Both sides are affected, leading to many fatalities, the destruction of livelihoods and property, and internal displacement.

Pastoralist-farmer conflicts in Nigeria have become more widespread and intensified over the past decade and today pose a threat to national food security, livestock production, and the eradication of poverty. These conflicts not only have a direct impact on the lives and livelihoods of those involved, they also disrupt and threaten the sustainability of agriculture and pastoral production. Another dimension of the crisis is cattle rustling, which over the past decade has been transformed into a vicious criminal involving attacks with sophisticated weapons affecting both pastoralists and large-scale farmers. The result is that the scale of loss of both herds and human life has been escalating and the victims are Fulani pastoralists, commercial livestock breeders and increasingly, ordinary peasant farmers who own a few cows. The cumulative effect of rural banditry and the various challenges faced by pastoralists and farmers has created conditions that severely limit the development of both farming and the livestock industry in the country.

Without significant improvements to formal and informal systems of governance, Nigeria's trajectory is likely to impose enormous social costs. Nigeria's weakened social contract will be further compromised by a sustained decline in oil revenue and rapid demographic growth. While current arrangements have consistently succeeded in maintaining a unified state and averting complete economic collapse, they also generate sustained tensions that institutionalize low-level conflict, reinforce exclusion and prevent the emergence of a new political or economic class with a stake in transformative change. Improving quality of governance is essential to avoid a path that leads to exacerbating dangerous levels of inequality and even eroding state legitimacy altogether.

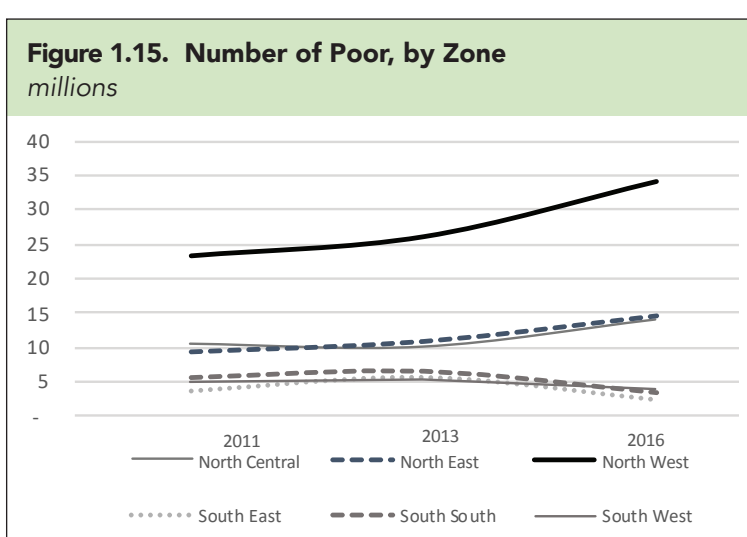
Growing north-south disparity in human capital

There are significant differences across the regions in economic structures, social outcomes, and incomes. While the distribution of population between the north and south is similar, population density is significantly higher in the three southern zones, especially the South East (table 1.7). The poverty headcount is twice as high in the poorest state compared with the richest state. There is a distinct north-south divide in many social indicators, such as adult literacy in English and in poverty rates. The agricultural sector is significant in all zones, but modern industry and services are found predominantly in the South West and the South South. Variation across states is large, indicating that location of birth has a significant impact on the living conditions, human capital accumulation, and economic opportunities among Nigerians.

Table 1.7. Population Density, Literacy Rates, and Stunting, Geopolitical Zones and States, Nigeria

	North West	North Central	North East	South West	South South	South East
<i>Indicator, % except population per km²</i>	Jigawa, Kaduna, Kano, Katsina, Kebbi, Sokoto, Zamfara	Benue, Kogi, Kwara, Nassarawa, Niger, Plateau	Adamawa, Bauchi, Borno, Gombe, Taraba, Yobe	Ekiti, Lagos, Ogun, Ondo, Osun, Oyo	Akwa-Ibom, Bayelsa, Cross River, Delta, Edo, Rivers	Abia, Anambra, Ebonyi, Enugu, Imo
Population share	25	13	14	20	15	11
Population per km ²	230	117	94	498	341	757
Total fertility rate (2013)	6.7	5.3	6.3	4.6	4.3	4.7
Adult literacy rate in English (2010)	32	56	42	69	74	74
Adult literacy rate in any language (2010)	70	62	63	78	75	75
Stunting among under-5-year-olds (2013)	55	29	42	22	18	16

Sources: National Bureau of Statistics and National Population Commission.

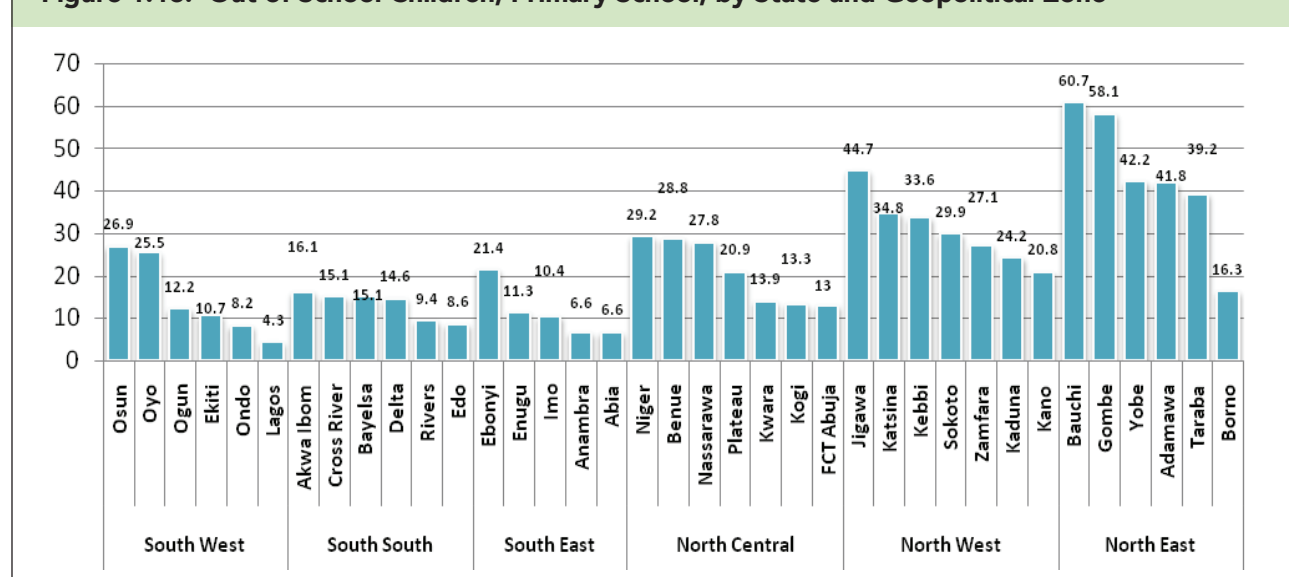


Source: World Bank calculations based on data of the 2015–16 General Household Survey.

These spatial disparities are leading to an increasing north-south divide in human capital. The north accounted for 87 percent of all poor in 2016. Moreover, about 35 million individuals—almost half of all the poor in Nigeria—live in the North West (figure 1.15). Not only does the north have the higher share of population living in poverty, this zone has been experiencing persistent upward poverty trends since 2011. In contrast, the south achieved significant poverty reduction between 2011 and 2016. Poverty rates in the southern

zones are around 12 percent, with little variation across zones in 2016. The South South saw the most significant drop in poverty relative to 2011, when the poverty rate was 23 percent. The South West has been the zone with the least poverty. Overall poverty rates in the south increased between 2011 and 2013, but the recent improvement in welfare highlights that economic growth during 2014–16 affected the north and the south differently. With approximately 9 million children out of school, Nigeria has one of the highest number of out-of-school children of primary-school age in the world (figure 1.16). Over 90 percent of these children are in the north. A woman living in the North East is 10 times more likely to die in childbirth than a woman in the South West.

Figure 1.16. Out-of-School Children, Primary School, by State and Geopolitical Zone



Source: Multiple Indicator Cluster Surveys (MICS) 2016.

Fertility rate differentials between the north and the south are large and have wide-ranging development implications. The total fertility rate varies by region significantly from a low of 4.3 births per woman in the South South to 6.7 in the North West. Women in the bottom quintile have on average 7.0 children, compared with an average of 3.9 children among women in the richest quintile. This difference has several implications for women and their families, but also for the development trajectories of the north and south. Multiple pregnancies, combined with the lack of childcare services, mean that women are left out of the labor force and have few income-earning opportunities. For households, especially low-income households, a large number of children means that the resources per child will be low, too low at times to provide adequate food and other essentials. For communities where high fertility rates translate into rapid population growth, government resources need to be spread over more people, making it even more difficult to close the gap in essential services, such as water and sanitation, health care, education, and electricity.

*Unrealized potential of the private sector*⁴³

Nigerian businesses face a challenging environment, inhibiting the capacity of the formal private sector to create jobs in line with population growth. Jobs are critical for Nigeria's present and future, as better jobs and income-earning opportunities form the basis for more diversified economic growth, poverty reduction, and greater prosperity. Some 20 million jobs will need to be created over the next decade to absorb the projected new entrants into the labor market.⁴⁴ Although the public sector has been a significant source of wage jobs, this will not be sufficient over the long term. Private sector-led growth is needed. But the business environment remains difficult and significant efforts and reforms will be needed to improve the situation and allow for the potential sustained high level of private investment to materialize. Nigeria's weak investment climate is caused by three main factors: (1) poor infrastructure, (2) poor business environment (policies and access to finance), and (3) insufficient technical skills. The poor business climate does not hold back firm creation. People work in small and microenterprises because they have to make a living. However, the poor business climate is likely to hold back the growth of more productive firms and result in stunted firms.

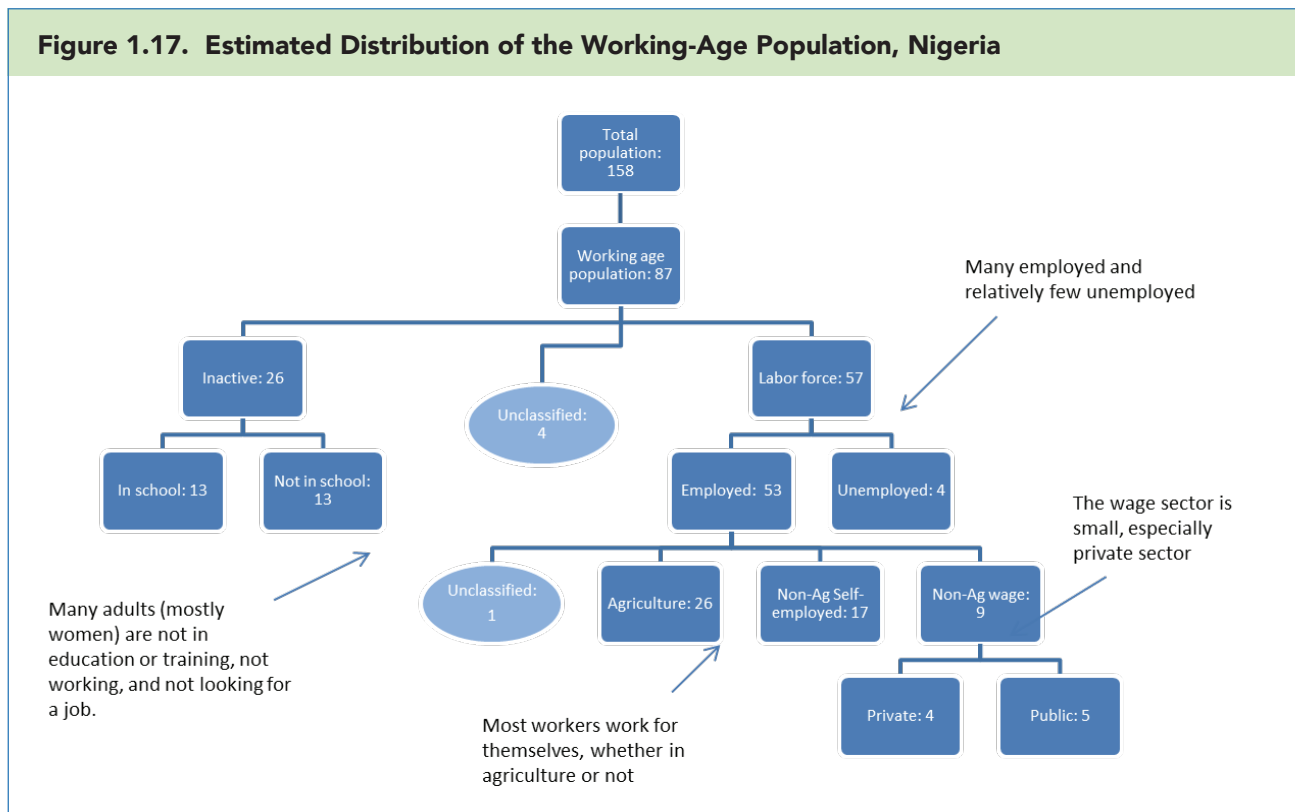
Informality is pervasive in Nigeria's private sector. High levels of unemployment and underemployment have contributed to the growth of the informal economy. The majority of Nigerians are employed informally. According to National Bureau of Statistics data, there is slightly more than one informal worker for every formal sector worker, that is, 54.6 million informal workers versus 48.5 million formal sector workers. In other words, informal workers make up 53 percent of the active labor force. Informality of urban employment is associated with lower levels of productivity and lower tax revenue. Informal businesses are much less likely to grow given their lack of access to the formal legal system, thereby reducing the benefits of scale economies that urban environments can provide. Furthermore, informal enterprises avoid taxation, which limits the funds available for public use. This leads to a vicious circle of increased taxation and fees imposed on the formal sector, which reduces the competitiveness of formal firms, inducing further informality and reducing foreign direct investment (FDI). Firms must overcome considerable barriers to enter the formal sector. Research exploring the determinants of informality drawing on a survey of microenterprises and SMEs in Côte d'Ivoire, Kenya, Nigeria, and Senegal confirms that corruption, which increases the cost of registration, is a determining factor in informality. The research also found that higher productivity firms, with better access to bank finance, are more likely to register and remain formal. In other words, the drivers of informality are high formal costs to registration, corruption and a weak rule of law, low productivity, and low access to bank finance. Current economic conditions therefore provide few incentives for informal firms to grow, particularly given corruption and little faith in the impartiality and effectiveness of the judiciary. Transparency International ranked Nigeria 144 out of 180 countries in 2018.

43 This section is based on IFC (2018). Earlier research using the Growth Identification and Facilitation Framework identifies food processing, light manufacturing, suitcases, shoes, car parts, and petrochemicals as potential industries of comparative advantage. See Lin and Treichel (2011).

44 According to the Population Estimates and Projections database, the population ages 15–64 will grow by 36 million. The International Labour Organization-modeled labor force participation rate was 55 percent in 2018. However, if one uses the national estimate of labor force participation of 74.6 percent, the number of new jobs needed would be 29 million during 2019–29.

Nigeria's primary comparative advantage beyond oil and gas lies in commercial agriculture, which employs a significant share of the country's workforce. An estimated one employed individual in two works in agriculture (figure 1.17). Close to 78 percent and 37 percent of land in Nigeria is agricultural and arable land, respectively (compared with 42 percent and 9 percent in Sub-Saharan Africa), with fertile soil and abundant water resources. This means Nigeria is one of the richest potential sources of agricultural growth globally. The diversity of climatic conditions allows cultivation of a wide range of crops (for example, cassava, oil palm, cocoa, cashew, maize and horticulture) and animal breeding, both for domestic consumption and for export. Moreover, the continuing shift in domestic preferences for prepared and processed foods is resulting in more opportunities for employment and income generation (Liverpool-Tasie, Adjognon, and Reardon 2016). However, the expansion of commercial agriculture and agroprocessing are hindered by a range of issues, such as failures in land rights, inputs, market access, and rural infrastructure.

Figure 1.17. Estimated Distribution of the Working-Age Population, Nigeria



Sources: Estimates based on data of the 2010–11 General Household Survey; World Bank 2015a.

Strategically, opening the Nigerian economy could help to unleash the potential of the agricultural sector, as illustrated by the success story of the Eleme fertilizer plant. The Nigerian agricultural sector employs roughly 70 percent of the population, and until recently depended on imported fertilizers. However, yields are low while the need for more food is rising due to the needs of the rapidly growing population. To increase the availability of affordable fertilizers, the government decided to reduce the country's dependence on urea imports and to privatize the fertilizer sector by 2015. This strategic move allowed Indorama, an Indonesia-based fertilizer giant, to acquire Eleme Petrochemicals Company, a

subsidiary of Nigerian National Petroleum Corporation, for US\$400 million in August 2006 and the project became fully operational in April 2016. This is a good illustration of “Maximizing Finance for Development” that could be replicated in many other sectors.

The large and youthful labor force potentially represents a competitive edge depending upon the growth model pursued. Nigeria has a large working-age population relative to countries with smaller populations. Though there is a small portion of the highly educated and skilled people, much of the labor force is unskilled or low skilled due to the low levels of schooling. (about 34 percent of the labor force has a secondary-school degree).⁴⁵ Though currently not large, light manufacturing (for instance, textile, electronics, plastic, paper, and packaging) is one area in which Nigeria could have a comparative advantage relative to countries with higher wages because the sector is labor intensive. However, policy reform would be necessary to realize this step. In the tradable services sector, Nigeria has begun to reveal its comparative advantage that could encompass tourism, media, information technology, data centers, entertainment, and health care.⁴⁶ The film and telecommunication industries in Nigeria have already demonstrated their competitiveness (box 1.5).

Box 1.5. Bright Lights in the Private Sector: Nollywood and the Telecommunication Sector

Nigeria is one of the most entrepreneurial countries in the world with a business entry rate of 0.76 firms per 1,000 people ages 15–64. However, firms struggle to grow due to an uncondusive business-enabling environment and infrastructure challenges. Nonetheless, two sectors have thrived and experienced significant growth over the last decade: entertainment and telecommunication.

Nollywood

Entertainment is one of the priority sectors identified in the ERGP as a growth sector with strong employment potential. According to a 2017 report by PricewaterhouseCoopers, the Nigerian Film Industry (popularly known as Nollywood) is the second largest film producer in the world (after India’s Bollywood) in volume and third in value. It contributed about 2.3 percent of GDP in 2016. Nollywood is widely considered to have started in 1992 with a US\$12,000 straight-to-video movie and now produces about 2000 movies a year. Nollywood’s popularity has spread across Africa and the films are increasing in popularity globally especially among the African diaspora. Similar growth is also being experienced in the music industry, with Nigerian artists gaining more recognition and winning awards outside the country. The film industry in Nigeria now produces more than 2000 movies and creates over a million job opportunities indirectly annually. While the bulk of the films made remain low budget movies that cost less than US\$100,000 and are distributed through direct sales, there are increasingly alternative outlets including state and private TV channels, and the Internet (YouTube is a popular medium).

45 World Bank calculations based on GHS 2016.

46 The Nigeria Tourism Development Master Plan (2017) identifies five tourist clusters throughout the country: the Atlantic gateway cluster in the South West, the tropical rainforest cluster in the south, the scenic nature cluster in the Plateau region, the Sahara gateway cluster in the north, and the capital conference center in the Federal Capital Territory. The World Travel and Tourism Council in 2014 envisaged a growth of 6 percent a year for period of 10 years for the Nigerian tourism industry if appropriate institutional reforms are undertaken (Yusuff and Akinde 2015). Tourism and health care would require improvements in security and the reversal of environmental degradation.

Box 1.5. Bright Lights in the Private Sector: Nollywood and the Telecommunication Sector *(continued)***Telecommunication**

The liberalization of the telecommunication sector resulted in an unprecedented surge in private investments with over US\$18 billion in investments since 2001 and phenomenal growth. Nigeria is now home to Africa's largest mobile phone market. Mobile phones are widely used by about 145 million people in 2017, with mobile phone penetration reaching over 70 percent. The sector contributed about 9.13 percent of GDP in 2016. Prior to the deregulation of the telecommunication sector Nigeria had about 700,000 land lines, which could not meet the growing demand for telecommunication services by Nigerians. The government monopoly the Nigeria Telecommunications Limited was weak, underfunded and ineffective and long waiting lines for service and poor quality of service were prevalent. More than half of the connected phone lines were concentrated in government offices and corporate organizations. Access in rural areas was much limited and non-existent in many parts of the country.

The reform of the telecommunication sector involved three elements: (a) privatization of Nigeria Telecommunications Limited by offering 60 percent of its shares to institutional investors and the public; (b) opening the market to enable private participants to compete with Nigeria Telecommunications Limited; and (c) allowing foreign participation in the sector. The Nigerian Communications Commission, which was established in 1992, was mandated to grant approval of licenses to service providers in the global system for mobile communication, to promote private participation in the telecommunication sector, regulate tariffs, settle interconnectivity disputes, supervise operational standards for the network, and perform other, related functions in the sector. In 1999, the Nigerian Copyright Commission granted licenses to telephone service providers, such as MTN Group, Airtel, and Mtel, and it subsequently issued licenses to Globacom in 2002 and Etisalat in 2008. The initial local operators in the global system for mobile communication only became operational in August 2001 when they were granted digital mobile licenses by the Nigerian Copyright Commission. While the privatization of Nigeria Telecommunications Limited was not successful, the liberalization of the sector ushered in a period of rapid growth as the entry of new operators unleashed competition in the sector. Private sector participation in the telecommunication industry improved telecommunication infrastructure, boosted foreign investment, and increased job opportunities. The telecommunication industry is well positioned to benefit from the growing digital economy with emerging opportunities in mobile money and other digital financial services and online distribution of music and film.

The dynamism of the private sector is not fully unleashed because of anticompetitive conditions. A small number of dominant firms hold significant market shares in some key industries, such as construction materials. The barriers to entry, some of which are created through the conduct of dominant firms, and some of which are inadvertently imposed through government regulations, are high. Trade barriers limit exposure to foreign competition, which further strengthen this anticompetitive bias. Consequently, the input prices for Nigerian firms are kept at high levels, and it reduces the overall competitiveness of Nigerian firms, including smaller enterprises in the manufacturing and service sectors. The current foreign exchange restrictions also

negatively affect them in this regard as their access to cost-competitive inputs from abroad is constrained. Looking at the availability of financing to foster dynamic private sector growth, in the context that the government bonds provide high yields and a relatively small number of large firms play significant roles in Nigeria, the financial sector pay only limited attentions to smaller and newer businesses.

Nigeria is advantageously located at a strategic point in West Africa, in the Gulf of Guinea, and stronger international connectivity could help enhance the dynamism of the private sector. Despite this location, exports are low, at 22 percent of GDP (2011–16), compared with Sub-Saharan Africa's 30 percent. Non-oil exports are low at 12 percent of goods and services exports (or 3 percent of GDP). Nigeria's two main ports at Lagos and Port Harcourt provide direct access to international trade and freight routes that connect Asia, Europe, and North America, positioning Nigeria to become a major production, communication and transportation hub. Nigeria ranks 63rd among 146 economies on the liner shipping connectivity index which captures how well countries are connected to global shipping networks. Port services in Nigeria are slow and inefficient though progress has been made by the government in rehabilitating port terminals and improving logistics overall through the establishment of a Single Window Portal, the launch of the Nigeria Trade Hub, which provides customs information, and the implementation of the Authorized Economic Scheme to fast-track cargo clearances for trusted traders (USTR 2017).

The strong entrepreneurial drive of the Nigerian people is not matched by the market-based allocation of financial resources. The banking sector is small (19 percent of GDP as of 2017) and the lending activities are skewed toward investments in government securities and loans to large established firms. This creates a considerable competitive advantage for large established firms, adds to the barriers to entry and reduce the dynamism of the private sector. This is particularly the case in the provision of long-term finance, which is needed by firms to make capital investments. Over 90 percent of the Nigerian bond market consists of government securities, and the ability of the banking sector to provide term loans is limited because of the short tenors of the deposit base. Consequently, firms must largely rely on their own resources or on related parties to finance long-term investments. This limits the ability of firms to upgrade production facilities and other assets, helps preserve inefficient assets, slows technical innovation, and reduces the competitiveness of firms and the overall economy.

Vulnerability and Sustainability

Fiscal sustainability risks

The main fiscal sustainability risks pertain to the shortcomings of the federal and state fiscal frameworks. Several shortcomings in these frameworks undermine the long-term sustainability of Nigeria's fiscal accounts. The medium-term non-oil primary deficits, though narrowing, cannot maintain real wealth in the long run. Moreover, the main anchor of the budget, the budgeted oil price, is subject to political economy factors as it is determined through negotiations between the Executive and Legislative branches. Furthermore, oil production projections also appear to be systematically overly optimistic. Consequently, few resources

are left to be directed to the excess crude account. Though fiscal buffers exist, they are not always used to smooth shocks. The excess crude account has been used flexibly to fund augmentations, ad hoc allocations, subsidies, and projects of the Subsidy Reinvestment and Empowerment Program.⁴⁷ As a result, expenditure is disconnected from the saving rule, which amplifies boom-bust cycles. A sovereign wealth fund, the Nigeria Sovereign Investment Authority, was established in 2012, with an initial allocation of US\$1.5 billion, to replace the excess crude account. The fund is not large enough to make a significant difference and is excluded from the fiscal framework.

Despite the passage of the Fiscal Responsibility Act, it applies mostly to the federal government.

While all states have made at least partial progress, implementation of the Fiscal Responsibility Act by the states is incomplete. The Federal Ministry of Finance and the Nigeria Governors Forum have conducted assessments of the implementation of the fiscal sustainability plan, as derived from the Fiscal Responsibility Act, across states. The assessments show that, while states have all made progress, particularly in improving regular state debt reporting to the Debt Management Office, treasury single account implementation, and the use of biometrics in tackling payroll fraud and increasing internally generated revenue collection, implementation of the fiscal sustainability plan remains incomplete.⁴⁸ Several factors have contributed to the incomplete implementation of the plan by the states, including weak capacity in some of the states, coupled with a lack of capacity-building support accompanying the plan; the absence of strong political will in the executive in some of the states; the lack of strong incentives given that the federal government was unable to enforce the implementation of the plan as a condition for the disbursement of funds to the states.

Social sustainability risks

Risks to social sustainability are growing because of poverty, inequality, and conflict, exacerbated by institutions that must struggle to deliver broadbased public goods. Social sustainability is achieved when society and the government support the capacity of people to create healthy and livable communities that are equitable, diverse, cohesive, and democratic and that foster a good quality of life. In Nigeria, social ills (such as illiteracy, ill health, widespread mistrust of fellow citizens, and physical insecurity) and economic ills (such as poverty, unemployment, underemployment, and income insecurity) undermine the capacity to achieve social sustainability and, ultimately, middle-class status. The lack of strong institutions, whether for the delivery of social services or enforcing the rule of law, mean the government faces difficulties in mitigating social risks.

The social contract is weakening as the government struggles to deliver public goods, social services, security, and economic opportunities. The social contract refers to the understanding between citizens and the state about their respective roles and responsibilities. Nigeria has achieved and maintained national

47 The program was established by the federal government during the Jonathan Administration to reinvest the savings deriving to the government from the removal of fuel subsidies. The reinvestments went for critical infrastructure projects and social safety net programs with a direct impact on the population.

48 The data are reported by the Debt Management Office and reflected in the consolidated state debt reports, Joint Tax Board internally generated revenue collection data 2016–17, and Nigeria Governors Forum internally generated revenue dashboard data.

unity but the political settlement, which is based on trickle down of resources between elite and non-elite, produced distortions in the delivery of broadbased public goods and services. The guarantees set out in Nigeria's 1999 Constitution (the right of citizens to life, fair hearing in a court of law, access to education, health, and security) have not been met for a significant share of the population, in part because of rapid population growth, which is overwhelming limited social facilities that are understaffed, apparent most obviously in health and education outcomes, as well as growing insecurity. The social contract remains one in which the state asks little of citizens, and citizens ask little of the state.

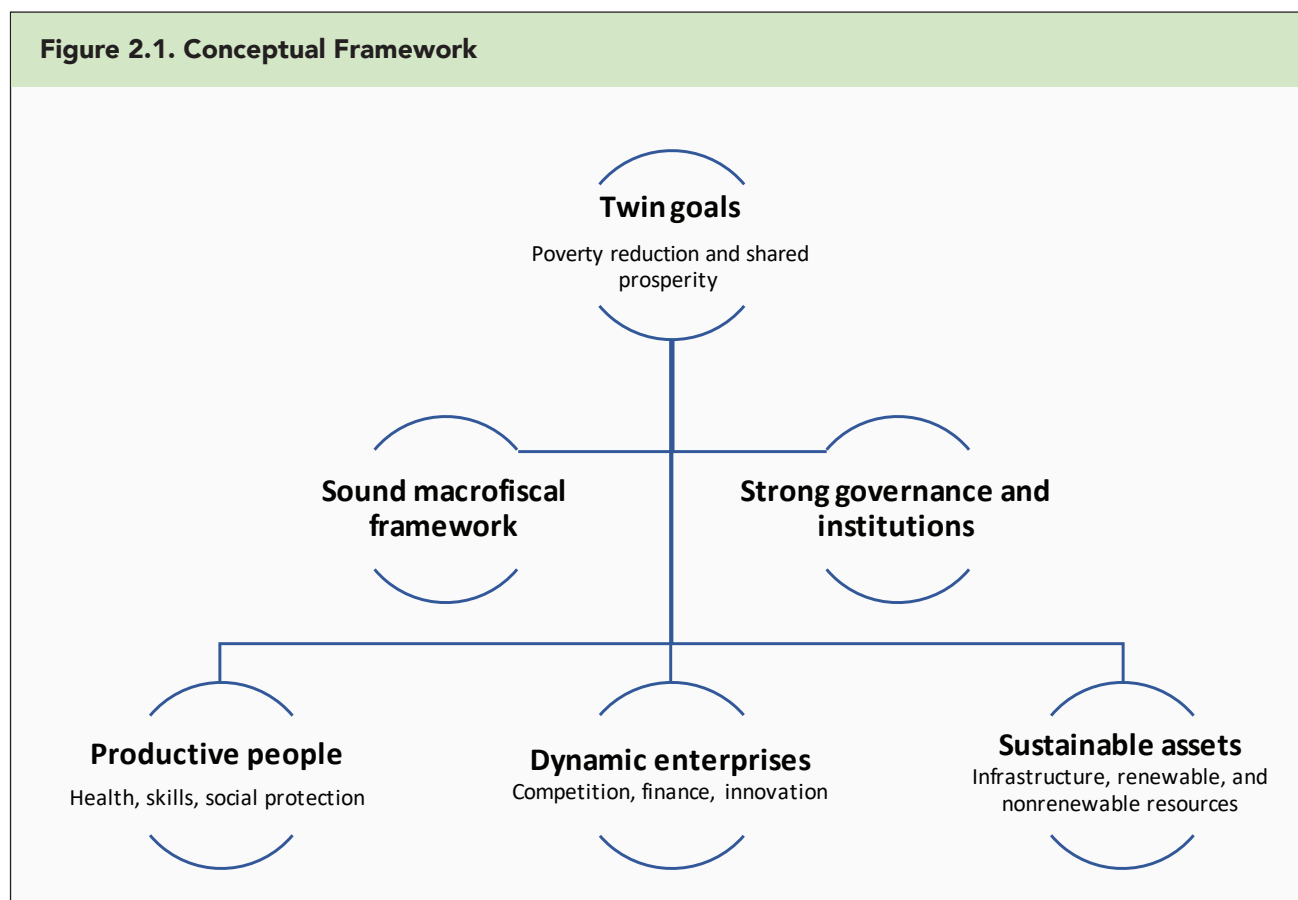
Environmental sustainability risks

Nigeria is one of the most disaster-prone countries in Africa; it is extremely vulnerable to droughts, floods, landslides, gully erosion, and wind storms (INFORM 2019). Floods and droughts are the most important recurring disaster in Nigeria. In September–October 2012, floods affected 32 states; close to 6 million persons were displaced; and the estimated direct impacts and flood spillover effects (damage and losses) were high, at US\$16 billion (NEMA 2013). Lagos, one of the economic powerhouses of Nigeria, is at increasing risk of flooding, as well as many other cities. In most cases, it is the poor and vulnerable who are affected by preventable disasters. Infrastructure investments in drainage systems are not keeping pace with the growth in sprawling urban areas. Moreover, buildings and houses are being constructed in low-lying areas which makes them particularly vulnerable to flooding. These are symptoms related to institutional incentives and capacities for concerted actions and implementations. For example, planning with good vertical (federal, state, local) and horizontal (across sectors) coordination is lacking. Clear responsibilities and mandates are weakly defined across actors, who need to take actions on long-term planning, policy, and public expenditure for disaster risk management.

The risks of climate change are increasing. According to data of the climate change vulnerability index, Nigeria is among the top 10 countries and Lagos is among the top 10 vulnerable cities in the world. Four major climate related changes are predicted to occur over the next several decades that will have major economic and social implications for Nigeria. First, the average temperature is projected to rise by 1-2 degrees Celsius, by 2050, especially in the north. This has implications for agriculture and livestock. Second, rainfall patterns are likely to become more variable and water flows will change—increasing in about half of Nigeria, falling in 10 percent, remaining the same in 8 percent, and uncertain in about one-third of the national territory. Third, rising sea levels will affect the coastline and coast settlements, towns, and cities, such as Lagos. It is estimated that a 0.2-meter rise in sea level would inundate 3,400 kilometers of Nigerian coast-land and a 1.0-meter rise in sea level would cover 18,400 kilometers. Fourth, Nigeria, like other countries, has been experiencing more frequent extreme weather events, such as flooding and drought as well as greater variability of climate, all because of global warming.

CONSTRAINTS TO POVERTY REDUCTION AND SHARED PROSPERITY

This chapter documents key constraints that hold down Nigeria's progress toward the twin goals of poverty reduction and shared prosperity (figure 2.1). We apply a conceptual framework in doing so. No sustained development can occur unless a country has five key elements: a sound macrofiscal framework, good governance and functional institutions, human capital, assets and vibrant enterprises. It links the twin goal of poverty reduction and shared prosperity to the interlocking elements of an economy. It shows how economic development requires foundational conditions, and rests on the pillars of people, enterprises, and assets. It posits that a sound macrofiscal framework, conducive institutions, and good governance are needed for economic development. These are the foundational conditions. Productive people perform jobs in dynamic enterprises using sustainable assets. Enterprises grow and create more jobs through competition, finance, and trade. The development process triggered by the interplay of these pillars and foundational conditions is spatial, and agriculture plays a key role in rural areas, while rural-urban interactions allow nonfarm economic activities to thrive.



10 key constraints have been identified based on significant evidence, including stakeholder dialogue in Nigeria conducted through the SCD process. The 10 constraints are listed in table 2.1. This chapter examines them in detail.

Table 2.1. Key Constraints	
<i>Sound macrofiscal framework</i>	High oil dependency for government revenues and export earnings creates economic instability
<i>Strong governance and institutions</i>	Lack of good governance including federal-state coordination, transparency, and accountability undermines successful delivery of public services
<i>Productive people</i>	Continued internal conflicts undermines development and security
	Demographic pressure erodes the benefits of economic growth and exacerbating social instability
	Low human capital outcomes, particularly in the north and rural areas, increases regional inequities
<i>Dynamic enterprises</i>	Difficult access to land and technology condemns agriculture to be a low productivity sector
	Administrative barriers and limited financial intermediation impede nonfarm SME development
	Limited domestic, regional and global integration constrain firm productivity
<i>Sustainable assets</i>	Infrastructure gaps limit market development
	Environmental degradation and climate change impose costs on people and businesses

Constraint 1: Significant Oil Dependency

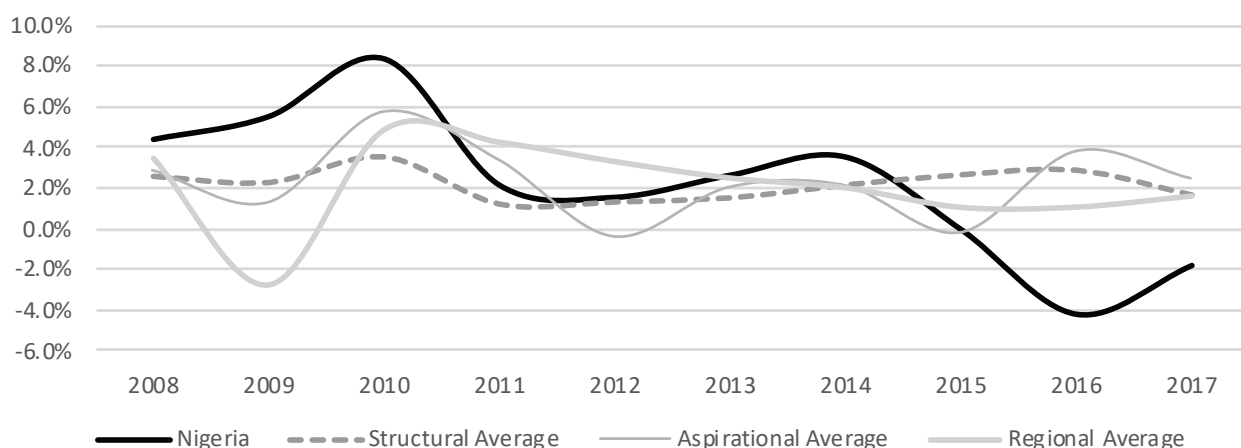
Nigeria depends on oil exports for a large part of government revenues and export earnings. These two dependencies make the entire Nigerian economy vulnerable to oil price and production changes, although the oil sector accounts only about 10 percent of Nigeria's GDP today. The government has implemented mechanisms, such as the excess crude account, to shield the Nigerian economy from oil price volatility; however, they have been only partially successful. While the Federation Account Allocation Committee is considering new guidelines for revenue transfers to and withdrawals from the excess crude account, ultimately, the success of these mechanisms will depend on the extent to which state governments buy into them and the extent to which the rules governing withdrawals are adhered to. Besides of better management of oil resources, further domestic resource mobilization and diversification of government revenues are critical. It will require not only stronger administrative capacity to collect taxes but also stronger social contracts between the people and the government (see Constraint 2). To counter the 2014–16 oil price drop, the CBN deployed monetary policy and foreign exchange control tools. While these interventions provided some relief on the balance of payments pressure, they came with long-term side effects to the overall Nigerian economy, such as high inflation rate and lack of impetus for financial market deepening (see Constraints 7 and 9).

Impact of oil revenues on the economy

While the Nigerian economy grew steadily during the most of the last two decades, managing the threat to stability from high oil dependence has been difficult. World experience strongly suggests that transforming the “resource curse” into a national benefit requires both countercyclical fiscal policy to protect the economy from oil price volatility, and exchange rate flexibility which can help absorb terms-of-trade shocks. The government applied mechanisms to help implement countercyclical fiscal policy, particularly with the establishment, in 2004, of the excess crude account. A subsequent accumulation in the account gave the government a buffer to sustain economic growth and macroeconomic stability during the global financial crisis of 2008–09. However, the rising cost of the fuel subsidy, accompanied by political pressure to disburse the revenues accumulating in the account to the states prevented additional accumulation of the fiscal buffer in the account during the period of high oil prices in 2011–14. During the decline in oil prices after 2014, the authorities resisted depreciation of the naira, which slowed the structural adjustment of the economy and negatively affected government finances through the external shocks.

High volatility of international oil prices is transmitted through government expenditure to the Nigerian economy. This is illustrated by the sharp and protracted contraction of Nigeria GDP per capita after the oil price shock of 2014. For its peers, the negative effect of the shock on GDP per capita was short-lived (figure 2.2). The high degree of dependency of government revenues on oil, the low balances in the fiscal buffers, such as the excess crude account, and the inflexible foreign exchange rate regime did not help shield the economy from oil price volatility. The decline in oil revenue directly influenced the government’s ability to execute investment plans, and this affected the overall economy. Because of the shallow financial market, increased government debt issuances also crowded out the funding available to the private sector. The high credit exposure of banks in the oil and gas sector also affected the balance sheets of banks, which reduced the credit available to the private sector. Because the oil sector represents the vast majority of Nigeria’s exports, lower oil prices also translate into balance of payment issue.

Figure 2.2. GDP Per Capita Growth, 2008–17
annual percent change, constant 2011 U.S. dollars

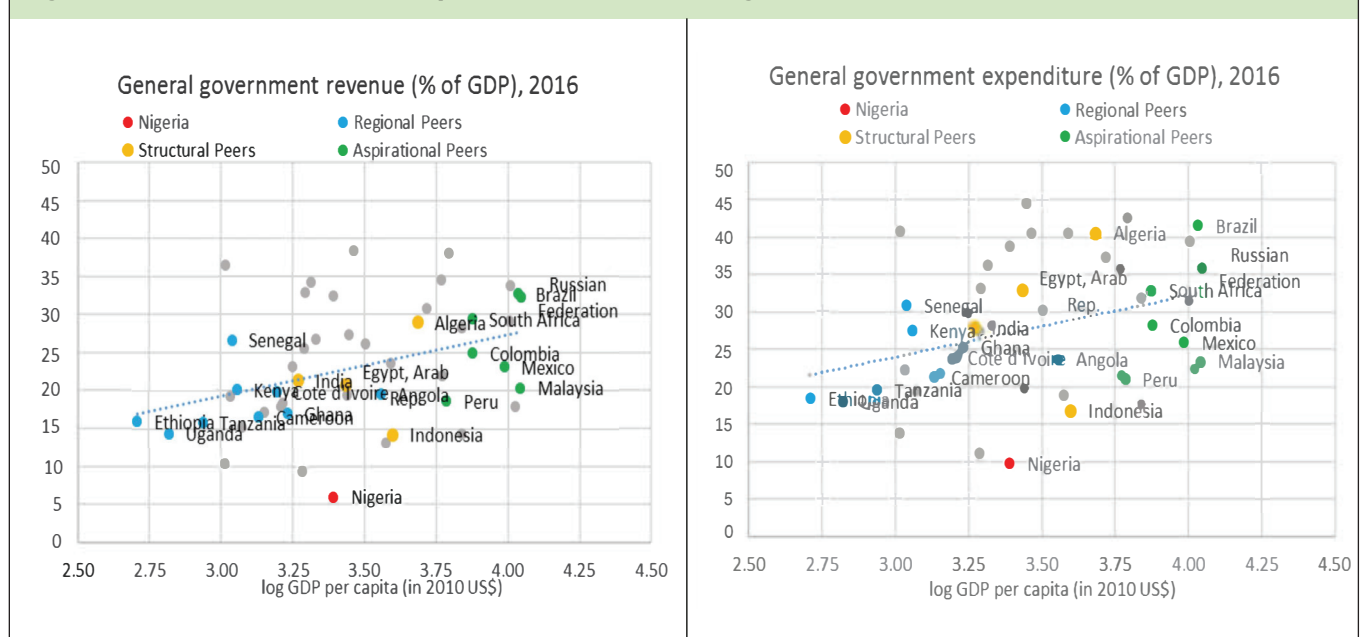


Source: World Bank calculations using October 2017 WEO data.

Impact of oil revenues on the government

Nigeria collects only modest amount of tax revenue relative to the size of its economy, and public spending is extremely low by the standards of comparable countries. The presence of oil revenues has weakened the government's incentive to develop a broadbased tax system and low trust in government limits the ability for tax collection where efforts are made. The resulting expenditure volatility has disrupted infrastructure investment and slowed human-capital formation. Nigeria's public revenues and expenditures are roughly one-third and one-half, respectively, of the average among countries with comparable GDP per capita (figure 2.3).

Figure 2.3. Total Revenue and Expenditure Are Low in Nigeria Relative to Peers

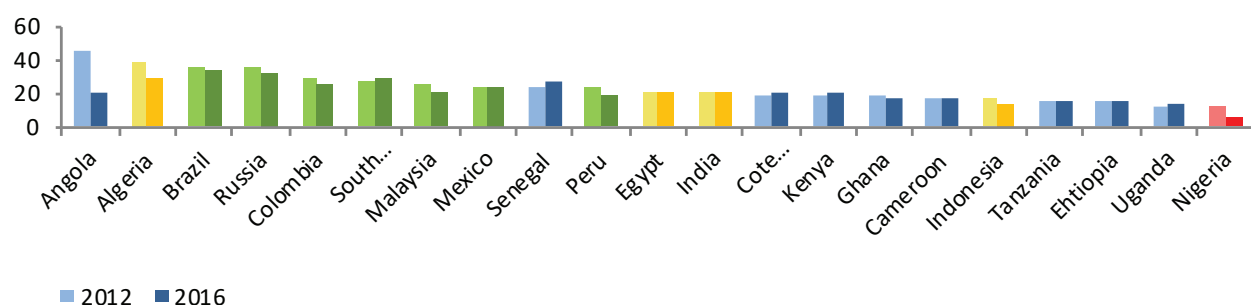


Sources: Fiscal data: IMF 2017; GDP data: WDI; Indonesia data: COFIS; Nigeria data: World Bank.

Note: General government consists of central, state, and government and federally allocated extrabudgetary funds. The central government budget does not fully incorporate the revenue and spending of all ministries, departments, and agencies. The sample of countries consists of middle-income economies (World Bank definition) and includes three low-income regional comparators (Ethiopia, Tanzania, and Uganda). There are 50 countries in the 2012 and 2016 samples. Horizontal axis: GDP per capita in respective years is in constant 2010 U.S. dollars converted into logarithmic (log) form.

The 2014 oil price and production shocks decreased Nigeria's already low level of government revenue and expenditure to a fraction of the level of any peer country. With 12 percent and 14 percent of GDP, respectively, Nigeria's general government revenue and expenditure were already the lowest among peer countries prior to the oil shocks in 2012 (figures 2.4 and 2.5). Following the oil price and production shocks, both revenue and expenditure declined further – more than in any other peer country except Angola (which nevertheless maintained greater levels than Nigeria because of higher starting position). As of 2016, with an alarming 6 and 10 percent of GDP, respectively, Nigeria's general government revenue and expenditure only accounted for roughly a half of the revenue and expenditure of Uganda, the peer country with the next lowest levels, and for an even smaller share than in other peer countries.

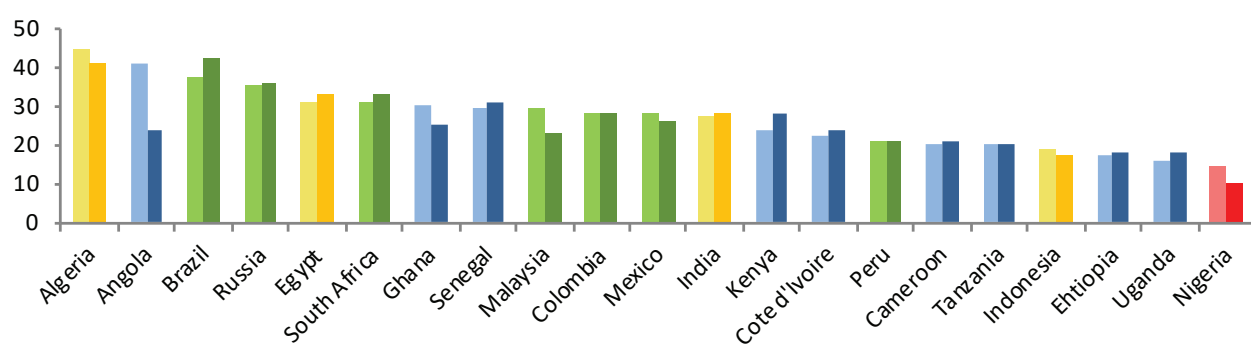
Figure 2.4. General Government Revenue, 2012 and 2016
% of GDP



Sources: Fiscal data: IMF 2017; GDP data: WDI; Indonesia data: COFIS; Nigeria data: World Bank.

Note: General government consists of central, state, and local governments and federally allocated extrabudgetary funds. The central government budget does not incorporate the revenue and spending of all ministries, departments, and agencies, and the general government therefore does not fully represent consolidated government.

Figure 2.5. General Government Expenditure, 2012 and 2016
% of GDP



Sources: Fiscal data: IMF 2017; GDP data: WDI; Indonesia data: COFIS; Nigeria data: World Bank.

Note: General government consists of central, state, and local governments and federally allocated extrabudgetary funds. The central government budget does not incorporate the revenue and spending of all ministries, departments, and agencies, and the general government therefore does not fully represent consolidated government.

As revenue decreased and fiscal deficits increased, interest payments grew substantially and have crowded out capital expenditure. The federal government interest-to-revenue ratio exploded from under 30 percent in 2014 to 61 percent in 2016, implying that more than half of the federal government's revenue was used only to pay interest on its debt in 2016. The sharp increase in the ratio was in large part due to the decline in government revenue, as a rough estimate shows that the interest-to-revenue ratio would have been approximately 40 percent if revenue had remained constant between 2014 and 2016 (which is still high). While federal government interest payments increased from 0.7 percent of GDP in 2010 to 1.2 percent in 2016, federal government capital expenditure declined by 61 percent from 1.8 to 0.7 percent of GDP during the same period. Federal government interest payments therefore were almost twice as high as capital expenditure in 2016.

Oil fiscal revenues have suffered from inadequate collection as well as avoidable cost escalation.

The annual audit reports of the Nigeria Extractive Industries Transparency Initiative have documented (1) many cases of the failure of oil companies to make fiscal payments in full; (2) failure of the Nigerian National Petroleum Corporation to transfer dividends worth billions of dollars from Nigeria LNG Limited; (3) unexplained withholdings of payments due to the Federation Account from the domestic crude allocation; and (4) the apparent illegal diversion of funds allocated for joint venture cash calls to ineligible expenditures.⁴⁹ Oil production costs in Nigeria are widely acknowledged to be high, in part because of higher security costs. However, procurement approvals, which can take two years or longer, also contribute to cost escalation, for which there is scope for substantial reduction.

Limited revenue sources for the government

With regard to non-oil taxes, Nigeria suffers from outdated legislation, ambiguity of tax assignments, a proliferation of tax incentives, and weak productivity. Value added taxes as a share of GDP is extremely low (less than 1 percent), reflecting the abnormally low value added tax rate of 5 percent and the existence of many exemptions. While the 1999 Constitution is quite clear on the roles of the federal government relative to the state governments in the power to impose taxes on capital gains, incomes, profits of persons and companies and stamp duties, it is silent on consumption taxes. Constitutional ambiguity over which tier of government has responsibility for value added and sales taxes has also led to extended legal contestation and the reintroduction of a sales tax by Lagos state in 2000. Furthermore, the excise tax base is narrow and there are a high number of customs duty waivers. With regards to corporate income tax, there are a high number of tax incentives including tax holidays and location-based incentives.

The federal tax administration remains weak relative to peers. While a single national registration process was finally rolled out, other weaknesses remain, compromising its integrity and resulting in numerous inaccuracies. E-services are available to taxpayers, but usage is low. The Federal Inland Revenue Service and the Nigeria Custom Services do not currently access any third-party data to identify noncompliant or unregistered taxpayers. Taxpayer information and education are limited. There is no contact center and no school programs; stakeholder engagement is ad hoc; and rulings are often difficult to obtain. Furthermore, the audit function in the revenue service is weak: timelines are insufficient, and audits are not risk-based. The value added tax refund system is deficient. There are no instances of the Federal Inland Revenue Service making a refund to a taxpayer.

Other tax administration weaknesses constrain revenue collection. Most State Boards of Internal Revenue are extremely inefficient at collecting personal income taxes and other state levies.⁵⁰ They are run as part of the civil service bureaucracy, that is, they are not autonomous as the Federal Inland Revenue Service is. Except for Lagos, most are plagued by poor funding, lack of infrastructure, shortage of staff, and poor remuneration (see below). Most also lack key structures, including appeals and dispute resolution systems

49 NEITI Oil and Gas (database), Nigeria Extractive Industries Transparency Initiative, Abuja, Nigeria, <http://www.neiti.gov.ng/index.php/neiti-audits/oil-and-gas>.

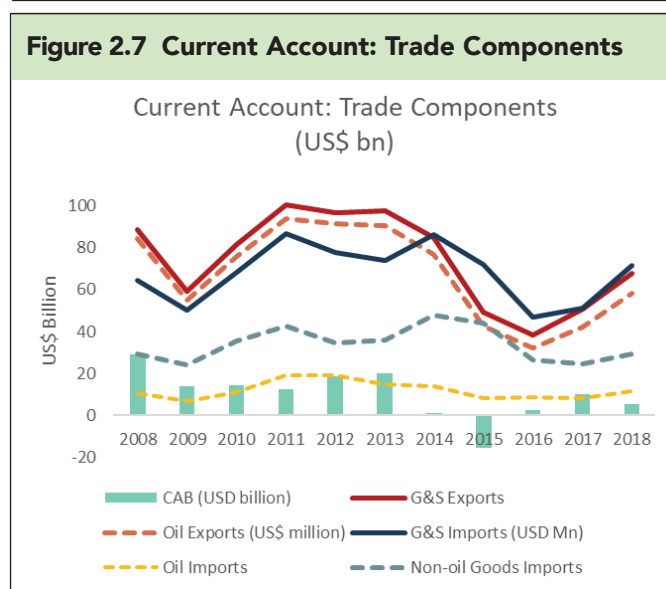
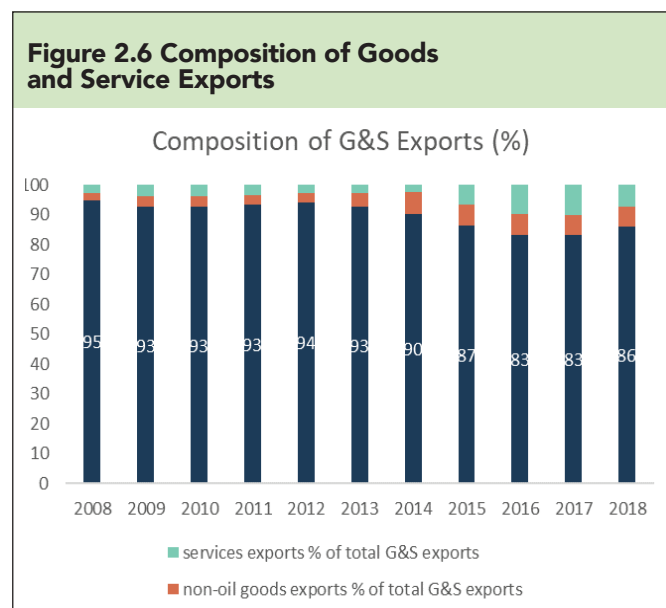
50 State levies include the withholding tax, stamp duties, the individual capital gains tax, development levies, and market taxes.

and taxpayer education services, as well as integrated systems. The Nigeria Customs Service, a paramilitary agency, has been primarily concerned with trade facilitation and anti-smuggling, with less emphasis on revenue collection. While this is partly attributed to its military history and structure, it is also due to the corruption that has plagued the agency for decades. The Customs Service has a modern information technology system, but it lacks proper measures and controls and suffers from severe power outages. There is no risk management and little to no data analysis. Human resource policies and procedures are weak and subject to abuse.

Limited export earnings beyond oil revenues

Overall external balances remain volatile to the oil price movements on both current and financial accounts.

Nigeria's export earnings remain dependent on oil and gas exports. The current account balance is sensitive



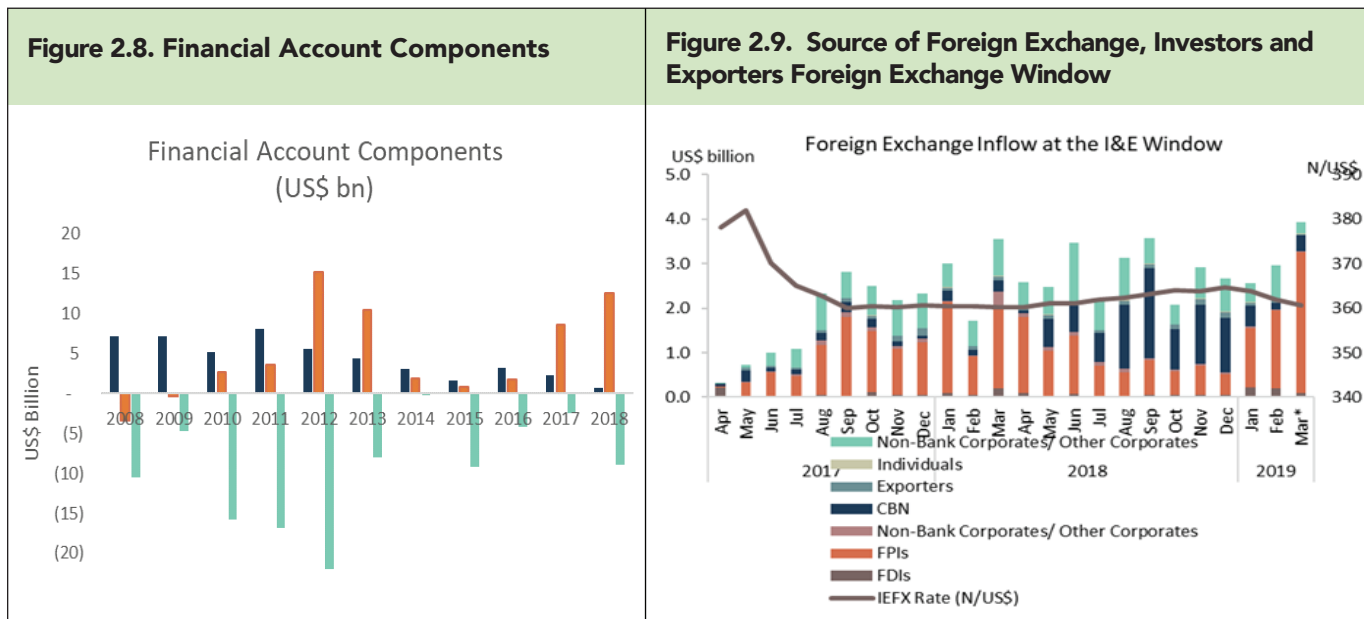
Source: World Bank calculations based on data of the Central Bank of Nigeria.

to oil price fluctuations. The export share of oil and gas in Nigeria's goods and service exports averaged 90 percent over the last decade (86 percent in 2018; figure 2.6), with only small contributions from non-oil goods exports and services. Nigeria's generally positive (except in 2015) current account balance is supported by sizable remittances (equivalent to about 30 percent of the value of oil exports, according to CBN data) (figure 2.7). The diversification of exports remains minimal because of continued weak regional integration, including the Economic Community of West African States, and the non-competitiveness of non-oil exports. The estimated volumes of informal trade are high, particularly imports of goods on the negative list and reexports of subsidized fuel products.⁵¹ While the real exchange rate was estimated to be only slightly overvalued in 2018 (IMF 2018), the misalignment will increase if the CBN continues to prioritize nominal exchange rate stability and maintain protectionist trade policies in the high domestic inflation environment. The positive current

⁵¹ The data are taken from CBN (2016). The data collection period only covered 12 months in 2013–14 and thus yields outdated information. Nonetheless, total informal trade flows were estimated at US\$6.9 billion (US\$2.8 billion in informal exports and US\$5.2 billion in informal imports); these values could be expected to have increased given the introduction of formal-trade-restricting CBN policies and increased fuel subsidies. Within the observed informal trade, 38 percent was transported by truck and, so, relatively organized; only 7 percent of goods were carried by traders on foot.

account balance also reflects some effects of protectionist policies and slow recovery of intermediary imports. The government promotes import substitution through foreign exchange restrictions to a targeted group of imports. Since 2015, the CBN has restricted foreign exchange access to a list of 41 import groups (covering over 700 items) to promote domestic industries.⁵² The effectiveness of these policies, in a country with highly porous borders, a large informal sector, and undeveloped domestic supply chains, remains limited.

Financial inflows are increasingly sensitive to the exchange rate stability, which is in turn sensitive to the oil price / external reserves developments. A stable foreign exchange window rate for investors and exporters and high short-term domestic rates have supported portfolio investments since 2017 (figure 2.9). Reserves are used to provide a stabilizing buffer to keep nominal exchange rates stable (figure 2.9). The stability of the nominal exchange rate (particularly in the investors and exporters foreign exchange window) and high rates on CBN bills, which the CBN uses to mop up naira liquidity, maintain a tight monetary stance, and attract foreign portfolio investment (figures 2.8 and 2.9), which help in managing the reserves and the nominal exchange rate (figure 2.9). Net FDI inflows remain muted throughout (below 1 percent of GDP), despite the government’s deliberate efforts to improve the business environment and attract long-term investments.



Source: World Bank calculations based on data of the Central Bank of Nigeria.

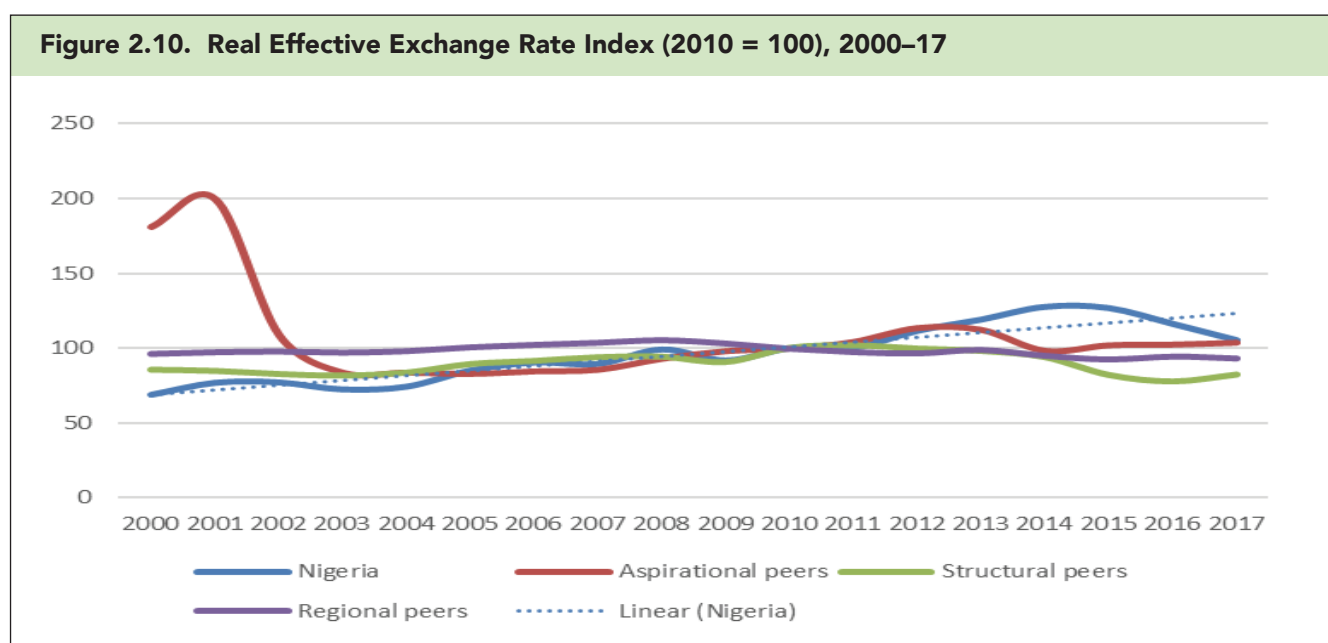
Policy responses to the 2014–16 crisis

The CBN opted for unorthodox exchange and monetary policies at the nadir of the 2014–16 crisis. The significant decline in crude oil prices in late 2014 put strong downward pressure on the naira that initially prompted the CBN to devalue the currency. As pressures on foreign reserves continued, the CBN introduced a series of administrative controls to contain the demand for foreign exchange instead of allowing further

52 The initial list contained 40 import groups (including staples such as rice and tomato paste) and capital (Eurobonds); in December 2018, fertilizer was added as the 41st import item.

depreciation.⁵³ As a consequence, the demand for foreign exchange shifted to the parallel market where the exchange rate premium relative to the official rate rose to 71 percent by May 2016. Another consequence was a sharp rise in the inflation rate, which especially affected the poor.

The handling of the 2014–16 crisis reflects a general trend in CBN restrictive exchange rate policies, which undermines external competitiveness. Nigeria’s real effective exchange rate has been steadily increasing since 2000, compared with the declining trend among aspirational peers. Since 2014, Nigeria’s real effective exchange rate index has been higher than that of all its peers, illustrating the country’s low external competitiveness (figure 2.10). The ongoing convergence of exchange rate windows adopted more recently by the CBN is welcome, but a multitude of exchange rates remain. These include (1) the CBN official window (₦305 to US\$1.00), mainly for petroleum imports and government expenditures); (2) a retail/wholesale window ₦325 – ₦330 to US\$1.00, accounting for about 30 percent of nonofficial transactions, taking place mostly at the 30- to 60-day forward rate); and (3) the investors and exporters foreign exchange window (about ₦360 to US\$1.00) since September, reportedly, accounting for close to 70 percent of nonofficial transactions). The CBN also sells foreign exchange for invisible transactions, Bureau de Changes and SMEs separately (at about ₦360 – ₦365 to US\$1.00), while some government transactions (for example, the allocations of the Federation Account Allocation Committee) occur at a rate closer to ₦320 – ₦325 to US\$1.00) The International Monetary Fund (IMF 2018) finds that Nigeria’s external position was weaker in 2017 than the level consistent with the country’s medium-term fundamentals and desirable policies.



Source: WDI.

53 These administrative measures included directing CBN foreign exchange offerings on the interbank market to transactions deemed higher priority, a ban in the use of export proceeds or foreign exchange markets to finance imports of goods in 40 categories deemed relatively less important or seen as candidates for import substitution, and discontinuation of weekly foreign exchange sales to exchange bureaus.

Constraint 2: Weakness of Public Sector Governance

Public sector governance issues affect all other constraints that Nigeria faces. In this sense, among the 10 key constraints, this is the single most significant one. At the same time, as discussed in the chapter on the country context, it is also the most complex, politically sensitive, and therefore difficult to address. To help capture this complex constraint, the focus of the analysis is on three areas: (1) intra- and intergovernmental coordination, especially across different levels of the government, such as between the federal and state governments; (2) transparency and accountability in the management of public resources; and (3) the effectiveness of the government, especially the quality of the institutions of public administration. The oil revenue-sharing arrangement among the federal and state governments is at the center of this challenge. The fiscal federalism framework does not compel or incentivize the states to be transparent, accountable, or prudent in the management of resources.

Intra- and intergovernmental coordination

Meeting demands for autonomy and balancing power, the 1999 Constitution devolves extensive political autonomy and service delivery responsibilities to subnational governments. It provides a framework for rules-based coordination, predictability in the flow of resources to subnational units and local autonomy. On paper and in practice, the precise division of responsibilities is unclear and contested. Policy coordination across the federal system has proven challenging, and there is a marked bias toward infrastructure and tertiary service provision with low investments in service delivery.

The degree of autonomy granted to states gives them considerable influence on their development trajectories providing an opportunity but also a challenge. State leadership can independently make decisions on realizing the state's vision for progress. This has provided examples of positive deviance, such as in Lagos State (see Box 2.1.). At the same time, building national consensus in the areas of macroeconomic stability, prioritizing public resource allocation, and meeting minimal national standards for public administration, public financial management and service delivery have all been difficult in the absence of a mechanism for joint accountability. Subnational autonomy gives limited power to the federal government to coordinate investments because unconditional fiscal transfers provide no leverage to coordinate policies that are the constitutional responsibility of state or local governments. This is particularly debilitating for the basic public services essential to human development. The absence of credible data on subnational performance (for example, budget allocations, actual expenditures, and the resulting development outcomes) compounds this issue. Even within the current context, better coordination by federal government agencies could address data gaps and facilitate the sharing of information and experiences.

In addition to the coordination challenges across tiers of government, coordination among institutions within each level of government is essential for efficiency and effectiveness. Combined with weak capacity, poor intragovernmental coordination exacerbates the failings in intergovernmental relations. Duplication of responsibilities and the multiplication of institutions fuels patronage while papering over organizational weaknesses and making service delivery extremely difficult. There is a plethora of institutions

Box 2.1. Lagos State: An Example of Positive Deviance

Lagos State undertook several important initiatives to improve public services and promote the more positive attitudes of citizens toward the state government. Thus, concrete steps were taken to improve the responsiveness and accountability of government, including the imposition of mandatory processing deadlines, the publication of the e-mail addresses and cell phone numbers of public officers and senior civil servants, and the distribution of booklets and manuals explaining government procedures in areas such as land transactions, building permits, and tax payments. Compliance with service standards is reviewed at public meetings attended by the governor and other senior civil servants. Particularly successful programs that have improved public services in Lagos State include the following:

- **Security:** In addition to a major investment in more effective law enforcement, the Lagos State government has succeeded in creating opportunities and reintegration programs for technical and vocational training among delinquent youth involved in organized crime. It has launched programs to educate, equip, and empower youth in Lagos State, such as (a) a youth farm settlement scheme, (b) the creation of a youth institute to provide higher-level technical training to graduates of tertiary institutions, (c) the creation of vocational centers across the state through the Ministry of Women's Affairs and Poverty Alleviation in 14 fields, (d) establishment of job registration centers in 10 local government areas, (e) creation of one million direct person-day jobs in transport thanks to a road maintenance scheme.
- **Transport:** Facing major problems with traffic and congestion, the Lagos State government launched several important programs, including a new Bus Rapid Transit System that has reduced transport times considerably and has become a common model for bus transportation programs in other Nigerian states. However, the delivery of the light rail system (Blue Line and Red Line) has been delayed for five years, indicating a possible shift in the priorities of the state government.
- **Education:** Lagos State devotes 13 percent to 15 percent of its budgetary outlays to education, which is quite high by Nigerian standards, given that the federal government also contributes significantly to educational expenditures. Lagos State programs in education are notable in focusing not only on maintaining an adequate number of schools and supplies in good condition, but on the welfare and incentives of teachers. Despite rapid migration into Lagos that has increased school enrollment at a rapid pace, schools continued to increase teacher and classroom to pupil ratios. Literacy and other measures of education outcomes in Lagos State are among the nation's highest.
- **Beautification:** A comprehensive program on the greening and beautification of Lagos has achieved visible results that are widely appreciated in the city.

Today, Lagos State remains the single best example of a largely successful major urban agglomeration in Nigeria. It represents a model for achieving the type of rapid job creation, poverty reduction, and internal revenue generation that Nigeria now needs in other parts of the country as well. Lagos State has special historical and geographical advantages as a port that hosts the financial and business center of the country, which will be difficult to replicate elsewhere in the country. Nonetheless, a strategic program to build infrastructure to support market connectivity should be able to unlock important opportunities for spreading the success of Lagos to other parts of the country. Lagos itself has become increasingly congested and, for its own continued success, needs to expand into other parts of the South West and beyond. Effective leadership, together with a constructive partnership between government and private investors to leverage public investment resources, can potentially facilitate more development miracles in Nigeria.

with overlapping responsibilities and mandates in every sector which is a situation prevalent at federal, state and local level. The federal government has multiplied and layered institutions which have emerged ostensibly to assert control and support change at the subnational level in the context of limited progress and weak reforms. Institutional fragmentation among federal agencies has contributed toward the challenges in implementation of a range of initiatives such as Power Sector Recovery Program and interventions in sectors like transport and agriculture where a strong central function is important for interstate alignment.

All tiers of government depend overwhelmingly on federally collected revenues for budget financing.

Few states are successful at internally generating revenues, thus their budget envelope is mostly limited to their allocation from the federal level. Revenue is allocated according to a carefully negotiated formula designed to redistribute federally collected revenue (oil revenue, value added taxes, and corporate income taxes), among the three tiers of government.⁵⁴ State governments on average derive 85 percent of their revenues from the distribution of federally collected revenues, while the ratio is over 90 percent among local government areas. The federal government retains close to half of the federally collected revenue, while state and local governments have the bulk of the expenditure assignments in public service delivery. The revenue-sharing formula relies on criteria of interunit equality and relative population, which provides an incentive to overestimate population numbers and negotiate for the formation of new subnational units.

Local governments are not financially or politically autonomous, are rarely elected, and are often the missing link in service delivery.

The devolution of extensive financial resources and political autonomy to states has transformed governors into powerful national actors. State political leaders have considerable influence over local governments. Most local governments have relatively low capacity and are effectively subordinated to the administrative supervision of the states, confusing the division of responsibilities and undermining a potential avenue of subnational political pluralism and accountability. Local councils are typically appointed by the governors. Only a handful of local governments, primarily those in urban areas, function with relative autonomy, given their capacity to manage public services and effectively promote local development. For example, Kaduna State and Lagos State represent two positive examples of state reforms (boxes 2.1 and 2.2). Many states have not yet held local government elections; so, governors are free to nominate caretaker administrations. Governors can typically pool the resources of state and local governments. This increases the power of state governments, while diluting accountability and transparency in local government areas and in states.

54 After a 13 percent derivation of oil revenues (net of first line charges), which go to the oil-producing states, net federation account revenues (oil and non-oil) are shared: 48.5 federal government; 1 percent Federal Capital Territory; 26.72 state governments; 20.6 local government areas; and 3.18 special funds of the federal government. The value added tax—which is outside the federation account, but also distributed at the federal level by the Federation Account Allocation Committee—is shared as follows: 14 percent federal government; 1 percent Federal Capital Territory; 50 percent state governments; 35 percent local government areas.

Box 2.2. Beyond Lagos: The Reform Agenda of Kaduna State

With an estimated population of 8 million, Kaduna State is considered the gateway to northern Nigeria. It is located along the Lagos-Kano corridor, the main trade route between Lagos and northern Nigeria, connecting the two largest cities in Nigeria. Within the North-West, Kaduna State, despite a long history of conflict, stands out as one of the most advanced in the region, both in human capital and service delivery (for example, the literacy rate among children is 60 percent higher than the regional average), which potentially makes it a regional engine of growth. Reform success in Kaduna State can have a demonstration effect for other northern states and can drive a change in the narrative of northern Nigeria, which exhibits among the worst development indicators and the highest level of poverty countrywide.

The Kaduna State government adopted an ambitious Kaduna State Development Plan (2016–20) to deliver jobs, social justice, and prosperity. The plan stresses the importance of accelerating private investments and private sector-led growth, to create jobs and strengthen the fiscal sustainability of the state. The plan focuses on four areas: economic development, social welfare, security and justice, and governance.

In this context, the Kaduna State government has embarked on significant fiscal reform efforts to turn around the economic situation of the state. The state has launched multiple reforms to improve fiscal sustainability and accountability, in line with the federal government Fiscal Sustainability Plan, and has already met several commitments under the plan including publication of audited annual financing statements within six months of financial year end, online publication of state budget, and implementation of the Treasury Single Account. It has straightened tax administration to enhance tax revenue collection (including property tax), strengthened public procurement, streamlined the wage bill and launched a web-based platform for citizens to submit feedback from their mobile phone on capital projects and service delivery.

Vital fiscal reforms were accompanied with ambitious reforms aimed at accelerating private investments in the state. The Kaduna State government established the Kaduna Investment Promotion Agency (KADIPA) in 2016 as a one-stop resource and coordination center for all investment related activities in the state with a focus on improving the state business-enabling environment and attracting and facilitating new investment in the state. KADIPA has been spearheading business enabling environment reforms in the State. *Doing Business in Nigeria 2018* (World Bank 2018d) indicates that Kaduna State has the highest Doing Business score (at 65.97) among Nigeria's 36 states and the Federal Capital Territory, having made the strongest improvement since the *Doing Business in Nigeria 2014* report (with a score of 54.76) (World Bank 2014c).^a

The Kaduna State government has also made ground breaking reforms in land administration. *Doing Business in Nigeria 2018* notes that Kaduna implemented the most significant reform in property registration recorded in the *Doing Business in Nigeria* series since 2008 (with a significant reduction in the time and cost to register a property). In 2016, the Kaduna State government transformed the state Ministry of Lands into the Kaduna Geographic Information Service and embarked on an ambitious reform effort, including the modernization of the land information system (with a fully digitized system) and the rollout of the Systematic Property Registration Program to facilitate access to certificates of occupancy among urban households.

a. The Ease of Doing Business score is based on a scale from 0 to 100, where 0 represents the poorest performance and 100 represents the best performance.

Limited transparency and accountability in management of public resources

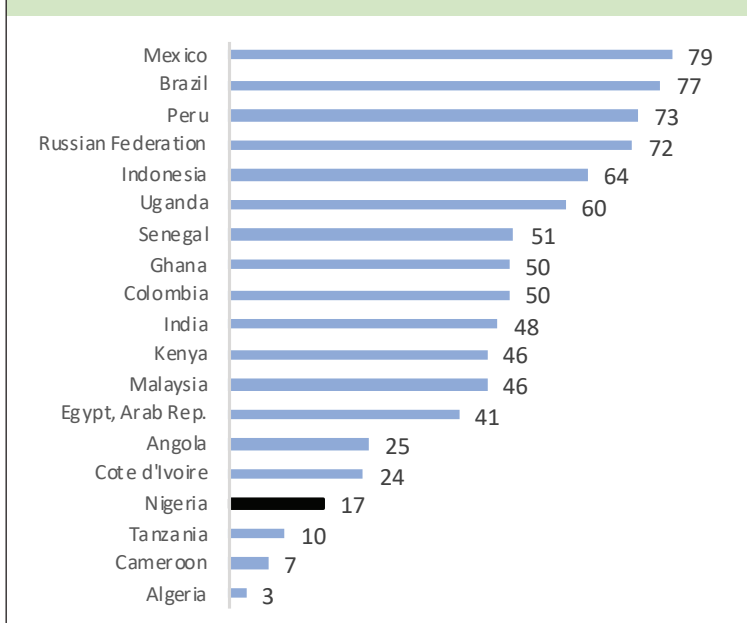
Transparency, accountability and sustainability in the management of public resources has been difficult to achieve. Nigeria's federal fiscal framework does not compel or incentivize states to be transparent, accountable, or prudent in the management of resources. In the context of the significant oil revenues available for distribution, the dialogue on how these resources are deployed and the prioritization of public expenditures remains contentious. Anticorruption, transparency and government accountability to citizens rank high on the Nigerian government's agenda but efforts to introduce reforms have not yielded measurable impact (World Bank 2018a). In that context, the government has taken the initiative, with support from development partners, in designing and implementing selected national programs. Examples are Saving One Million Lives, the Universal Basic Education Commission's support for reducing the number of out-of-school children, and the Fiscal Sustainability Plan. These programs work across states, foster mutual accountability among federal and state actors, and incentivize performance and results along the delivery chain in a manner suited to the specifics of Nigerian federalism in which the federal government has an oversight role and the responsibility for service delivery is primarily vested in states.

Competition for centralized resources has directly undermined the quality of governance. The high cost of electoral competition eventually exacts a toll on public resources undermining the need for strengthening formal or informal institutions of accountability. All tiers of the government depend overwhelmingly on centrally collected and redistributed oil revenues for financing the delivery of public services. While a majority of distributed revenues are concentrated at the federal center, state and local governments are responsible for primary service delivery across the health, education and water sectors. This leads to a mismatch between assigned responsibilities and the division of resources. Furthermore, payment of money to and disbursement of funds from the national Federation Account has been characterized as opaque. While a varied landscape of legislative scrutiny exists across the states, the public accounts committee of the national assembly has not cleared a single audit report since 1999. The dearth and inaccuracy of information regarding government effectiveness and development outcomes through monitoring and evaluation hampers accountability for results.

Formal budget formulation and execution processes are weak and demonstrate weak credibility. Since 2007, no budget has been in effect at the start of the fiscal year, and budget implementation rates are low. At the aggregate level, there is a large gap between the approved and actual budgetary allocations that undermines its overall credibility and adversely affects its strategic focus.⁵⁵ Formally approved budgets do not capture all operations of the government and credibility is low with large variations in outturn at all levels of government. Nigeria's budget remains one of the least transparent in Sub-Saharan Africa with a score of

55 For example, a presidential task team on education in 2011 shed some light on major concerns in the financing of education: the widening gap between the real budget (the money actually released for project and program implementation) and the apparent budget (data that are published and publicized), lack of information on the guidelines for allocating resources to various domains of expenditure (capital, recurrent, overhead), funds that are not tied to concrete activities and deliverables in the recurrent and overhead budgets, budgeted funds that are often released late or not at all, and the lack of synergy across funding sources.

Figure 2.11. Open Budget Index Score: Nigeria and Selected Peer Countries, 2017



Source: International Budget Partnership.

Note: A higher score indicates greater central government budget transparency.

17 in 100 in the open budget index in 2017 and no significant improvement since 2008 (figure 2.11). The Accountant General's Office possesses a high level of discretion and can reprioritize the budget during the execution process. Despite investments in automating financial management systems, reliable information on all revenues and expenditures of the government is not readily available which limits proactive management of public funds both on expenditure control and decisions regarding priorities and cash management. In the absence of information, coordination across tiers of government is difficult. Public expenditure and financial accountability assessments have been conducted in the past for the federal government and several

states which revealed weaknesses across the public financial management cycle.

Public finance legislations to enforce fiscal discipline, transparency, and accountability are largely enacted, but implementation is weak.

Because of intense conflicts over policy among vested interests, public finance reform has proceeded by layering legislation and organizations rather than the enforcement of a unified set of rules. The reforms implemented in the early 2000s were sustained by the process surrounding the granting of debt relief in 2005, but quickly weakened in the era of high oil prices and with leaders acutely dependent on rent-sharing arrangements. The Public Finance Bill (Control and Management) has been in force since 1958. The Fiscal Responsibility Act 2007 sought to institute a medium-term expenditure framework, boost transparency, and establish a fiscal responsibility commission to promote accountability. The Public Procurement Act 2007 was promulgated to address the weaknesses in the procurement system by addressing decentralization and the reduction of graft and waste in public expenditure. Attempts to enact an audit bill to establish the financial and administrative autonomy of the Office of the Auditor-General of the Federation are under way, while two states, Niger and Ondo, have enacted audit laws. At the subnational level, institutional reforms at the federal level often cascade down in the enactment of similar laws, but are not effectively implemented or enforced. For example, all states except Borno have passed a Fiscal Responsibility Law, and all but eight states have passed a Public Procurement Law. The Fiscal Responsibility Act, in addition to the Public Procurement Act, is essential for providing the required rules and procedures relating to three important budget processes: accountability, transparency, and stability. However, their provisions are frequently bypassed. The state and local government budgetary processes are not yet anchored to the Fiscal Responsibility Act. Despite constitutional guarantees for the independence of state auditors general, most states have yet to replace colonial-era laws that make auditors responsible

to the executive rather than legislature. Because of the lack of the federal-state accountability framework, no enforcement mechanism of the Fiscal Responsibility Act is in place. The domestic debts of both the federal and state governments have risen rapidly in recent years. Weak cash management and commitment controls have allowed large accumulation of domestic expenditure arrears.

Opportunities for citizen engagement in planning and utilization of public resources are limited. Some states and institutions are committed to establishing platforms for social accountability, but these are yet to materialize for most states and even for the federal government. Nigeria joined the Open Government Partnership in 2016, committing to an alliance for domestic reforms devoted to making government open, accountable, and responsive to citizens. The 2018 self-assessment carried out by the country revealed modest progress made across key commitment areas. At the subnational level, nine states have joined the initiative. The implementation of the initiative has not been without its challenges lacking leadership, resources and formal establishment of administrative structures.

Corruption remains a major impediment to development in Nigeria. Despite years of concerted anticorruption efforts, the perception of the prevalence of corruption remains high. Public institutions are considered ineffective and incapable of tackling corruption and preventing the mismanagement and theft of public funds. On Transparency International's Corruption Perception Index, Nigeria has been consistently ranked among the lowest 30 percent of countries. The effectiveness of anticorruption efforts is hampered by a range of long-standing challenges. There is poor coordination and collaboration between various institutions at both strategic and operational levels. Multiple institutions have a mandate for anticorruption, primarily the Economic and Financial Crimes Commission, the Independent Corrupt Practices and other related Offences Commission, and the Code of Conduct Bureau. These agencies face gaps in capacity, resources and legal frameworks for example lack of Assets Forfeiture Law, which would allow the Economic and Financial Crimes Commission to seize the assets of suspects. Nigeria lacks a clear and unified legal and institutional framework for the recovery and management of looted funds. In 2018, legislation was passed to establish the Nigeria Financial Intelligence Unit as an independent agency. Political interference, real or perceived, also undermines the effectiveness of anticorruption efforts, especially those efforts aimed at sanctioning politically exposed persons and public officials, by undermining public trust and confidence. This is confirmed by the 2016 Afrobarometer, which finds that only 31 percent of the public trusts government.⁵⁶ Generally, the public fails to understand the dividends of anticorruption efforts and the link to poverty reduction.

Digitalization of public services reduces manual transactions and thereby can decrease the risk of corruption. The lack of integrated platforms at federal and state levels precludes seamless and transparent financial transfers and keeps operating costs high. For example, the use of technology in the procurement system as provided by the Procurement Act 2007 would have curtailed some of the corruption, improved the data gaps and promoted accountability and value for money. In Nigeria, governments currently do not operate digital platforms to provide citizen-facing government services (such as online facilities to pay

⁵⁶ Afrobarometer (database), Democracy in Africa Research Unit, Center for Social Science Research, University of Cape Town, Rondebosch, South Africa, <http://www.afrobarometer.org/results/compedium-of-results>.

taxes, renew a driver's license, and validate a digital identity), share information (such as with open data or reusable public sector data), and run back-office systems (such as digitally managing government accounting information and human resource information) (World Bank 2018b).

Limited effectiveness of government: the quality of public administration and institutions

Macro indicators suggest that the productivity, capacity, and efficiency of Nigeria's public organizations have been low. Overlapping and ambiguous responsibilities have created considerable conflict over the relative priorities and resources of each tier of the country's public administration. Nigeria ranks below its peers in the strength of institutions. All three tiers of government suffer from absorption and technical capacity constraint which undermine the effective and efficient delivery of a wide range of services including public services, infrastructure or even private sector engagement. The 2016 government effectiveness score ranked Nigeria at the 17th percentile among the countries assessed and behind peers, such as Egypt, Indonesia, and Kenya (World Bank 2016b). The 2016 Country and Policy Institutional Assessment scored Nigeria's public administration performance at 2.5, below the Sub-Saharan African average of 2.9. This average masks a high degree of variation in performance across organizations and tiers. The public service is large and diverse, possessing asymmetric capabilities.⁵⁷

The underlying drivers of weak public service performance can be traced to the incentives facing the political leadership. The constraint to organizational effectiveness is not simply a lack of performance incentives for personnel but government has not developed strategic plans to address capacity gaps. Delivery of narrow private goods through patronage plays a more central role in the Nigerian political settlement than delivery of broadbased public goods. Public sector institutions demonstrate rather limited ability to perform three key functions to promote policy effectiveness for development, that is, enabling credible commitment, inducing coordination, and enhancing cooperation.

The scale of public organizations, the resources available to them, and the institutional rules that guide their management vary considerably. Weak management practices and lack of autonomy have constrained productivity. Organizations often face political interference, and they are labor-intensive and inefficient. Only 38 percent of federal public sector employees state that they have regular access to a computer. Local governments report Internet access on only 3 percent of workdays. Half of all organizations only had power for half the day on average (Rogger 2017). At the same time, the largest public organizations control immense resources with budgets of hundreds of millions of dollars. For example, the oil-rich states in the south command resources comparable with the 90th percentile of firms, according to available data on manufacturing firms in the country (Rogger 2017). Separate career tracks and greater remuneration distinguish professional agencies, such as the Federal Inland Revenue Service, from pooled civil servants. Subnational variation in management practices and public administration can also be extreme. For example, the State Boards of Internal Revenue are run as part of the civil service bureaucracy, that is, they are not

⁵⁷ The salary cost of the federal government has risen from around a quarter of total federal expenditures in the early to mid-2000s to nearly 40 percent in 2017 (annual federal budget). On average, two-thirds of state revenues are consumed by salaries and pensions (2016 data of BudgIT).

autonomous as is the case of the Federal Inland Revenue Service. With the exception of Lagos, most are plagued by poor funding, lack of infrastructure, a shortage of staff, and poor remuneration. This has resulted in a lack of motivated staff, as well as standards, functions, and processes that are applied inconsistently across states. Taken together, these factors have stratified the civil service and created considerable internal tensions.

Constraint 3: Violent Internal Conflicts

Since independence, Nigeria has faced cycles of violence, which have resulted in enormous costs among the population in human suffering and social and economic consequences. This violence has placed a significant burden on the country's development performance and prospects. While diverse in geography, characteristics and manifestations, the subregional conflict, insecurity, and episodes of violence in Nigeria should not be considered unrelated phenomena. The Boko Haram insurgency, the Movement of Emancipation of the Niger Delta, urban crime and violence, and conflicts between pastoralists and agriculturalists—as unique as they are—share commonalities in drivers, dynamics, and trends.

There are many factors driving fragility and conflict in Nigeria. These may be grouped into three types. While not always visible, structural factors set the foundation for conflict, which is not always violent. More perceptible factors, which can be thought of as intermediate, or proximate drivers can contribute to violent conflict. These tend to exacerbate the structural factors over the medium to long term and explain why violence emerges. The triggers are usually sudden or unforeseen events that provoke initial or additional outbreaks of violence or an escalation of conflict. In Nigeria, the three types of factors help explain the emergence of violent conflict. The factors are presented in table 2.2, along with some of the dynamics of conflict, in six fields: social, governance, security, economic, cultural, and environmental.

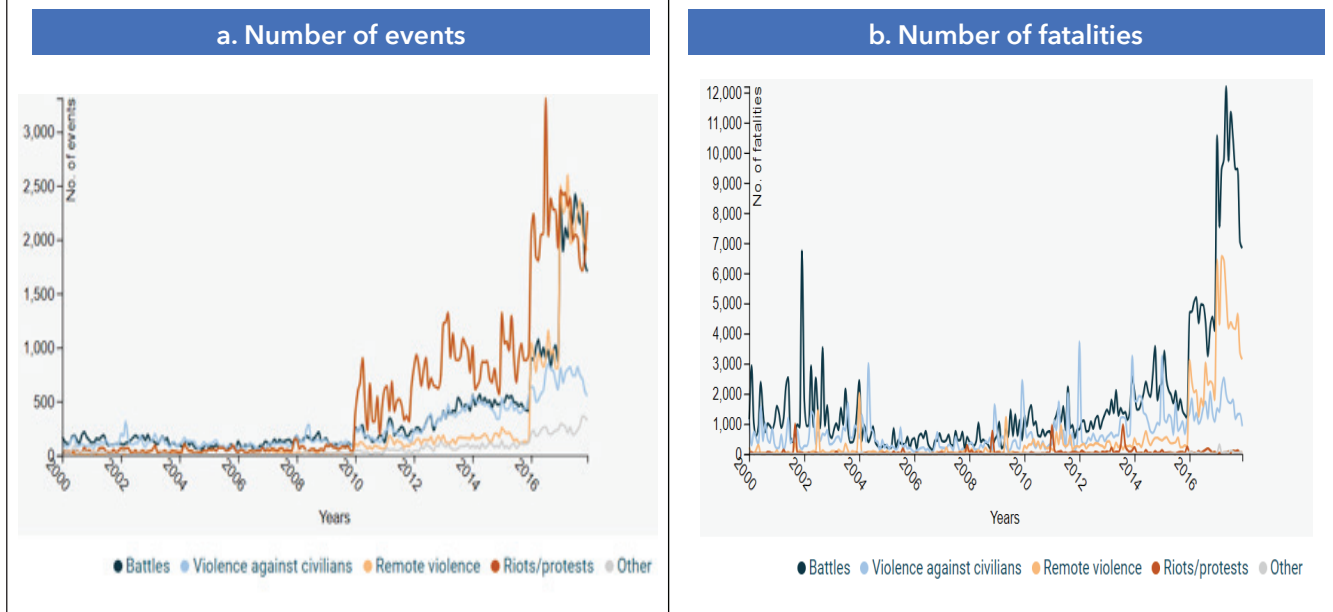
Table 2.2. Factors Driving Fragility and Conflict, Nigeria

Area	<i>Structural, root factors</i>	<i>Intermediate, proxy factors</i>	<i>Triggers</i>	<i>Crisis dynamics</i>
Social	Poor social and economic outcomes (poverty, health, nutrition, employment); high inequality; perceived social injustice; lack of social service provision	Declining trust and eroded social cohesion; political manipulation of society and patronage	Social polarization; openness to radicalization; revenge	Changing gender and intergenerational relations; sexual and gender-based violence; displacement; intercommunal violence
Political, governance	Elite political settlement excluding majority; historic marginalization of subregions; poor performance of government institutions	Accusations of corruption and impunity; nonstate actors filling governance and service void (for instance, community and religious associations); erosion of traditional institutions	Parties take to the street in the absence of effective or trusted channels for redress, justice, or political change	Fractured social contract; lack of transparency and poor accountability creates a spiral of violence
Security	Low levels of human security; porous borders in an insecure wider region	Unemployed and disaffected youth and proliferation of arms create conditions for recruitment and growth of armed groups and criminal opportunism	Unlawful acts by state and nonstate actors; Human rights and humanitarian law violations drive sense of injustice and persecution	Excessive use of force by elements of the security establishment legitimizing rebellion, vigilante groups fill security vacuum with mixed consequences
Economic	Lack of economic infrastructure, access to markets, and effective policies to support agriculture and industry; high levels of poverty and food insecurity	Lack of jobs and opportunity; large population of unemployed and poorly skilled youth	Collapse of subregional industrial base; recruitment of armed fighters from labor force incentivizes violence	Military expenditures thwart development spending; Low human development outcomes heighten risk of ongoing or renewed conflict
Cultural, ideological	Religion as source of political legitimacy; History of (sometimes violent) religious radicalism challenging the state	Political manipulation of religion	Escalating violence and geographic expansion of conflicts	Religious factionalism and competition; rise and internationalization of conflict
Environmental	Climate change and environmental degradation: drought, desertification, contraction of Lake Chad Basin	Lack of demarcated grazing lands, cattle routes and water sources for livestock, agriculture and fisheries	Competition over land and natural resources with growing population and rapid urbanization, especially between agriculturalists and pastoralists	Lack of effective natural resources and conflict management

Some states have proven to be remarkably resilient, while others have seen violence erupting much more frequently. Further research is needed to identify sources of resilience, to help inform the development response. In the Middle Belt, for instance, the resilience of some traditional institutions has helped to absorb the deep shocks linked to the region's complex societal dynamics. The transformation of traditional and religious authority has minimized the role of these institutions as conflict mediators. Notwithstanding this loss of leverage, there still exist some traditional rulers and religious figures in the Middle Belt who continue to play pivotal roles in organizing their communities for peace through establishment of dialogue committees and engaging state agencies. These leaders such as the Sultan of Sokoto or the Emir of Kano have used their traditional and spiritual authority to bring warring communities to the table and also open channels of communications across ethnic and religious divides. The actions of traditional institutions as peacemakers have also been complemented by the proliferation of nongovernmental organizations and civil society groups engaged in local peacebuilding activities. Groups such as the Christian Association of Nigeria, Jama'atu Nasril Islam, and the Interfaith Mediation Center have been instrumental in encouraging peaceful coexistence between different religious and have also acted in mediatory roles in the Middle Belt. This should be complemented with strengthening traditional mechanisms for farmer/herder conflict prevention and resolution. Several state governments in the region have also set conflict resolution architecture such as peace commissions to intervene in conflicts plaguing their states.

Chaotic and disorganized urban expansion has resulted in the formation of cities that are characterized by large slum areas, inadequate infrastructure and services, vulnerable forms of livelihood, and a shortage of employment opportunities. Large youthful unemployed populations compound the stressors and tensions within the urban system. Policies to create jobs are essential to absorb the large numbers of teenagers coming of age. More well educated, healthier, and socially and politically aware citizens can also become important sources of stability for Nigeria. Engagement of citizens in the development process of urban agglomerations can strengthen people's citizenship, as well as the relationship between the Nigerian people and the state. Policies for meeting the economic and social needs of youth are critical for violence prevention and stability.

Conflicts pose a threat to economic development and increase the possibility of spillover of violence to peaceful areas whether through actual violence or displaced people. In 2017, there were 1.7 million of internally displaced persons. In Nigeria, about 25 percent of the population in conflict-affected areas had restricted access to services. Persistent conflicts affect not only the movement of people but many of the normal government and private sector activities, thereby constraining economic growth and development. In addition, conflict also leads to the diverting public resources toward ending conflict. Furthermore, at the household level, both the poor and the nonpoor were robbed, suffered asset or dwelling destruction, and in extreme cases their land was occupied. Due to the lack of security, assets are damaged, livelihoods are disrupted, and human capital accumulation slows. Violence has increased steadily in Nigeria with an abrupt acceleration beginning in end-2009. Fatalities rose sharply in 2016 before falling moderately in 2017 (figure 2.12).

Figure 2.12. Violence and Protest: Trends in Events and Fatalities, 2000–17

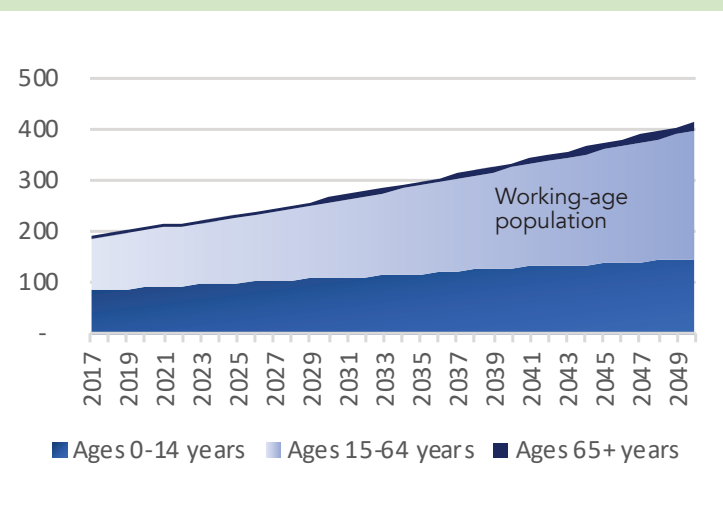
Source: ACLED data.

Increasing security for the population and economy and enhancing social inclusion will be critical for Nigeria's success. Conflict can create a particularly vicious circle for the economy by limiting opportunities for gainful employment that, in turn, fuel frustrations and further conflict. This cycle is exacerbated by weak governance, lack of trust in public institutions and a weak justice system.

Constraint 4: Demographic Pressures

Nigeria is a pre-demographic dividend country because of high fertility, high mortality, and skewed young age structure. High fertility is partly caused by a failure to invest in people, especially girls and women. Nigeria has experienced only modest declines in mortality and fertility, and rates remain high, posing risks for the population age structure and the potential for a demographic dividend (figure 2.13).

Nigeria's under-5 mortality rate is one of the highest in the world. This is significant because the demographic transition typically starts with declines in mortality, especially child

Figure 2.13. Population, by Age-Group, 2017–50
millions

Source: World Bank.

mortality, which has historically served as an important population signal that fewer children are needed to replace those that die. Moreover, reducing fertility would have the immediate added benefit of reducing Nigeria's extremely high maternal mortality as fewer women are exposed to the risk of death because of pregnancy and childbirth. In Nigeria, high fertility is driven by young age at marriage and the subsequent early and frequent childbearing. The access to and quality of birth attendance and antenatal care remain poor because of limited public investments in public health services in general and especially in these areas.

Adolescents, particularly adolescent girls, have important implications for harnessing the demographic dividend. Adolescents make up a substantial 23 percent of Nigeria's population, and the already large number of adolescents is expected to more than double in the upcoming decades, from 41 million to 84 million in 2050 (under a medium fertility scenario), posing challenges for provision of health, education, and job training services to prepare them for a productive future. However, this also has implications for the next generation given the patterns of early marriage and early childbearing. Approximately 28 percent of girls ages 15–19 are already married, and 23 percent are already mothers or pregnant with their first child. There are also regional differences, with the youngest ages of marriage seen in the North West, North East, and North Central regions. These are the same regions where the age of marriage has been relatively stagnant. Trends in secondary education among girls are particularly concerning given that ample evidence shows that secondary education among girls is associated with lower fertility and unwanted pregnancy and reduced infant mortality.

Despite some improvements in maternal survival, maternal health services remain underutilized. The use of skilled birth attendance is lowest among young mothers indicating a need to target adolescents for maternal health services, especially as adolescent childbearing carries higher risks to both the young mother and her child. While better facility coverage is needed, good-quality maternal and newborn services are also critical to reducing mortality among facility users. A good-quality maternity service should include provision of postpartum family planning and counseling on exclusive breastfeeding, both of which serve to reduce fertility and promote the better health of the mother and child.

Constraint 5: Low Human Development Outcomes

Nigeria has an immense potential to invest in its human capital. Nigeria accounts for 20 percent of the population of Sub-Saharan Africa, and, according to current population projections, it will be the third most populous country in the world by 2040, with over 400 million people. A healthy, well-nourished, well-educated, and skillful population not only provides the foundation for a productive life and enables future workers to compete in the dynamic labor markets of the emerging digital economy; it gives citizens a stake in their community and country, helping to build greater stability and reducing the drivers of conflict. This is particularly important for Nigeria. As Africa's largest and most populous economy, a stable and prosperous Nigeria is critical for regional stability and faster poverty reduction in West Africa. The country's population growth, coupled with conflicts, underinvestment in health and education and high unemployment, have dangerous global implications. The Nigerian government recognizes the urgency of addressing the human capital issues and launched several initiatives in this area, most recently the launching of the Nigeria's Human

Capital Development Vision. The Vision includes a set of prioritized policy and programmatic actions and ambitious stretch targets, including population targets.

Health services

The federal government's health care policy objectives, if implemented successfully, could have a substantial positive impact on peoples' lives. The country's poor performance in health has led to significant efforts to rethink health sector policies. In recent years, the government has begun to pass important legislation and set out policy objectives for the health sector. To realize them, more resources, better governance, and stronger public financial management are necessary. Whether compared with peers or with Sub-Saharan Africa, Nigeria's health care system has not successfully delivered basic primary services nationally, though there are pockets of success in selected states. The consequences for the population have been dire, resulting in avoidable deaths, disability and illness, especially of the most vulnerable in society—the poor, women, and children. The main challenges facing the health care system are insufficient access, affordability, quality and extent of services. These aspects of the health care system are related to each other and can be improved by addressing delivery, financing, accountability and the architecture of development assistance for health.

The poor performance in primary care impacts health outcomes at the secondary and tertiary levels.

Though Nigeria's health care system is organized into three tiers (primary, secondary and tertiary health care levels), the lack of performance of the first tier—primary care—has a significant impact on the health of women and children. Local governments are responsible for the provision of primary health care, but are underfunded and suffer from limited capacity.⁵⁸ They have not been able to finance and deliver primary health care properly, creating a weak foundation for the health care system. The function of primary health care should be to provide basic services such as vaccinations, long-lasting insecticidal nets distribution, family planning, simple curative services for children and care for pregnant women should get first call on government revenues. However, in Nigeria, primary health care facilities lack essential inputs ranging from medicines and supplies to equipment and skilled personnel. For example, in 2016, average drug availability in health facilities was 35 percent.

Accessing health care is still difficult for many women. Based on a nationally representative sample, over half of women indicate that they would face at least one serious obstacle in seeking medical care. According to data of the Demographic and Health Surveys, the two top reasons are lack of money for treatment (42 percent) and distance to the facility (30 percent) (NPC and ICF International 2014). Other factors affecting access—though to a lesser extent—were the perceived attitude of the health worker, not wanting to go alone, and needing permission before going to the health facility. For example, only 39 percent of women report being involved in decisions regarding their own health care. The impediments facing women are difficult to address, especially those related to transport and, to a lesser extent, attitudes or perceptions of both women themselves, but also of their husbands.

⁵⁸ The state governments are responsible for providing secondary care, while the federal government is responsible for policy development, regulation, overall stewardship, and providing tertiary care.

Public expenditures on health care are too low and inefficiently used. Nigeria is among the countries spending a low share of public funds on health services. The latest publicly available data indicate that total public health expenditures are about 0.5 percent of GDP or 5.9 percent of total government spending in 2016 (equal to US\$16 per capita) (figure 2.14). This is low compared with the averages of Sub-Saharan Africa and lower-middle-income countries, at US\$30 and US\$26, respectively. At the federal level, public health expenditures have declined in real terms over the last few years despite a rapidly growing population.⁵⁹

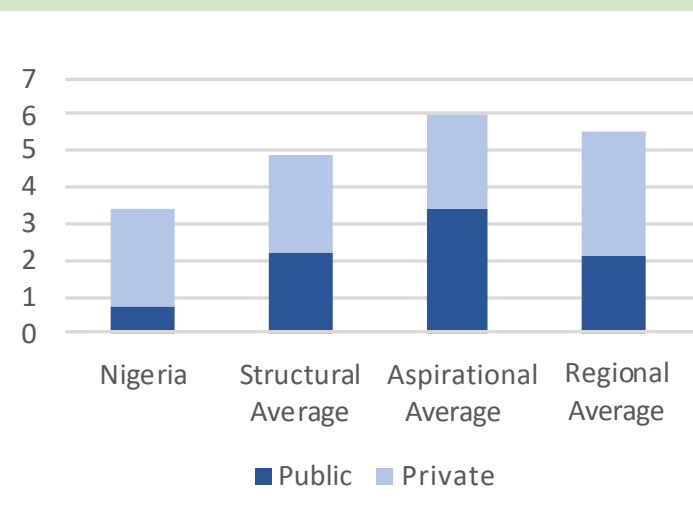
Thus, the health system is underfunded, and

the budget is unpredictable making it difficult to deliver much needed services to improve the population's health. An additional problem is that the resources available are not being well spent, with hospital care (tertiary health services) using about three-quarters of all public health care funding. The poor management of equipment schemes and fragmented and sometime dysfunctional distribution systems for medicines and supplies also lead to large inefficiencies. Development partners are filling the gap for basic primary health care (including vaccines and commodities for malaria control), leaving many strategic and transformational reforms unfunded.

Out-of-pocket expenditures are relatively high, putting a heavy burden on households. They comprise 72 percent of total health expenditures in Nigeria (versus 35 percent for Sub-Saharan Africa) in 2014 (WDI). Over 2011–15, out-of-pocket health expenditure represented nearly seven times public health expenditure in Nigeria (see figure 2.14). Poor people are forgoing care or incurring catastrophic out-of-pocket expenditures to obtain care.⁶⁰ For example, 69 percent of women in the poorest quintile would forgo health care, and half report that this is because of the cost of treatment (NPC and ICF International 2014). This might explain why the lifetime risk of maternal death is so high in Nigeria. In addition to the legal out-of-pocket payments, petty corruption is prevalent, which raises the cost of obtaining health care among households. For example, in 2014–15, 25 percent of households paid bribes for health services, compared with the African average of 19 percent (Nayihouba and Wodon 2019).

Transforming health care in Nigeria requires better governance (including better data) and greater partnership with the private sector. The publicly financed health sector largely follows a traditional model with an emphasis on inputs and centrally directed delivery. There is limited focus on incentives, results and

Figure 2.14. Average Public and Private Recurrent Health Expenditure, 2011–15
% of GDP



Source: WHO Global Health Expenditure Database.

⁵⁹ Data of draft Nigeria Health Financing System Assessment.

⁶⁰ Internal World Bank data for a study on health.

innovation, though this is slowly changing. The lack of robust data and monitoring systems make it more difficult for the government to efficiently and effectively address health challenges. Yet, publicly provided services constitute less than half of health services delivered. Since Nigeria has a vibrant private sector, private health care providers play a prominent role in health care delivery, especially in urban areas. Although the private sector delivers 60 percent of health care in the country, the public-private partnership is weak. However, small steps in cooperation between the public and private sector are beginning. The National Primary Health Care Development Agency is pioneering efforts to bring private sector managers and management techniques into the public sector. In another example, the Nigerian Interfaith Action Association, a nongovernmental organization, delivered behavior change communications relating to malaria control with impressive results. The experiences of Nigeria and other countries (for instance, Afghanistan and Cambodia) demonstrate that contracting nonstate actors can be successful in delivering primary health care services. The for-profit and nonprofit private sector could take on an even greater role, especially if the government contracts with them to deliver services, but finance is a constraint.

Water, sanitation, and hygiene

All three tiers of government play a role in the delivery of water and sanitation services to the population, which leads to varying level of service. At the central level, the Federal Ministry of Water Resources is responsible for policy making, oversight, and investment support for water resources management and development (surface water and groundwater), water supply and sanitation, and irrigation and drainage. Although not explicit in the Constitution, the responsibility for the delivery of water and sanitation services rests with state and local governments. Each of the 36 states has its own legal and institutional framework for the services, resulting in significant variation in service delivery. Implementation of sector policies remains weak in most states with the majority lacking modern policy frameworks and adequate institutional organizations and capacities, which might explain why Nigeria is considerably lagging its peers. The state water authorities are responsible for water supply in urban and semi-urban areas and the waste management agencies are responsible for managing the sector at the state level.

Weak governance of the sector, lack of prioritization of water and sanitation services, and insufficient pressure by the public undermines the provision of this critical service to the population. The legal and institutional framework is a significant explanatory factor of why Nigerian water institutions perform poorly compared with most of its neighbors. Key policy-making, oversight, planning, service provision, regulation, and financing functions are not well defined and are seldom adequately implemented or enforced. The reform of water and sanitation services is not high on the political agenda of federal and state governments, resulting in continued low coverage and poor quality of services. Moreover, service providers such as state water authorities, continue to operate under direct political interference, with marginal autonomy, capacity and incentives to improve performance. Civil society is neither well organized or sufficiently demanding, thus, little pressure is being put on the government to improve and expand delivery.

Public funds for water and sanitation services are inadequate, limiting the effective delivery of services. The sector suffers from chronic underinvestment in the expansion, upgrade, and repair of infrastructure.

Weak regulation and coordination of Federal and state-financed investments further contributes to low efficiency in public expenditure. The federal government does not exert sufficient leadership (such as through the provision of incentives) on state governments to develop service infrastructure or to engage in reform. Furthermore, innovative approaches to increasing sector financing have yet to be seriously explored. Options include helping state water authorities achieve creditworthiness to promote access to commercial financing and encouraging the entry of private firms by passing an enabling law to regulate private sector participation in water delivery.

Rather than expanding coverage, the government's policy to subsidize water and sanitation services has resulted in declining coverage and poor service quality. State water authorities are constrained by insufficient transfers from state governments, low tariff collection, and a lack of authority to raise tariffs. They exercise limited autonomy over fiscal and human resources, which adversely affects their ability to supply customers with water. The financing of recurrent operations and maintenance costs is insufficient, leading to systemic neglect of maintenance needs and the erosion of service standards. Updated water pricing and financing policies are preconditions for more effective service cost recovery and more substantial budget support for investment and renewal needs. The decoupling of tariffs and subsidies and the effective targeting of subsidies could be assessed to achieve cost recovery and affordability.

Solid waste management in Nigeria focuses narrowly on waste collection which is insufficient to address the challenge of increasing generation of waste, especially in cities and towns. Waste management systems encompass waste generation and separation, collection, transfer and transport, treatment, recycling, and disposal. In Nigeria, states spend too little on solid waste management, which hinders the delivery of proper services. None except for Lagos engage in recycling and proper disposal. This shortsighted approach to solid waste management leads to a deteriorating quality of life in urban areas, increased risk of disease, the potential for the contamination of water and land, and the degradation of coastal areas.

Shortcomings in the water, sanitation, and hygiene sector are partly connected to deficiencies in the performance of water agencies, water points, and water distribution schemes. More than 38 percent of all improved water points and around 46 percent of all water schemes in Nigeria are nonfunctional (deemed out of service in 2015, at the time of the survey). Further, nearly 30 percent of water points and water schemes appeared to fail in the first year of operation after construction, presumably because of the poor construction quality. Small improvements during the design, implementation, and operational stages could decrease the failure rates of water points and water schemes. When considering most water-utility service indicators, Nigeria underperforms against Sub-Saharan African and global averages. Self-reported utility data gathered by the International Benchmarking Network for Water and Sanitation Utilities show that Nigerian state water authorities performed below the average among utilities in Africa and well below global averages between 2011 and 2015.

Education

The constraints on Nigeria's low level of attainment and learning include demand- and supply-side constraints. The demand-side constraints primarily derive from household economic conditions and cultural and gender bias. Supply-side constraints include (1) the low level of public investment in education, (2) the insufficient space for learning in secondary education, (3) the low capacity of teachers, and (4) the weak incentives for system accountability.

The biggest barrier to enrolling children in schools is household poverty. Though basic education in Nigeria is supposed to be free by law, fee payments constitute more than half of total household out-of-pocket education payments. These fees are collected by schools as part of the official enrollment requirement through indirect collection channels. Households report paying fees for registration, books and PTA contributions. Fees for books are the second largest household payment and are directly correlated to learning outcomes. Private out-of-pocket expenditures are high and regressive, reinforcing inequality of education access and quality. In 2015/16, the poorest households allocated 4 percent of their income to education while the top 20 percent spent 8 percent.⁶¹

Poverty has a particularly insidious effect on girls' enrolment, given the perceived high opportunity cost of girls attending school and the tendency of families to prioritize the education of their sons because boys are considered better positioned to support the family after completing school. Female education is also hindered by the gendered division of household labor. Female children are often expected to contribute to activities, such as providing care for infant siblings or engaging in farming activities. The participation of girls in these activities has been found to increase if there are male siblings of school-going age (Lincove 2009). Early marriage and pregnancy are prevalent among adolescent girls, denying them educational opportunities. A survey conducted by the Population Council on HIV/Aids and early marriage in northern Nigeria found that the percentage of girls who are married by age 15 is much higher in northern Nigeria than in the south. For example, the North West alone had a share of 39.8 percent. The North East had 35.9 percent; the North Central, 7.7 percent; the South West, 0.7 percent; the South South, 2.4 percent; and the South East, 0.4 percent.

In Nigeria, quality problems can be explained by several factors. However, teacher performance is one of the most critical challenges to improving learning outcomes (table 2.3). (1) Many teachers lack the necessary competencies in both subject knowledge and pedagogical skill. (2) Teachers work in under-resourced schools in which the environment for teaching and learning is inadequate, for example, a lack of appropriate textbooks and school infrastructure. (3) Teacher pay is low and often paid late, reducing the incentives for teachers to perform and be accountable for student learning outcomes. Teacher capacity varies significantly across states in Nigeria. Teachers in the south perform better than teachers in the north. In Bauchi and Niger states, fewer than one teacher in 10 can assess children's abilities, and only 3 percent of teachers can assess learning progress among students. In Anambra and Ekiti, the share of teachers with such core pedagogical capacities was three times higher. The teaching force in Nigeria is large, more than one million teachers.

⁶¹Data for a World Bank study on poverty.

Most schools have fewer than 30 students per teacher, but a third still operate with high pupil-teacher ratios, sometimes more than 100 students per teacher. Moreover, teachers often work with limited teaching and learning resources. In public schools only one student in four has mathematics and English textbooks; the ratio was one in three in private schools. Overall, only one school in five has basic minimum infrastructure in Nigeria; one-third the level of Kenya and one-half the average among the countries in Sub-Saharan Africa participating in the Service Delivery Indicators Survey. Teachers in Nigeria generally attempt to be diligent in teaching, but teaching time is limited because teachers are asked to carry out other administrative tasks. Teacher salaries in Nigeria are low, and, in many states, local governments do not pay teachers on time. Accountability for student learning is therefore severely weakened.

Table 2.3. Teacher Knowledge
teachers who score at least 80 on a test of grade 4 material, %

Score relative to students	Average	Kenya, 2012	Mozambique, 2014	Nigeria, 2013	Tanzania, 2014	Togo, 2013	Uganda, 2013
Language curriculum	61	66	77	24	41	54	90
Mathematics curriculum	56	82	26	31	62	24	55

Source: SDI database, World Bank.

Low level of public investment and weak education sector governance and management have impeded significant progress in educational outcomes. Nigeria only spends around 12 percent of its government spending on education, well below the level recommended by the international community of 20 percent to achieve the sustainable development goal in education. The system underinvests in higher levels of education, with only one junior secondary school for every three primary schools. Moreover, the spending efficiency is hampered by the fragmentation and duplication of responsibilities among many education actors. Responsibility for educational institutions is shared among federal, state (including statutory bodies referred to as commissions), and local governments and private organizations (Moja 2000). Overlapping mandates and frequent lack of coordination among tiers of government and their executive agencies are exacerbated by low capacity and insufficient reliable data. Moreover, the lines of accountability are blurred with little consequence due to the absence of accountability mechanisms.

Skills development

Skills development has long been neglected in Nigeria. Nigeria lags other African countries in systemically addressing the critical constraints preventing the development of demand-responsive, effective, and sustainable structures for tertiary education, and formal and nonformal skills training.⁶² Despite recent educational reforms striving for improved employability of school leavers, notably, the Senior Secondary Education Curriculum Initiative of 2011, system graduates are widely considered to lack the relevant technical and socioemotional skills needed for a successful transition to the labor market. In technical and vocational education and training, funding constraints, the insufficient availability of technical teaching staff,

⁶² The tertiary education system consists of many types of institutions: universities, polytechnics, education and technical colleges, and private institutions.

and the lack of demand-responsiveness in curricula have limited the system's capacity to produce a skillful and productive workforce in line with market needs. Furthermore, women are strikingly underrepresented in technical and vocational education and training, where only one student in three students overall and only 15 percent of students in senior secondary technical colleges are women. In tertiary education, the problems of low coverage, inadequate quality and relevance, low research output, lack of resources, and inadequate governance serve to undermine the role this sector plays in providing highly skilled professionals and generating new knowledge adaptable to local conditions. The National Universities Commission has recently formed a strategy advisory committee that is designing a five-year blueprint for the future of tertiary education and focusing on increasing access and equity, improving quality and relevance, modernizing the governance of higher education, and formulating a sustainable funding strategy.

Nigeria needs bold efforts to prepare its people for the new economy, such as digital economy. The global use of technology has not only broadened the scope of skills needed, but also changed the way job-seekers, especially women, can connect to the labor market. New skill sets for digital jobs are needed for Nigeria's manufacturing and service sector to raise its global competitiveness and for Nigerian youth to establish themselves in modern online markets. Even in traditional occupations, tomorrow's labor market requires digital literacy and masterships of specialized technology for adapting innovation. The digital economy is able to offer women with the appropriate skill sets considerable new chances for good jobs. Digital jobs and trade specializations with high growth potential in the labor market, such as software development, online trading, computer-aided design and manufacturing, graphic design, and media, mobile phone application development, and many other technology-based occupational fields, are highly attractive to young women.

Formal and informal skills training is critical for private sector development but needs to be strengthened.

Technical and vocational skills are delivered through several mechanisms, including public technical and vocational education and training, which is provided in senior secondary and tertiary education and informal apprenticeship arrangements. Access to formal technical and vocational education and training is low. Only 5 percent of Nigerians ages 20–64 have undergone vocational or technical education. The challenges faced by the sector are as follows:

- **Public institutions, especially technical colleges, have long been suffering from neglect and insufficient financial resources,** resulting in inadequate instructors, old facilities, outdated training material and limited functioning equipment. Curricula have not been updated to meet the needs of the labor market. Consequently, technical colleges have drastically reduced practical training hours. Industrial training to complement school-based instruction is sometimes, but not always, provided. Technical college education predominantly serves men students; only around 15 percent of the students are women.
- **Limited private sector involvement in skills development affects the relevance of formal technical and vocational education and training.** The limited involvement of the private sector in the selection and design of training programs represents a major obstacle to improving and maintaining the market relevance of the training provided. Most relevant public institutions have no links to employers, and no private sector experts are represented on school management boards. Recent successful examples

include the government technical college, Agidingbi, in Ikeja, Lagos State, which has partnered with Samsung and Festo.

- **Lack of information on informal apprenticeship training makes supporting the expansion of apprenticeship difficult.** Apprenticeships are the most important skills development subsystem in Nigeria in the number of apprentices trained, and it is the most accessible among youth with low educational attainment and living in poor households. However, there is no consolidated data and information about this vast training subsector on whether and the extent to which it helps build employability skills among people.

Tertiary education can significantly contribute to advanced skill development, but the sector suffers from governance and financing problems. Nigeria's tertiary education enrollment ratio is slightly above the Sub-Saharan African average (8 percent). Despite the increase in the number of universities, there remains a high unmet demand for tertiary education. Only 2.6 million of 10.0 million applicants were able to secure admission to a tertiary education institution in 2010–15. Though there are a few islands of academic excellence spread across federal, state, and private universities, in general, tertiary institutions have suffered from low research output, low quality teaching, outdated programs, brain drain, infrastructural decay, and low autonomy. Governance is perhaps the most serious problem followed by insufficient funding affecting the performance and operation of public universities and colleges. Corruption is endemic, touching all aspects of academic life such as student selection, grades and examinations, degrees and certificates, recruitment of faculty and selection of university leaders and council members.

Social protection

Social protection systems are a critical component of the package of public services since they help protect the poor, manage risk and volatility, and open up opportunities for the excluded. As such, social protection systems have three intertwined goals. The first is *equity for the poor* through protecting families against destitution and promoting equality of opportunity through programs such as cash transfers and in-kind transfers to address chronic poverty. The second one is *resilience against income shocks* carried out through social insurance programs such as unemployment and disability insurance, old-age pensions, and scalable public works programs, health insurance and crop and weather insurance. The third one is opportunity for all through promoting connecting men and women to more *productive employment*. Labor market programs provide unemployment benefits, build skills, and enhance workers' productivity and employability.

Nigeria has an array of safety net programs targeted to different vulnerable groups. The government is laying the foundation of the national social protection system with the ratification of the Social Protection Policy framework by the Federal Executive Council in July 2017. Existing interventions include a public workfare, conditional cash transfers, school feeding, skills-for-jobs and a youth reorientation and life skills training, out of which 500,000 youth from poor households have benefited so far. The social safety net interventions have also piloted a "unified register" of poor household beneficiaries in some of the participating states using a combined geographical and community-based targeting system. This can be expanded to all states in the

Federation to improve the process of identifying the poor and need for better effectiveness of government program. Yet, the social safety net can be strengthened given funding limitations, fragmentation, lack of coordination, and weak targeting. These are discussed below.

The social protection system suffers from weak targeting mechanisms. Identification of the poor in Nigeria is difficult due to the inability to capture household income and wealth easily—given the large informal and agriculture sectors. This is further exacerbated by the quality of data, multiple definitions of poverty and vulnerability, and lack of clarity of measures of welfare. Additional problems undermining the effectiveness of targeting are the application of biased targeting and identification mechanisms that leads to leakage of benefits to the nonpoor and low coverage of the nonpoor. However, recently, major progress has been made due to the adoption of a community-based identification process coupled with proxy means testing and development of a social registry in the last couple of years at state and federal level. This provides a unique opportunity to address the targeting mechanism challenge. Many public and development partner-supported programs are now selecting beneficiaries from an evolving central Single Social Registries at the state and national levels. As a result of the work done over the past few years on issues surrounding ID for Development, there is now a clearer understanding of why being able to identify citizens is critical for a country's development. Yet, Nigeria lacks a unified and universal national identification system, and this has detrimental impacts on everything from provision of services to financial inclusion. More fundamentally, in the absence also of a credible population census, the ability of government to formulate policy, and deploy funds in a manner that is responsive to the spatial distribution of the population (important given the strong spatial dimension to poverty in Nigeria) is severely compromised.

Fragmented and uncoordinated social protection efforts across the three tiers of government adversely undermine the ability to use resources effectively. There are many government programs and interventions across federal, state, and local governments and extensive efforts by nongovernmental and private corporate organizations to respond to the growing poverty and vulnerability situation. Government providers follow different strategies, practices and evaluation processes and do not coordinate in part due to the lack of a recognized interagency platform for exchange and harmonization of actions and resources. The recent articulation of the social protection policy framework and the plan to ensure the development of an all-inclusive implementation framework is expected to create a platform for interaction among the tiers of government in the short term and produce a harmonized and coordinated response in the future.

Constraint 6: Poor Access to Land and Technology in Agriculture

Smallholder farmers, commercial agriculture and agriculture sector SMEs face a distinct set of constraints. Difficult access to quality and affordable technologies, advisory service and markets confines the smallholder agriculture to a low productivity subsistence farming with thin market features. At the same time, unsecure land tenure, high cost of finance, agroprocessing, and marketing logistics undermines the rapid growth of SME-driven commercial agriculture.

Agriculture is the third largest sector in the Nigerian economy, accounting for 22 percent of GDP and over 60 percent of employment. However, the sector remains largely uncompetitive and has underperformed in crop production, livestock and fisheries. Over the past 20 years, value added per capita in agriculture has risen by less than 1 percent annually and yields are significantly below potential, especially of the main staple crops. The government's objective is to develop a sustainable agricultural sector by raising agricultural productivity, achieving self-sufficiency in food production, ensuring balanced nutrition, creating gainful employment, reducing rural poverty, and generating foreign exchange earnings through more exports and reduced imports of agricultural products. In addition to increasing productivity and facilitating access to markets, the government sees tremendous opportunities in promoting climate smart agriculture for increased adaptation and mitigation benefits; developing and modernizing irrigation and drainage systems, including for smallholder farmers; and developing agricultural value chains and agroindustries for domestic and external markets.

Nigeria produces a large variety of agricultural products with cassava and yams being by far the largest in terms of volume, followed by sorghum and rice paddy. In 2016, Nigeria produced 57 million tons of cassava, 44 million tons of yams, and about 6 million tons each of sorghum and rice. Nigeria is the world's largest producer of cassava and Africa's largest producer of rice. At the same time, it is also among the largest rice importers globally. Cassava is primarily grown by smallholders who use most of it for own consumption or selling it locally, while smallholders producing rice, sell 80 percent of their harvest. Yet, about 16 percent of farmers report not being able to produce enough to meet household needs. Despite the prevalence of farming and other agricultural activities, malnutrition is still too high, and its attendant impact on early childhood development is a contributing factor to low human capital achievements in Nigeria.

Farms in Nigeria are small (80 percent are less than 5 hectares), reliant on rain rather than irrigation, and use minimal tools or machines. With the rapid increase in the population, marginal land has been cultivated over the years. The fisheries subsector has also been an important contributor to GDP over the last five years and is an important source of animal protein for the population. Despite the large unmet domestic demand, marine and freshwater fisheries and aquaculture are underdeveloped, leading to substantial imports of fish. The situation in the livestock subsector is similar in the unmet domestic demand for milk and meat that is then filled by imports. Almost two-thirds of the ruminant livestock in the country—for example, cattle, goats, and sheep—are in the semiarid regions, where they are mostly managed by pastoralists.

Smallholder farmers, commercial agriculture, and agricultural sector SMEs face a distinct set of constraints. Difficult access to quality and affordable technologies, the inefficiency of advisory services, and the limited access to markets are some of the key factors that confine the smallholder agriculture to a low productivity subsistence farming with features of a thin market (box 2.3). At the same time, unsecure land tenure, high cost of finance, agroprocessing, and marketing logistics undermines the rapid growth of commercial agriculture and agricultural SMEs. Major constraints to agriculture productivity include but are not limited to access to and the insufficient availability of improved inputs and technologies among farmers.

Improved seeds alone can explain up to half of the increase in yields in smallholder farming systems. The limited use of improved seed mainly derives from inadequate investment in agricultural research and development and limited private investment in the development of improved seeds. Private investment is also insufficient in the local production of fertilizers.

Box 2.3. Digital Technology for Improving Agricultural Productivity

Digital technologies can help improve agricultural productivity in Nigeria by reducing transaction costs, overcoming infrastructure constraints, improving efficiency and providing integration to inclusive supply chain.^a There are also opportunities to leverage digital technologies for precision farming, market information, advisory services and financial inclusion. Hellotractor is a technology solution that is currently disrupting low access to mechanization in Nigeria (Ehui 2018). Also, Kitovu, a technology startup company in Nigeria, creates market access for farmers by using multiplatform compatible mobile applications to link manufacturers and produce buyers. Other examples are Zenvus, a Nigerian precision farming startup that measures and analyzes soil data (for example, temperature, nutrients, and vegetative health) to help farmers apply the right fertilizer and optimally irrigate their farms (Ekekwe 2017). The process improves farm productivity and reduces input waste by using analytics to facilitate data-driven farming practices for small-scale farmers.

a. There were 82 agricultural technology startups operating across the continent at the start of 2017, 52 percent of which were started during the previous 24 months, according to Disrupt Africa (2018). Kenya and Nigeria lead in the agricultural technology market, followed by Ghana; collectively, these account for over 60 percent of the active startups in the sector.

Low agricultural productivity also contributes to the underdevelopment of agribusiness value chains.

The agricultural sector continues to display a low ratio of food processing to primary agriculture. The underperformance of Nigeria's results from poor infrastructure (logistics, energy, storage, irrigation, roads, and so on), inefficient land markets, a lack of access to financing for agriculture, an unpredictable policy environment, and a dearth of market information. It is well established that significant deficiencies in large-scale dam and irrigation infrastructure, as well as the insufficiency of more efficient small-scale irrigation schemes, negatively impact agricultural productivity. Similarly, the deterioration in rural road networks and the lack of an adequate power supply network increases transport and processing costs. Land administration is also a severe stumbling block for the development of the agriculture sector. Nigeria is undergoing a profound rural-urban transformation that calls for modernization of the land tenure systems. The current systems are outdated and constitute a significant impediment to the enabling environment for business. Land disputes pose legal and reputational risks for agribusiness. Land-related violence disrupts agricultural activities across the affected areas. Such conflicts are likely to become more frequent and severe in the medium to long term when the pressure on land rises, causing large movements of the population. Some states—Edo, Jigawa, Kaduna—have launched reforms to make land transactions more secure, thereby incentivizing the greater participation of the private sector in state agricultural development.

The performance of the Nigerian agricultural sector is also undermined by external factors, such as conflict, and climate variability is leading to rising uncertainties in rainfed agriculture. Climate change

represents a high risk to Nigeria aspirations for self-sufficiency, import substitution, and a competitive agricultural sector. Climate change alone is estimated to reduce crop yields by 50 percent. Access to water and irrigation will therefore be an important determinant of the stability of yields and the adaptation to the effects of climate change. Similarly, conflict is disrupting food supplies and contributing to the displacement of people. Most internally displaced persons depend on agriculture for their livelihoods and are at risk of not meeting food requirements. Thus, improving productivity is a strong factor in the effort to stimulate growth, reduce poverty, and enhance food security.

The changing agri-food system in Nigeria is creating new opportunities and challenges for food and nutrition security. Urban and rural households in Nigeria have witnessed major transformations in their diets because of the diversification of consumption beyond staples into horticulture and animal proteins (fish, meat, eggs, and dairy). This consumption of processed foods is spreading beyond the frontiers of towns and cities into rural areas. More than 70 percent of the purchased food budget in Nigeria is spent on processed and semiprocessed foods. This increasing demand for processed foods and the changing diets have huge implications for the intensification of value addition in agriculture and food quality and safety because of the greater income elasticity of the demand for food quality than for food quantity. On the supply side, it means major potential income gains for farmers because producing and selling meat, dairy, or fruit to towns and cities earn farmers 5 to 10 times more per hectare than grains. This is a major source of income for rural development, provided this development is at least carbon-neutral.

There are many ongoing reforms including a major shift in subsidy policy from the consumption to the production side. The implementation of government programs is yielding results. Because of the initiatives to expand rice production, rice yields have increased from 3.5 to 7.5 tons per hectare, leading to the production by about 150,000 farmers of 2.1 million metric tons of rice as of March 2017. The presidential initiative on fertilizer, a public-private partnership arrangement whereby Nigeria imports phosphorus—one of the key ingredients in the production of fertilizer—from OCP Morocco and blends it into different fertilizers, has started to show results and is helping smallholders gain access to fertilizer. The objective is to improve blending capacity and to shift away from fertilizer consumption subsidies to supporting local fertilizer manufacturing. In addition, the government is making progress in improving the share of agricultural exports beginning with exports of yams and the launch of zero reject initiatives for exportable agricultural produce. However, achieving the objectives of the agricultural promotion policy and the Economic Recovery and Growth Program will not be possible by increasing the level and efficiency of public spending and crowding out private investment.

Constraint 7: Administrative Barriers and Poor Financial Intermediation

While Nigeria is one of the most entrepreneurial countries, it is also one of the most difficult places in the world to operate a business. Nigeria scores higher on measures of entrepreneurial activities than its peers with an entry rate of 0.76 firms per 1,000 people ages 15–64.⁶³ This shows the dynamism of entrepreneurship in Nigeria. However, it remains one of the most difficult places to do business, ranking 146th in 190 countries in Doing Business 2019 (World Bank 2019b). According to the most recent World Bank Enterprise Survey, Nigerian firms cite the major constraints to business operations as access to finance, power, and the business environment, such as taxes, customs, access to land, and business licensing and permits.⁶⁴ The macroeconomic environment with high interest rates makes loans and credit lines out of the reach of most microenterprises and SMES. Reliable and affordable power is a major constraint for businesses (see Constraint 9). Most businesses must rely on a generator, which adds to running costs and carbon emissions.

Administrative barriers against starting, operating, or closing a formal business

The current administration has prioritized improving the business environment. The government of Nigeria embarked on an ambitious reform agenda aimed at improving the business environment. The initial focus has been on the country's performance on the doing business index followed by more structural reforms aimed at diversifying the economy. The government set up a multisectoral Presidential Business Enabling Environment Council under the leadership of the vice president to spearhead the business environment reform agenda in July 2016 with the objective of raising the economy to the top 100 in the Doing Business ranking by 2020 (box 2.4). Since the establishment of the council, Nigeria's performance on the ranking has significantly improved, albeit from a low base. Notable reforms have been passed in the legal framework for obtaining credit, including a 2017 law that has facilitated the establishment of a moveable collateral registry, which, however, requires strengthening.

63 Data of the World Bank.

64 The last Enterprise Survey in Nigeria was conducted in 2014. See Enterprise Surveys (database), International Finance Corporation and World Bank, Washington, DC, <http://www.enterprisesurveys.org>.

Box 2.4. Doing Business in Nigeria: Interministerial Coordination Done Right

The government of Nigeria has embarked on an ambitious reform agenda aiming to improve the business environment to build a competitive economy, one of the three pillars of the Economic Recovery and Growth Plan (ERGP). To support its diversification agenda, the government is focusing on improving the ease of doing business with a goal to make it to the top 100 in the World Bank Doing Business ranking by 2020. The government set up the Presidential Business Enabling Environment Council in July 2016 to remove bureaucratic constraints to doing business in Nigeria and make the country a progressively easier place to start and grow a business. The council is an interministerial body. It is chaired by the vice president and comprises 10 ministers, the head of the civil service, the governor of the CBN, representatives of the Lagos and Kano state governments, the National Assembly, the judiciary, and the private sector. The council ministers include the minister of industry, trade, and investment, who is also the vice chairman of the council; the minister of budget and national planning; the minister of environment; the minister of finance; the minister of foreign affairs; the minister of information and culture; the minister of interior; the minister of justice and attorney-general of the federation; the minister of power, works, and housing; and the minister of transportation.

The council's reform agenda was initially based on the 10 doing business indicators; however, in July 2017, the council added several homegrown indicators, including trading within Nigeria and selling to the government. The Enabling Business Environment Secretariat, which became operational in October 2016, works in tandem with ministries, departments, and agencies to implement the council's reform agenda. Each of the entities working on council reforms has nominated reform champions, who work closely with reform leaders in the secretariat to implement the reform agenda.

As a result of the efforts of the council, Nigeria improved 24 positions in the Doing Business 2017 report, giving it a 145 ranking overall and a score 52.03 points. The country was also listed as one of the top 10 reformers in that report. Nigeria reformed five areas measured by Doing Business in 2017, including registering a business, obtaining a construction permit, registering property, getting credit and paying taxes.

Note: Doing Business (database), International Finance Corporation and World Bank, Washington, DC, <http://www.doingbusiness.org/data>.

However, Nigeria still lags all its peers on access to electricity, registering property, paying taxes, trading across borders, and resolving insolvency. Nigeria's aggregate business indicators also hide the realities faced by small, medium, and large firms. Smaller firms, which are the ones that create most jobs, are disproportionately more affected by administrative barriers to start, operate, or close a formal business. In January 2019, the House of Representatives passed the Companies and Allied Matters Act, which included several major reforms, such as new forms of business ownership (for example, sole proprietorships and limited liability companies), improved company registration procedures (including e-signatures for registration), an improved insolvency process, and enhanced protection of minority investors. The bill has been submitted to the Presidency for assent.

FDI flows to Nigeria are skewed towards a narrow set of sectors with relatively limited potentials for creating jobs for the Nigerian people and fostering competitive Nigerian firms. Several studies have confirmed the potential benefits of FDI for the local economy and domestic firms, including technology transfer, strong managerial and organizational skills, increased access to foreign markets, and export diversification. However, the type of investment matters. Nigeria currently has predominantly natural resource-seeking FDI that is focused on exploiting petroleum and market-seeking FDI, such as in the telecommunication sector, which wants to benefit from Nigeria's large population. However, to attain its economic diversification goals, the country needs to also attract FDI which aims to leverage a country's human and physical capital or establish a new base for exports (World Bank 2018c). Information asymmetries caused by lack of proactive and targeted promotion (nationally and subnationally) are also contributing to diminishing FDI inflows in general and to the exceptionally weak integration of local firms in the supply chain of foreign investors operating in Nigeria. The government needs to adopt the appropriate policies to maximize the gains from the various types of FDI and focus on forging links between foreign investors and the domestic economy.

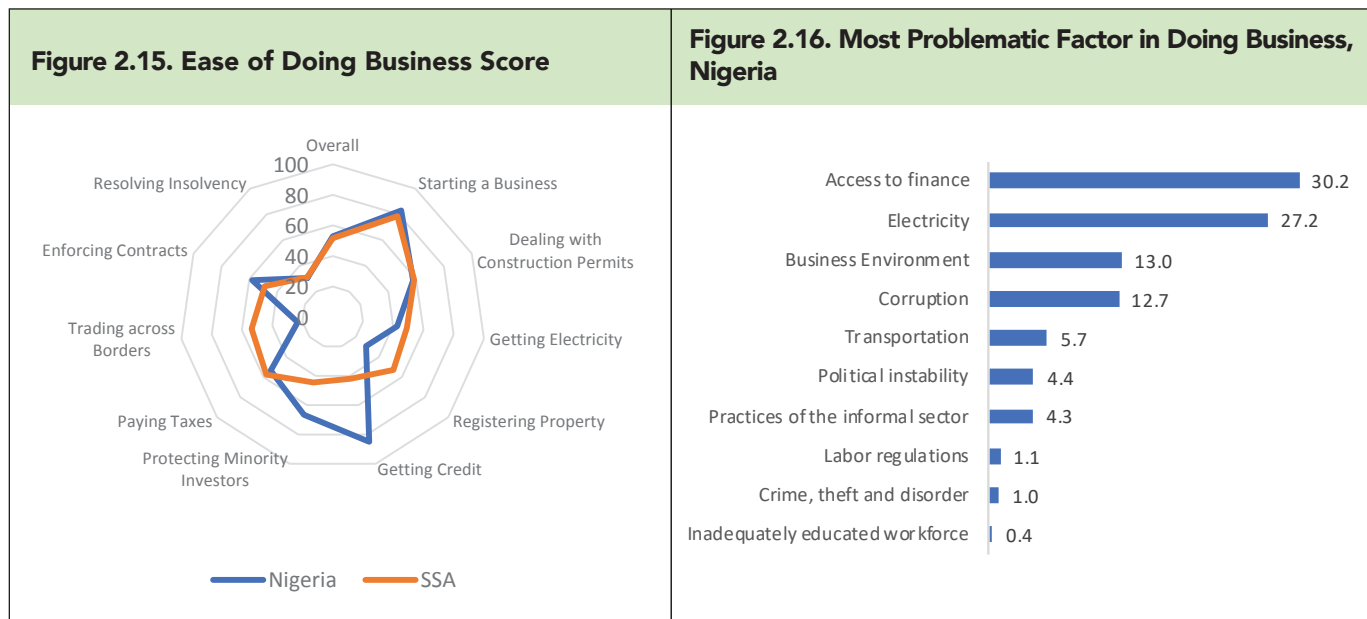
There is a strong opportunity for digital entrepreneurship in Nigeria. Nigeria is the leading country for startup investments and third in Sub-Saharan Africa. There are increasing pockets of growth of digital entrepreneurship across the country with a concentration in Lagos and Abuja. Lagos State the most mature and active digital entrepreneurship ecosystem has several dynamic incubators, venture capital companies and digital start-ups in sectors including finance, health, education and agriculture. Nigerian startups are also accessing international accelerators such as Y Combinator which are increasingly showing interest in the Nigerian ecosystem. The startups in the digital entrepreneurship ecosystem suffer from lack of funding at the proof of concept and early stages of firm development while the more mature firms lack access to capital markets as a source of funding due to the shallow capital markets in Nigeria. Across the lifecycle firms face a non-conducive police environment for growth. More broadly, technology has the potential to transform Nigerian businesses, however, Nigerian firms are slow to adopt technology. According to the most recent Enterprise survey only 14 percent of Nigerian firms introduced a product innovation, and approximately 30 percent introduced a process innovation. Technological innovations, product or/and process, were introduced by only 37 percent of firms (World Bank 2016c).

Informality is pervasive in Nigeria's private sector, and policy interventions to support this sector need to be a key component of the private sector development agenda. Three nonagricultural wage workers in four in Nigeria are informally employed, which means they are working without contracts and are self-employed or household enterprise workers in firms that are not registered with the authorities (World Bank 2015a). The net expansion of wage work between 2007 and 2011 appears to have been almost exclusively based on informal jobs. Informality is the most extensive among service sector workers. In Nigeria, many businesses in the informal market exist to service the formal sector. These firms tend to be microenterprises or SMEs typically engaged in services or the production of low-quality goods using little capital and rudimentary technology, however digital startups also remain unregistered in Nigeria for extended periods of time. As is the case in Nigeria, informality is pervasive in countries in which government services are

weaker and the business environment is less flexible. There are several reasons why firms remain informal in Nigeria including the lack of a conducive business environment and the perceived burdensome tax and licensing regime because of the focus of regulators on the few firms that formalize their revenue. Policy interventions aimed at (1) reducing the costs of becoming and being formal, (2) increasing the opportunity costs of informality, and (3) general business environment reforms to foster growth should be implemented.

Shallow domestic financial markets

Despite an enabling environment for facilitating finance, access-to-finance remains a key issue in Nigeria. According to the Doing Business indicators, Nigeria scores well in the relevant dimensions in access to finance (figure 2.15). Meanwhile, surveys among borrowers, including the Enterprise Survey of the World Bank, highlight access to finance as a key problem in Nigeria (figure 2.16). The picture is so, despite the good enabling environment for facilitating credit. Many borrowers feel that they have difficulty in obtaining credit. Factors that contribute to this situation include an overall shortage of domestic savings and the small banking sector, the concentration of credit among a small number of borrowers, and the concentration of credit in certain instruments—such as short-term working capital financing versus term loans for capital investments—and the crowding out of private sector borrowers by large, high-yielding government bond issues.



Source: World Bank 2019b.

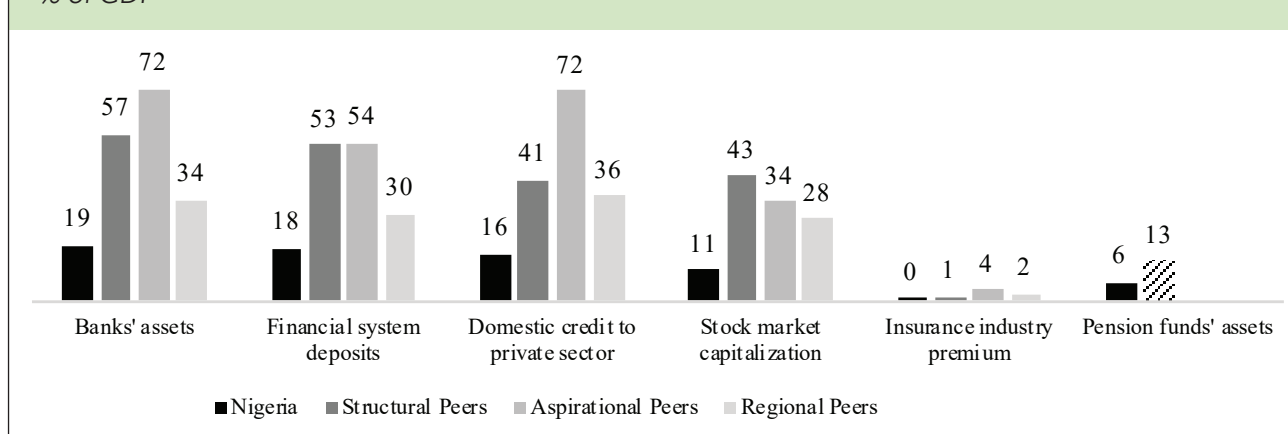
Source: Data of the 2014 Enterprise Survey

Nigeria’s banking sector is small relative to the size of the economy and especially relative to peer countries. The assets of 22 commercial and 4 merchant banks (mid-2017) accounted for only 19 percent of GDP in Nigeria in 2015 considerably lower than its peer countries (figure 2.17).⁶⁵ Nigeria’s banking sector has low financial system deposits, domestic private sector credit, and penetration of foreign banks. Nigeria’s banking sector also had a higher-than-average overhead cost relative to total assets, suggesting

⁶⁵ Bank assets here refer to claims on the domestic real nonfinancial sector, which includes central, state, and local governments, nonfinancial public enterprises, and the private sector.

inefficiencies. The capital market, insurance and pension sectors are also relatively small. Local-currency financing has been commercially unattractive, encouraging the private sector to pursue foreign exchange funding, which threatens resilience through currency mismatches. Nigeria's stock market capitalization declined from 13 percent in 2013 to 11 percent of GDP in 2015, a fraction of the levels observed in comparator countries. While bond market capitalization remained at around 7 percent of GDP between 2013 and 2016, government bonds largely replaced corporate bonds, which dropped by 90 percent in 2014. Equally, Nigeria's insurance and pension industry penetration is low. Annual pension contributions declined from 0.7 to 0.5 percent of GDP in Nigeria from 2012 to 2016 and although Nigeria's pension funds' assets increased to 6 percent of GDP in 2016, this still only represented half of the pension penetration level observed in peer countries.

Figure 2.17. Financial Sector Depth, Nigeria and Peers, Latest Available Years
% of GDP



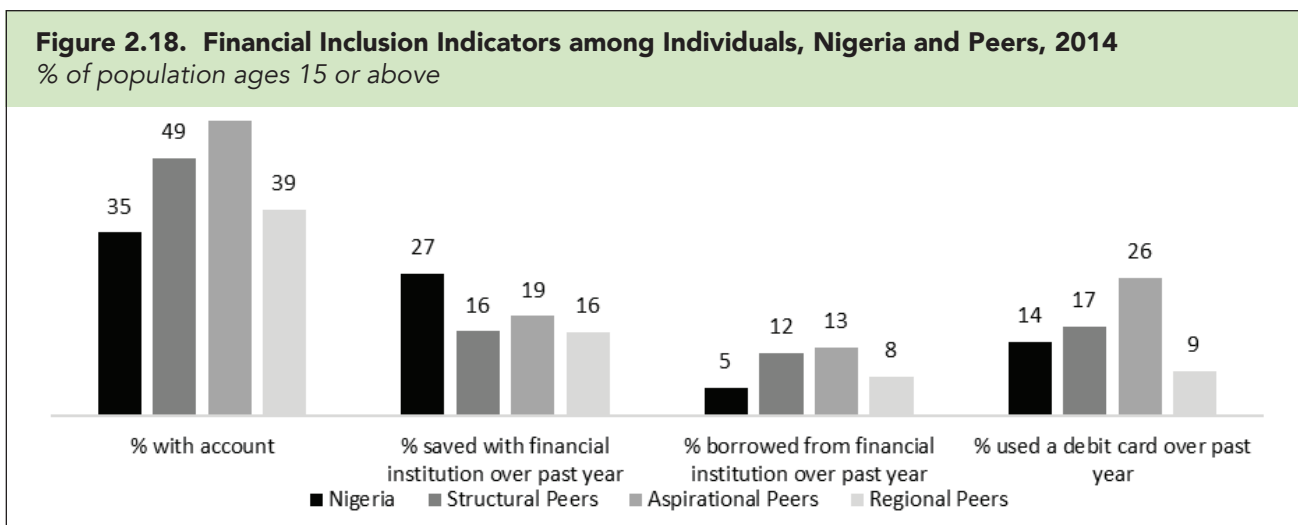
Sources: Data of Central Bank of Nigeria; GFDD; National Insurance Commission, Nigeria; Organisation of Economic Co-operation and Development; WDI.

Larger Nigerian banks rely heavily on earnings from their treasury investments and loans to large corporates in the oil and gas sector. Banks invest between 20 percent and 40 percent of their assets in government securities that provide risk-free returns. In their loan books, about 30 percent of their lending is in the oil and gas sector. The difficulties in this sector pushed up the share of nonperforming loans in total loan books from 3 percent before the oil-price shock to 15 percent as of mid-2017. Banks are reluctant to extend loans except among the larger, well-established corporations. Credit is constrained among microenterprises and SMEs unless these smaller enterprises deliver goods and services within the value chains of large corporations.

Nigeria's capital market is underdeveloped, especially in the ability to provide long-term local-currency financing to the private sector. Nigeria has a relatively developed government bond market. However, it did not help foster a vibrant corporate bond market, but, rather, crowded out private sector borrowers from the capital market. Of the outstanding stock of Nigerian naira bonds, 96 percent are government securities, and only about 2 percent are corporate bonds. On the supply side, investor needs are largely satisfied

by government securities. On the demand side, the high interest rate on the Nigerian naira bonds make it difficult for the private sector to accommodate the financing costs, especially for capital investments. The large volume of government debt issuance, combined with the unorthodox monetary policy, helped push up the interest rates on the Nigerian naira bonds. With the yields of long-term government bonds at 14 percent–15 percent, it is difficult for private sector borrowers to rely on long-term debt to finance capital investments. This represents a structural advantage for a small number of large, established enterprises with a significant volume of capital on hand.

Limited financial inclusion of the poor reduces their access to capital and weakens the family safety net. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs—transactions, payments, savings, credit, and insurance—delivered in a responsible and sustainable way. Nigeria lags its peers in financial inclusion indicators of the population (figure 2.18). In 2014–17, financial inclusion of the poor stagnated, and account ownership was flat at 40 percent of adults, well below its neighbors Ghana (58 percent) and Kenya (82 percent). In 2017, the poor and women were less likely to have accounts. Only 25 percent of adults in the bottom 40 and 27 percent of women (versus 51 percent of men) had accounts.⁶⁶



Source: Global Findex (Global Financial Inclusion Database), World Bank.

Note: Percent with account refers to 2016 based on results of the Financial Inclusion Insights Tracker Survey for India, Indonesia, Kenya, Nigeria, Senegal, Tanzania, and Uganda and to 2015 for Ghana.

Low incomes, the high cost of financial services, and the long distances to financial access points are the top three barriers to financial inclusion. Surveys show that 56 percent of the formally financially excluded adult population did not use banks, because they did not have a regular income or job in 2016. Other significant factors that pose barriers to low income groups are (1) long distances to financial access points, especially in rural areas and in the north (reported by one-third of adults) and (2) high bank charges making bank accounts too expensive. Financial services providers have not sufficiently been able to develop

⁶⁶ Global Findex (Global Financial Inclusion Database), World Bank, Washington, DC, <https://globalfindex.worldbank.org/>.

affordable products for the poorer population, even though many of them are already saving and borrowing informally. More broadly, financial inclusion and access to finance challenges are hampered due to weak financial infrastructure (such as weak credit bureaus and collateral registries) and inadequate leveraging of technology (for example, digital financial services and digitized government payments). Mobile money is limited; however, the CBN recently issued new guidelines in an effort to promote mobile money and financial inclusion, including by allowing subsidiaries of mobile network operators to apply for payment service bank licenses, which is a novel approach in Nigeria. The World Bank support for microfinance institutions is highlighting positive and scalable ways to accelerate financial inclusion among the poor (box 2.5).

Box 2.5. Access to Financing for the Poor: The IFC Experience

One of the best ways to increase access to finance for low-income individuals is through microfinance institutions. The support of the International Finance Corporation (IFC) for such institutions with strong track records and client-friendly products allows them to reach entrepreneurs with promising ideas, whether the business is in a high-traffic urban location or a remote area with a pressing need for goods and services. In Nigeria, financial inclusion, whether in urban or remote locations, will create more jobs and a healthier economy.

IFC's six microfinance clients have a robust portfolio of over US\$450 million in loans to small businesses and microbusinesses. The microfinance banks in Nigeria with best-in-class operations have maintained nonperforming loans at a relatively low level. As a result, many bank customers have maintained and even grown their revenues.

LAPO Microfinance Bank is one of six Nigerian microfinance institutions that the World Bank supports. The World Bank's backing allows these institutions to reach more small-business owners, who create jobs and drive local and national economic growth. These six institutions serve more than 2.6 million borrowers, allowing them to save money, invest in their businesses, and expand their enterprises. LAPO Microfinance Bank and others like it demonstrate that certain segments of the economy are resilient. Even many of those at the base of the pyramid have been able to withstand the macroeconomic shocks that have forced larger, more established, and traditionally run businesses to scale back their operations. This was particularly true during the 2016 recession.

The need for increased access to financial products is great, not only in Africa but across the globe. The World Bank estimates that more than half of the planet's total adult population does not use formal financial services. Cost, distance, and bureaucracy prevent these businesses from receiving formal financial services. But 200 million enterprises in developing economies face financing constraints that could be solved in part by establishing access to transactions, payments, savings, credit, and insurance. Many development finance institutions have provided funding to local microfinance institutions to help them reach more clients, but borrowing in dollars or euros can pose an exchange risk for institutions earning in African currencies. IFC was the first development finance institution to seek and receive the approval of the CBN to execute long-term naira swaps on the back of loans. IFC local-currency financing helped cushion the effect of foreign exchange volatility for the microfinance institutions in the Bank portfolio. It fostered an understanding of foreign exchange risk among these institutions and inspired other lenders to provide local-currency funding.

Despite the high ownership of mobile phones, the lack of “mobile money” hinders financial inclusion.

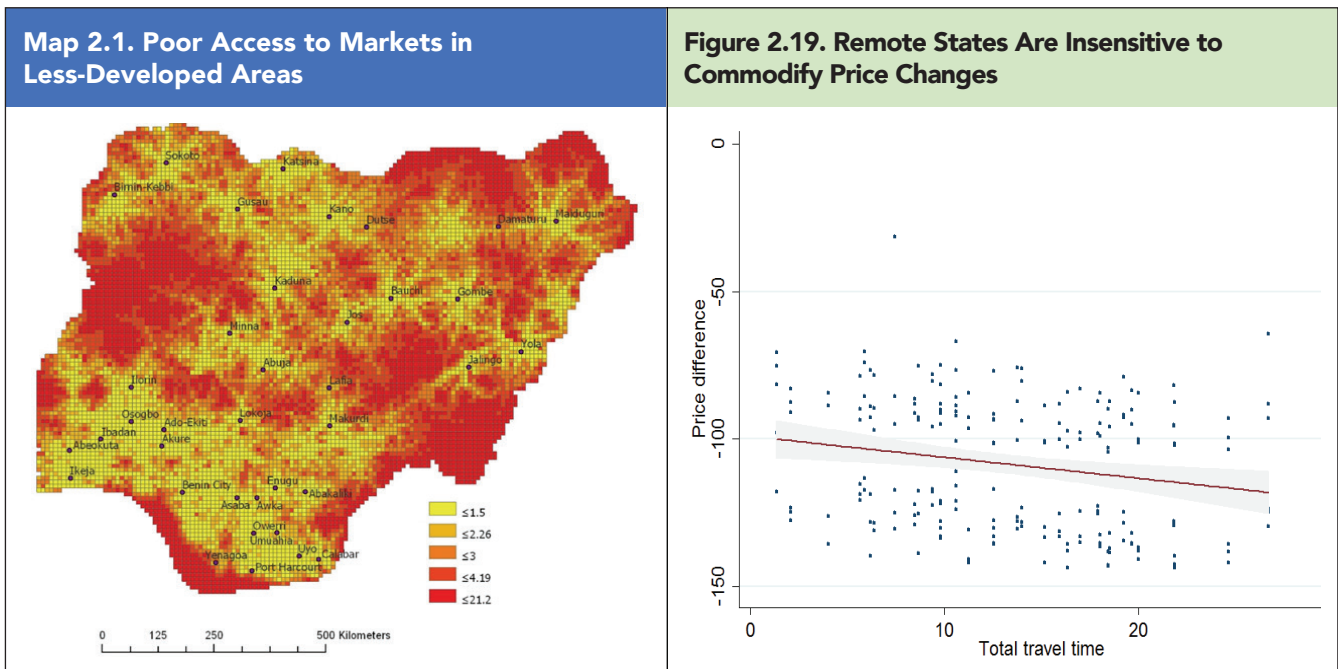
Digital technology has been a key driver of financial inclusion, especially in developing countries. More than 80 percent of the adult population, including an increasing number of poor people, has a mobile phone today. Yet, Nigeria significantly lags the Sub-Saharan Africa average in holding a mobile money account (6 percent and 21 percent, respectively). Financial inclusion across Sub-Saharan Africa has improved more than 8 percentage points to 43 percent between 2014 and 2017, and the broader use of mobile money played a major role in this improvement. Over the same period Nigeria’s rate dropped nearly 4 percentage points to 39 percent. Access to mobile money helps reduce the cost of transferring money (especially important for private remittances to family and friends), which can strengthen the private safety net and help people weather temporary economic shocks. The benefits of increased availability of mobile money would be both direct and indirect—and complementary to traditional banking. Mobile money will help expand the access to finance especially to remote areas which are not currently served by banks. One estimate is that deployment of digital payments throughout the country could bring new deposits of US\$36 billion, or 6 percent of GDP (Manyika et al. 2016).

Mobile operators in Nigeria, with 173 million subscribers, are well positioned to more than double the financial inclusion rate to 80 percent by 2020.

To achieve this, the CBN has recently announced that it will allow wireless carriers to transfer cash. The National Communications Commission and the CBN signed a memorandum of understanding in 2017, and guidelines for the licensing and regulation of Payment Service Banks were approved in October 2018. Telecommunications operators showed interest in applying for licenses that will allow them to collect deposits and maintain savings accounts. Although limited at the beginning, this will have a positive impact on the financial sector and financial inclusion: banks and mobile operators will be able to offer services previously unavailable to both the banked and unbanked. It will also likely further benefit the development of digital platforms and services, and force innovation, as young entrepreneurs and students will favor an online app over a bank.

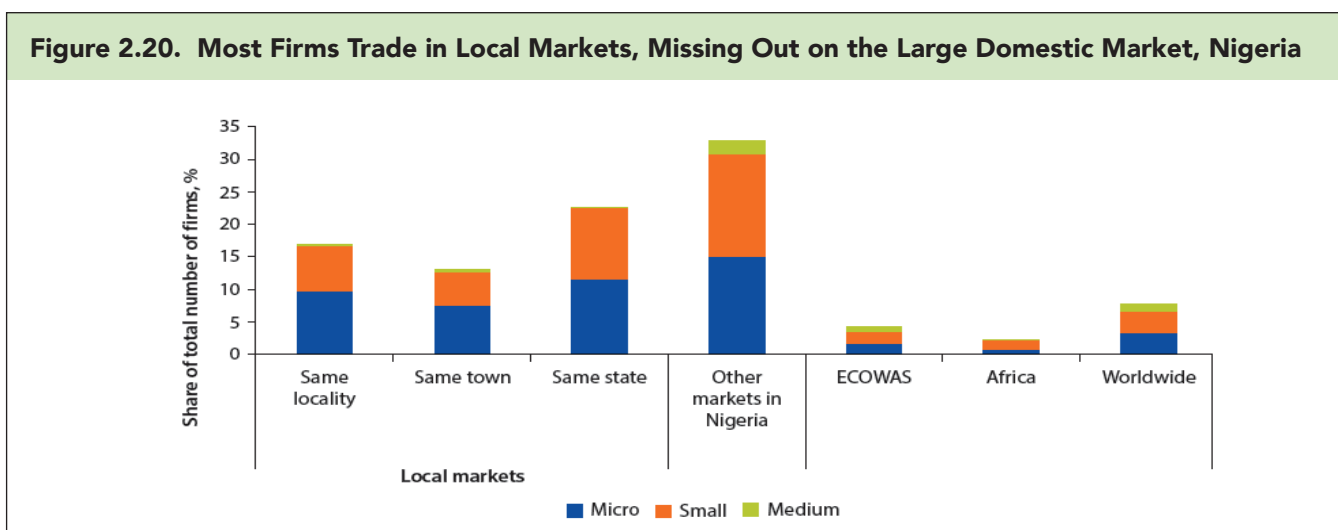
Market fragmentation and disconnected value chains

Domestic market fragmentation and limited connectivity in Nigeria have dampened the potential for economic collaboration and cooperation among regions. Limited market integration and insufficient connective infrastructure reduces producers and firms’ ability to reach wider markets (Russ et al. 2017). For example, towns and cities in Taraba, Niger, and Delta states experience the longest travel times to reach large markets (map 2.1). On the other hand, towns around the Lagos-Kaduna-Kano corridor have the best market access in the country. Meanwhile, analysis of commodity prices also highlights and reconfirms the lack of market integration: there is slow adjustment of local prices in reaction to changes in international commodity prices, especially in states further away from the Lagos Kaduna corridor. Figure 2.19 shows that the difference between local and international prices of rice increases with the total travel time from Lagos, a point of entry of imported commodities.



Source: World Bank 2017f.

Most firms trade in local markets and are unable to leverage gains in economies of scale and (subnational) regional specialization. With a large population, Nigeria has a large domestic market. However, the majority of firms identify local markets—same locality, same town or city, same state—as the main sales channels (figure 2.20). With the dominance of local trading, regional economic specialization is less likely to emerge, as local trading leads to a replication of economic sectors across different locations rather than specialization. However, one does observe some specialization of agriculture in the North West and specialization of mining in the South South, but the size of these sectors combined is quite small, less than 2 percent of all businesses. For a large domestic market like Nigeria, subnational regions are operating in relative autarchy.



Source: World Bank calculations using SMEDAN 2010 survey.
 Note: ECOWAS = Economic Community of West African States.

Constraint 8: Limited Domestic, Regional, and Global Integration

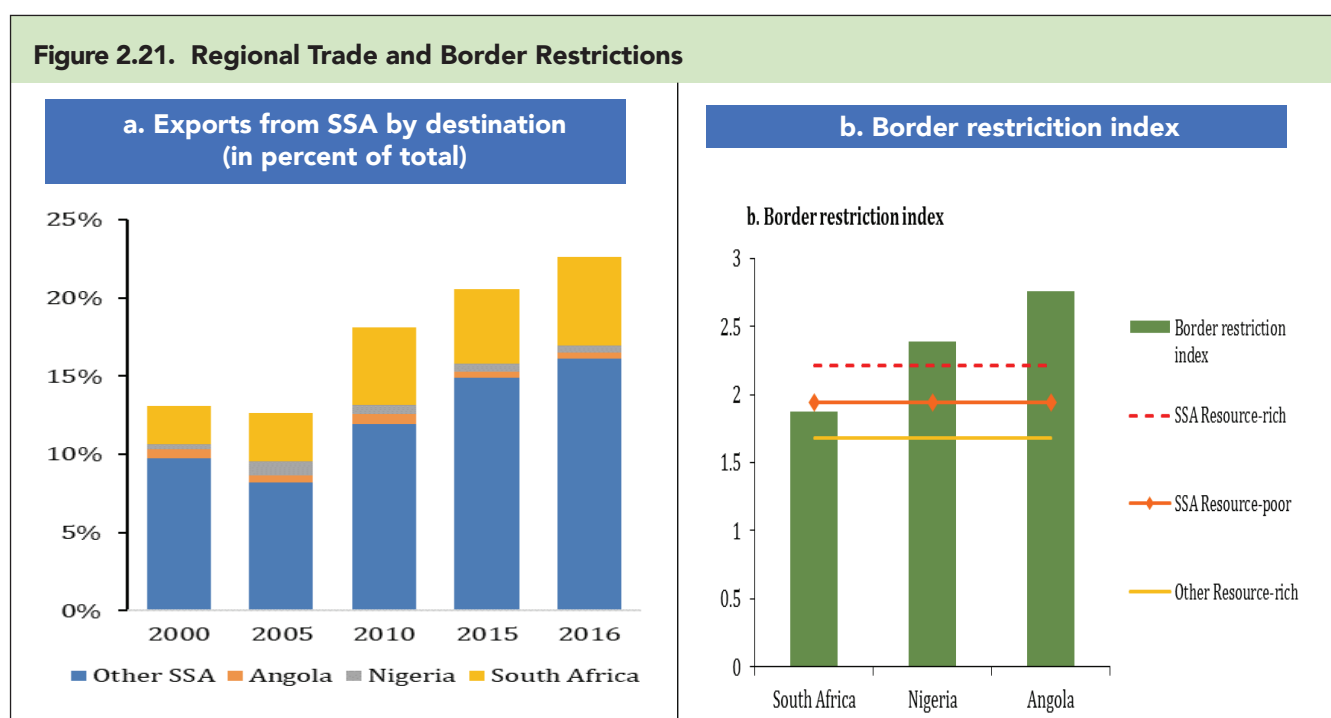
Domestic markets in Nigeria remain fragmented and businesses are often not well integrated to national, regional or global value chain. That limits the Nigerian economy's ability to exploit economy of scale and increase productivity. Poor infrastructure and ongoing internal conflict (see constraints 3 and 9) are among the causes of the fragmentation. The current foreign exchange control regime (see constraint 1) is not conducive to fostering regional and global integration through trades either.

Domestic obstacles to trade and transport in Nigeria negatively impact competitiveness. The Lagos-Kano transport corridor, the main channel for domestic, regional and international trade in Nigeria, is also the central axis of cattle and leather trade. It spans approximately 990km and links the country's two most populous cities (Kano and Lagos), passing through Kaduna, Ilorin and Ibadan. Despite the absence of formal border along the Lagos-Kano corridor, the costs, delays and uncertainties faced by traders within Nigeria are high (Coste 2014). As illustrated in the case of cattle, evidence suggests that unjustified charges and barriers along the corridor increase transport and related costs by around 18 percent, lengthen transport time by up to a quarter and create significant risks for traders. Cattle traders and truckers report an average of 20 roadblocks by various institutions (the police, army, other security forces and vigilante groups, customs, veterinary services, National Drug Law Enforcement Agency, Federal Road Safety Commission, and so on) and hoodlums on the corridor. Overall, the bad condition of roads on some segments of the corridor, low quality of transport services, high number of roadblocks and level of unofficial payments all contribute to increased costs, delays and risks for traders within Nigeria. Such trade transaction costs also make it harder for products from the north to compete with imported goods. Combined with interventions to enhance productivity and quality, reducing domestic trade and transport transaction costs could improve the competitiveness of Nigerian products such as meat more efficiently than the current restrictive trade policy instruments.⁶⁷

The inadequate access of producers to markets beyond their immediate localities, especially those in large urban agglomerations, significantly reduces the internal economies of scale they can exploit. Such limits on the extent of the markets producers can access reduce regional external economies of scale and scope. As a result, cities and metropolitan regions cannot specialize and develop clusters connected to extra-regional supply chains. This severely hampers the capacities of firms to focus on their core competencies, to develop the capabilities and absorptive capacities required to compete in broader and more competitive markets (including export markets), to upgrade to more productive activities, and to develop new products and services. Given Nigeria's 184 million people, firms, particularly manufacturing firms with tradable outputs, have a potentially massive home market they can tap into—not doing so constitutes a major opportunity cost, which manifests in rising unemployment rates and informal employment.

⁶⁷ The SCD discusses Nigeria's restrictive trade policy, including import bans. However, import bans should not be discussed exclusively from the point of view of the ineffective protection of domestic industries in an infant industry spirit, but also their impact on consumers should be considered. The report *Putting Nigeria to Work* shows that all banned items are available in Nigeria, but at a significantly higher price than in other countries that do not have import bans (such as Kenya) (Treichel 2010). Import bans are a major contributor to poverty. Goods consumed by the poor are banned and cost much more than would be the case if there were no bans.

Nigeria's regional and global integration is also limited by restrictive policies. Though intraregional trade in Sub-Saharan Africa has doubled since 2000, to reach 25 percent in 2017, it has not increased as much as intraregional trade in East Asia and the Pacific or in the European Union. Exports to Nigeria accounted for 0.3 percent to 0.5 percent of the Sub-Saharan African total in 2000–16, well below South Africa's 5.7 percent (figure 2.21, panel a). Nigeria's poor performance in regional trade partly derives from its more restrictive border crossings relative to South Africa (figure 2.21, panel b). Cross-sectional analyses indicate that income per capita is inversely correlated with border restrictions. Countries that are more open to trade, ideas, and (appropriately sequenced) inflows of foreign capital are more well integrated into the global economy and benefit from their interactions with other countries. This suggests that the thick borders around Nigeria are a major deterrent to growth spillovers to Nigeria's neighbors in the Economic Community of West African States. Implementing measures to reduce drastically the thickness of Nigerian borders would be a win-win: more open borders would boost regional exports, create larger agglomeration economies, help attract more private investment from abroad, and bolster the growth potential of the Economic Community of West African States and, beyond, all Sub-Saharan Africa.⁶⁸ Furthermore, a review of the Nigerian Investment Promotion Commission Act of 1995 and proposed amendments to the act passed by the House of Representatives and existing international investment agreements reveal there is some room for improvement, particularly regarding the lack of clarity on the list of sectors restricted to investment and the protection of foreign investors from discriminatory treatment by the government.



Sources: DOTS; WDI.

Note: The export indicator used is exports of goods, free on board, U.S. dollars. As in *World Development Report 2009* (World Bank 2009), the border restriction index summarizes four indicators: restrictions on the flow of goods, ideas, capital, and people. The indicators were normalized and rescaled from more open to less open borders and then summed. For this indicator, smaller is better.

⁶⁸ The federal government is exploring different mechanisms to convert the existing export-processing zones and free trade zones into special economic zones to attract more FDI.

Import data underscore Nigeria's relatively low level of integration with international markets.

Between 2010 and 2015, the value of imported inputs equaled only 8 percent of the value of exports, far below the share in other commodity exporters such as Kenya (18 percent) and Mexico (33 percent). However, productivity among importing firms is greater in Nigeria than among non-importers, suggesting that access to foreign inputs enhances labor productivity.⁶⁹ Moreover, 70 percent of exporting firms are also importers, highlighting the opportunities offered by international value chains. It is important for policy makers to monitor the outward orientation of domestic firms because exporting and importing are both closely correlated with innovation.⁷⁰

This limited global integration constrains the productivity of Nigerian firms. The total factor productivity of the manufacturing sector is between two and three times higher in Ethiopia, Côte d'Ivoire, and Ghana and almost five times higher in Kenya than in Nigeria (World Bank 2016c). Yet, Nigerian firms exporting and receiving FDI appear to have a productivity premium (figures 2.22 and 2.23). There is a solid body of empirical works that confirm the tight correlation between productivity and the market reached by firms: less productive firms target local markets, somewhat productive firms target regional markets, while productive firms target world markets. Higher levels of productivity are associated with a greater propensity to import raw materials or export output, a greater likelihood of foreign participation in the ownership structure. More productive firms are more likely to become exporters.⁷¹

Figure 2.22. Productivity among Exporting and Nonexporting Firms
estimated elasticity scale

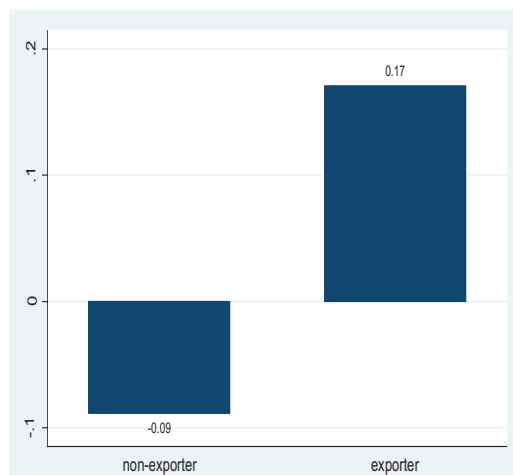
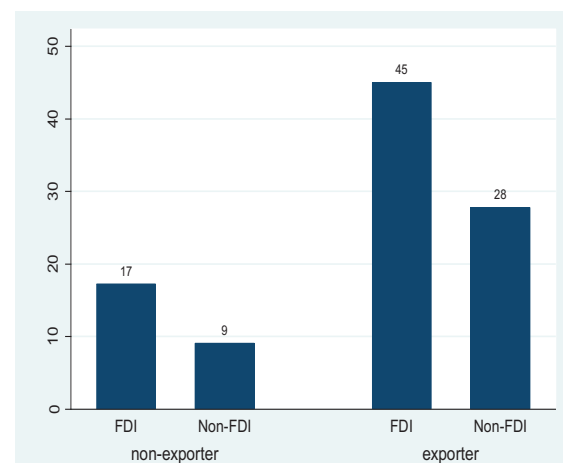


Figure 2.23. Import Propensity and FDI among Exporting and Nonexporting Firms, 2014
% of material inputs or supplies of foreign origin



Source: Calculations based on the 2014 World Bank Enterprise Surveys.

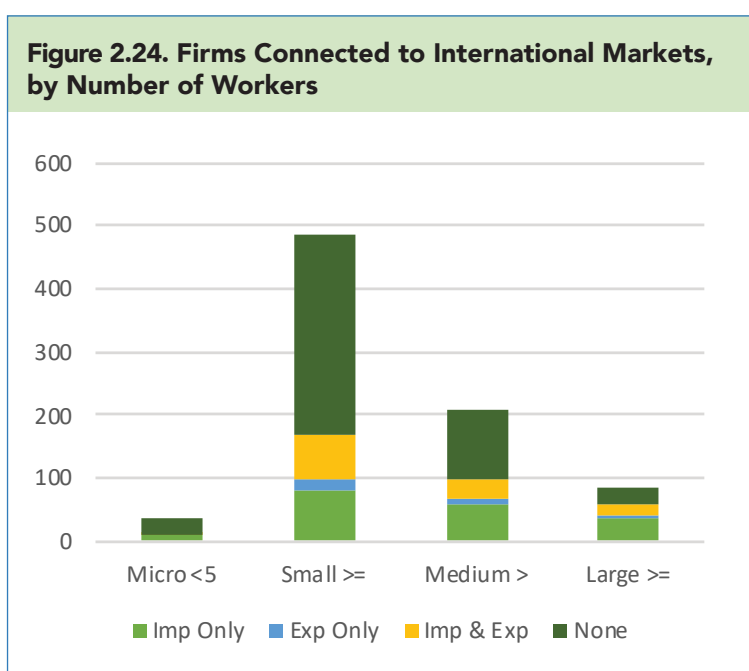
Note: Estimation residuals use total factor productivity as the dependent variable and control for firm-level characteristics, the investment climate, bank financing, sector and region.

69 See, for example, Kiriya (2012); Nordas, Miroudot, and Kowalski (2006); Vijil (2016).

70 For example, see Iacovone, Rauch, and Winters (2013); Maur (2016).

71 The direction of causality between exports and productivity could be inferred with a different methodology, such as a randomized controlled trial similar to that employed by Atkin, Khandelwal, and Osman (2016). When a probit model is used to estimate the likelihood of a firm being an exporter, total factor productivity is a significant explanatory factor, as is the propensity to import raw materials, foreign participation in the ownership structure, firm size, and access to a credit line or overdraft facility.

The restrictive exchange rate and trade policies adopted during the 2014–15 crisis have negatively affected the country's supply capacity. Indeed, sourcing intermediate goods efficiently is essential to production capacity, given that access to a wide range of affordable intermediate goods helps take advantage of scale economies, reduce production costs, and improve export competitiveness. Proxying them using products identified as parts and components in the harmonized system classification, or according to the stages of processing classification of the United Nations Conference on Trade and Development, or the



Source: Enterprise Survey 2014, World Bank.

broader economic categories nomenclature of the World Trade Organization, Nigerian imports of intermediate goods were stable in January 2014–October 2015 despite all the restrictive trade measures. This means that Nigerian firms have not been able to substitute these imported inputs with locally produced ones. The trade restrictions imposed by the CBN are a major constraint to broad-based growth. Indeed, given the fairly large number of Nigerian small and medium firms connected to international markets (figure 2.24), constraining their access to intermediate goods they need to produce negatively affects their productivity. Recent studies suggest that access to imported inputs boosts firm productivity by diffusing technology and knowledge not available domestically (Halpern, Koren, and Szeidl 2015). Furthermore, large crises characterized by large exchange rate depreciations and a collapse in imports have also been accompanied by subsequent significant declines in GDP and factor productivity. For instance, Gopinath and Neiman (2014) show that the dollar value of imports plummeted, respectively, by 69 percent in Argentina (2000–02), 35 percent in the Republic of Korea (1997–98), and 32 percent in Thailand (1997–98) and this, which was associated with large declines in total factor productivity: 12 percent in Argentina (in manufacturing), 7 percent in Korea, and 15 percent in Thailand.

The lack of internationally recognized quality infrastructure services, such as testing and certification, hinders the ability of enterprises to become exporters. Firms that seek to export, particularly to advanced economies such as the European Union and the United States, are required to prove that the products and services comply with international standards and technical regulations. The European Union ban on exports of dried beans from Nigeria because of high pesticide levels is indicative of the limited effectiveness of the quality management system of the country. The government has made significant improvements in recent years to the quality infrastructure system, including establishing a national accreditation body, improving the metrology and calibration services, and building the capacity of conformity assessment bodies and

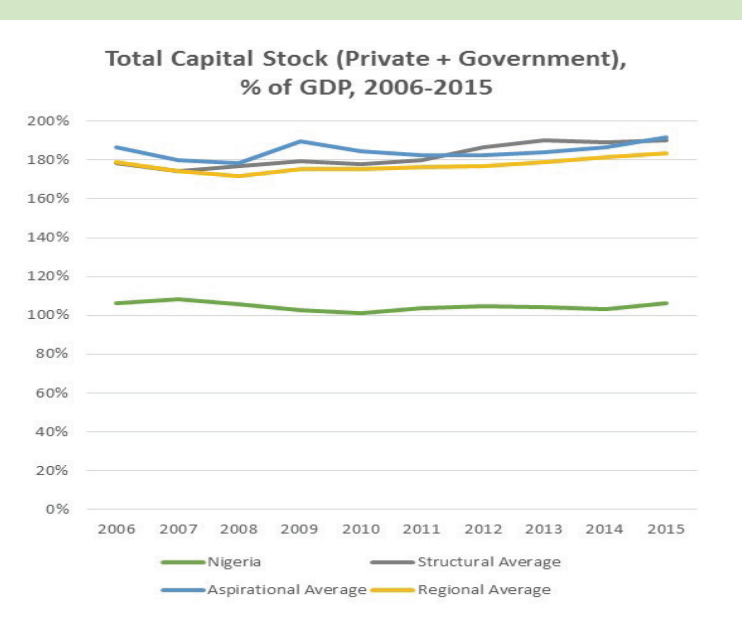
the development of a national quality policy to guide the country's quality infrastructure ecosystem. The national quality policy is positioned to support essential government policies aiming at enhancing trade, diversification of the economy, boost exports and strengthen the competitiveness of Nigerian products and services.

Through a negative impact on firm productivity, the reduction in imports of parts and components dampens export performance. Indeed, less productive firms are less able to overcome export fixed costs, to be price-competitive in foreign markets and to integrate in global value chains that are dependent on the quality and technology embedded in specific imported inputs. Recent empirical evidence confirms that an expansion in the use of imported intermediate inputs facilitates firm entry into export markets and firm performance in these markets through higher total exports, broader export scope, and higher export quality (Bas and Strauss-Khan 2015). The World Bank enterprise survey in Nigeria indicates that most of the exporting firms are also importing firms, particularly in the case of small enterprises. The restrictive foreign exchange and trade policies therefore compromise the chances of Nigerian SMEs to enter export markets and survive, further constraining the diversification away from the oil economy.

Constraint 9: Infrastructure Gaps

Nigeria has low physical capital stock in all key infrastructure sectors, including electricity, transport and information and communication technologies. Nigeria's capital stock is low due to inadequate volume and efficiency of investment over the years. Nigeria's total capital stock is estimated at around 100 percent of GDP, only about 60 percent of the average stock among its competitors (figure 2.25). In 2016, the shares of public and private investment in GDP were, respectively, 2.2 and 10.4 percent—which is significantly below the average for lower-middle-income countries. Since public capital stock growth is highly correlated with labor productivity growth and GDP growth, the low level of investment in Nigeria is of concern. The private sector in particular is hampered by the lack of sufficient infrastructure: one firm in five considers it the most problematic factor in doing business in Nigeria compared with only 10 percent in Ghana or Kenya (WEF 2017). The limited public fiscal space for infrastructure investments, as well as difficulty in attracting private investments in public infrastructure, constrains Nigeria's ability to make the necessary investments.

Figure 2.25. Total Private and Public Capital Stock, 2006–15
% of GDP



Source: ICSD data of 2017.

Electricity

Access to energy is low, with approximately 80 million people lacking access to electricity. Nigeria has the largest absolute access deficit in Sub-Saharan Africa and the second-largest in the world, after India (IEA 2017). The national electrification rate is 55 percent, and the rural electrification rate is only 39 percent.⁷² While woman-headed households are more likely to be connected to the grid (72 percent) relative to man-headed households (53 percent), woman-headed households tend to consume less.⁷³ To achieve universal access to electricity by 2030, Nigeria would need to connect between 500,000 and 800,000 households a year, which requires both grid extension and off-grid solutions.

The situation has not improved, perhaps even worsened, despite the transition from a publicly owned to largely privately-owned sector. Following the passage of the Electric Power Sector Reform Act (2005), Nigeria's power sector was unbundled and the privatization of the distribution and generation companies was completed in 2013. The installed power generation capacity is approximately 13 gigawatts, and the available generation capacity is approximately 7 gigawatts. On average, however, only 3.5 gigawatts were dispatched over the last two years. The capacity dispatched by the power system has, at times, exceeded 5 megawatts (most recently, on December 8, 2017), indicating that the country can permanently increase the average power production if a number of constraints are addressed. Over the years, these constraints have been gas supply and gas pipeline problems as well as a lack of contract enforcement and accountability.

High losses, low collections and lack of cost recovery tariffs have resulted in an annual financial deficit to the sector of approximately US\$1 billion. Technical and collection losses averaged 54 percent in 2017. The causes for the crisis are interlinked and self-reinforcing. They include: incomplete retail metering; inconsistent application of retail tariff orders; gas shortages due to poor payment discipline as well as supply disruptions due to sabotage of the oil and gas infrastructure; unmet investment in the network rehabilitation and billing and collection systems. The poor financial viability of the eleven distribution companies has resulted in low payments to the National Bulk Electricity Trading Company with a resulting lack of timely and full payments to generation companies that, in turn, accumulated arrears to gas suppliers.

Hydropower can contribute more to electric power supply, but it is underdeveloped because of a lack of investment and the maintenance of dams. Nigeria has 180 large dams with a total storage capacity of 37.4 billion cubic meters, of which 25.8 billion cubic meters are associated with large hydropower dams, such as Jebba, Kainji, and Shiroro. Hydropower contributes about 26 percent of the electric power supply and helps reduce dependence on gas for power generation.⁷⁴ Though significant, only 13 percent of exploitable hydropower is in use.⁷⁵ Hydropower is a clean and renewable energy source. However, dams hold large

72 For electrification rates by states, see NPC and ICF International (2014).

73 Data of the 2015–16 General Household Survey.

74 Chineme Okafor, Interview of Babatunde Fashola, Minister of Power, Works, and Housing, *This Day*, Lagos, October 18, 2017, www.thisdaylive.com.

75 The government plans to build a US\$5.8 billion hydropower plant in the eastern Mambila region. It is currently negotiating the terms of the loan with China's Export-Import Bank.

volumes of water, which increases the risk of hazard should they be compromised.⁷⁶ To develop the sector, additional resources thus need to be allocated to ensure proper the oversight and maintenance of the dams.

Rural electrification remains a challenge given the dispersed population and difficulty in expanding the grid. Because many communities in rural areas are underserved by the national grid, the government approved the Rural Electrification Strategy and Implementation Plan in July 2016. The plan calls for a specific focus on underserved rural populations and rural institutions such as schools, and rural businesses for job creation and economic development. The Rural Electrification Agency has been authorized to establish a Rural Electrification Fund to help finance rural electrification expansion. The fund promotes rapid, cost-effective expansion of electricity access in unelectrified rural areas evenly among the geopolitical zones through on-grid, mini-grid, and off-grid electrification solutions featuring renewable energy and hybrid power systems. If the program is successful, it could provide a major impetus to improving the welfare of rural communities and the rural economy.

Weak governance and inadequate enforcement of contracts aggravate the operational and financial deficiencies of the electricity sector. The sector's lack of financial viability hinders the full activation and enforcement of sectoral contracts and regulations, that is, the financial consequences of the unwillingness or inability of companies in the sector to meet their contractual obligations are not enforced. The power market thus functions on a best effort basis, resulting in a lack of accountability and poor service delivery. Poor service delivery, in turn, makes tariff adjustments unacceptable to customers. The government is reluctant to raise tariffs and reduce subsidies because of concerns over a political backlash, though most of the subsidies are captured by wealthy consumers in the upper-income quintiles (World Bank 2017e).

Transport

Nigeria has an extensive transport network relative to other resource-rich African countries, however, much of this network is in poor condition. The transport system includes a large road network, rail network, river- and seaports, and air transport. The transport infrastructure is in a poor state and the performance of the logistics system is low. An estimated 40 percent of federal roads, 78 percent of state roads, and 87 percent of roads in local government areas are in poor condition and require rehabilitation or reconstruction. The rail network is run down due to lack of maintenance. River ports are under developed, sea ports inefficient, and air transportation though well-developed has a bad safety record and rundown facilities. While the transport network suffers from myriad problems, the basis for developing an effective system for transporting goods and people cost-effectively exists.

The Nigeria's road network is extensive, but there are large gaps in connecting people to the markets, especially in rural areas, and transportation costs are high and rising. Despite the relatively high level of rural road density, less than half of the rural population lives less than 2 kilometers away from an all-weather

76 Nigeria's dams are aging which means that they may not be able to safely withstand infrequent, yet likely natural events such as large floods and earthquakes. In general, dams are designed to last for about 50 years. Currently, about 33 percent of the 189 dams are over 50 years old, and by 2025, 62 percent of the total dams in the Nigeria will be over 50 years old. In addition, many of these dams were constructed using less-stringent design criteria.

road. Because of the lack of good quality roads, about 30 million Nigerians currently live in near isolation and lack access to income-generating opportunities and social services.⁷⁷ The lack of road access lowers farmgate prices of agricultural outputs, thus keeping most of the agricultural production at the subsistence level. A significant part of perishable products is lost or damaged in transit. Insufficient connectivity and high transport costs make it difficult for farmers to source and transport key inputs (like seeds or fertilizers) to their farms. Deteriorated infrastructure increases transport costs, which in turn affects access to markets and services, ultimately resulting in lower productivity. Transport costs in urban and peri-urban areas where the road network is in relatively good condition are low at about US\$5.30 per ton, while in areas where the network is in poor condition and far from the coast costs are as high as US\$43.00 a ton. Poor transport infrastructure is responsible for losses of 15 percent–20 percent of the agricultural production in Nigeria.

Limited urban transportation infrastructure, mass transportation services, and urban space allocated to movement all serve to reduce the productivity of cities. Cities are increasingly involved in trading patterns at a global and national scale which makes the efficiency of their transport systems of critical importance. In Nigeria (as in most countries), public urban transportation is devolved to cities which have fewer financing and management resources. Over 90 million people live in urban and surrounding areas of Nigeria. As cities grow, private vehicle ownership outstrips available road space leading to road congestion and air pollution. Limited expansion of public transport while urban population grows is a major constraint to the productivity of urban economic activities. It limits access to economic and social opportunities, especially for the poor.

Connectivity along Nigeria's economic corridors is further hampered by poor and underdeveloped logistics infrastructure and services, as well as by procedural complexities.⁷⁸ Nigeria ranked 90th (out of 160) in the logistics performance index in 2016 and lags significantly behind developed countries and comparable peers.⁷⁹ Time delays, international shipment bottlenecks, poor tracking and tracing capabilities, and inefficient logistics remain key industry risks (table 2.4). In addition, complex customs procedures hinder the effective functioning of the Nigerian logistics system, as evidenced by Nigeria's position of 183 out of 189 countries in the trade across borders indicator in the Doing Business 2018 report.

77 Estimates for 2007 (World Bank 2012).

78 Logistics refers to the process of planning, implementing and controlling the efficient, cost effective flow and storage of raw materials, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of conforming to customers' requirements.

79 Based on 2018 Logistics Performance Indicator, Nigeria's ranking further slipped to 110th among 167 countries.

Table 2.4. Summary of Root Causes of Nigeria's Poor Logistics Performance

<i>Unfavorable multimodal mix</i>	Higher percentage of road-based movement in freight transport High rail congestion, pricing and rake booking policies has limited freight movement through rail
<i>Underdeveloped transport infrastructure</i>	Lower density of high capacity highways (4 lanes and plus) Capacity mismatch on road infrastructure and lack of cross-city bypasses add to congestion and time unpredictability
<i>Poor logistics system</i>	Underdeveloped mechanized handling infrastructure Lack of mechanized handling facility to enable containerized cargo movement Lack of warehousing and storage facilities
<i>Procedural complexities</i>	Complexity in documentation and procedures for interstate movement Delays in customs clearance at land and sea ports driven by complex documentation requirement Corruption and speed money/bribe

Source: Logistics Performance Indicator, 2016.

Information and communication technology

An additional aspect of connectivity is digital infrastructure of which the mobile cellular networks are a key component. Digital Infrastructure, a requisite for a digital economy, shows a mixed picture. Moving toward a digital economy would help spur growth, create more and better jobs, and enhance competitiveness (spotlight 2.1). Nigeria is home to Africa's largest mobile phone market. The mobile sector shows 153 million users (active SIMs), with mobile phone penetration reaching 74 percent. However, when looking at unique subscribers and actual penetration of mobile usage, only 51 percent of the population has a mobile connection, mostly 2G (GSMA [Global System for Mobile Communications Association] Report April 2017). Moreover, ownership for mobile phones is 1.4 times higher in urban areas compared with rural areas. More striking still is a north-south divide within the country, with southern regions (including major metropolises such as Lagos) well ahead of northern counterparts in access within a household to mobile phones. The quality of service is an issue across the country, particularly in the north, where mobile phone coverage is uneven.

SPOTLIGHT 2.1. Moving toward a Digital Economy in Nigeria

Today, the digital economy is the new frontier of economic growth. It can be a catalyst for productivity gains, new services, and improved government efficiency in Nigeria. To accelerate growth and modernize the economy, the government has prioritized the development of a digital-led strategy to improve competitiveness and foster technology development and innovation. ERGP's objectives in key sectors of the Nigerian economy cannot be achieved without leveraging digital tools and services. Five foundational elements are necessary for a successful, inclusive digital economy: digital infrastructure, digital platforms, digital entrepreneurship, digital financial services, and digital skills.

To realize the immense potential offered by digital economy, Nigeria must improve its digital infrastructure, the underlying foundation to a thriving digital economy. While Nigeria has the highest number of people online in Africa, mobile penetration is only 51 percent if the multi-SIM effect is taken into account. The country faces several challenges, including poor network coverage, historic mismanagement of its networks (for example, Nigeria Telecommunications Limited) and constraining fiscal policies:^a the application of the tax administration in Nigeria is a key barrier to infrastructure investment, development and expansion.

Recently, digital platforms have gained traction, especially in the private sector. Digital platforms have the potential to boost a digital economy, connecting government, businesses and consumers, creating efficiencies and reducing entry barriers. They can link rural entrepreneurs to inputs, markets and services, and are a cost-efficient way to provide extension services to farmers, or to supplement and reinforce existing in-person extension activities. Nigeria is a leading digital market in Africa but is highly concentrated in the Lagos area. Nigeria currently ranks 118th out of 180 countries in the Digital Adoption Index (2016). It lags behind other countries especially in business and people sub-indices; digital dividends are yet to be realized across the country.

The current Nigerian ecosystem of startups and young entrepreneurs can be leveraged to develop apps and services tailored to the needs and constraints across demographics. For instance, climate-smart agriculture can be enabled by using satellite data to improve pest control and water management that help farmers anticipate needs. In parallel, digital payments and financial inclusion can improve farmers' ability to manage their finances, including through savings and credit, improving their ability to adopt technologies. However, this has been constrained by low financial inclusion and restrictive policies on mobile money. Additionally, outside the Lagos area, the development of digital skills among the youth, and the rate of digital adoption by entrepreneurs remains quite low. Nigeria ranks 78th in 151 countries with a scientists and engineers availability index of 3.80 (on a 1.00–7.00 scale).^c

While the government has established an e-government strategy and developed data centers, online government domains, e-mail systems, and standards and guidelines, it lags in the migration of services to integrated online platforms, especially in the public sector. The strategy has not yet been operationalized. In the digitalization of the administration, Nigeria ranks 143rd among 193 economies on the e-government index.^d

With a sound procompetition regulatory environment and progress across all foundational elements, along with the availability of power, the government could foster rapid growth in the country's digital economy, particularly outside metropolitan Lagos.

a. Nigeria Telecommunications Report, BMI Research, Q2 2018.

b. Nigeria Country Intelligence Report, TC0565MR, Global Data, March 2018.

c. Schwab (2017).

d. UN e-Government Development Index, 2018.

The Internet is still considered a luxury, inaccessible to the vast majority of the population. The use of broadband is low at 23 percent of people, with Internet reaching 36 percent of people, irrespective of speed of connectivity. The average cost of broadband is US\$80 per month, making Internet access unaffordable to most of the population. Data centers and cloud-based services are often clustered in urban areas with greater Internet coverage. The high cost of broadband services and irregular supply of electric power makes cloud-based services less ubiquitous. With the high cost of Internet and mobile connectivity, small entrepreneurs, microenterprises, and SMEs generally face high cost and poor quality in Internet services, impacting their efficiency (communication with suppliers, customers, staff, know your customer platforms, and so on) and productivity.

Land tenure and management

Two pieces of legislation govern the use and development of land, but property rights are still ambiguous. The Land Use Act of 1978, which is incorporated into the 1999 Constitution, governs land ownership rights and transactions, and the Urban and Regional Planning Act, Decree No. 88 of 1992, governs development planning and permitting issues. Nigeria also has traditional land administration and ownership systems based on customary practices that coexist with the modern legal system of land administration. There are significant frictions in the land information, titling, and transactions systems and this places severe constraints on the development of properties (World Bank 2016d). The current records used for land management do not encompass land held under traditional customary tenure systems. As a result, collecting information on property, uses, and ownership is difficult. Only 3 percent of properties are estimated to be formally registered (Birner and Okumo 2011).⁸⁰

Rural land is owned by the state and subject to control by local governments. The Land Use Act provides for the recognition of various private interests located on state-owned land, including customary owners of residential and agricultural indigene plots. These people may be entitled to obtain certificates of occupancy under the Land Use Act, confirming their rights. However, obtaining a certificate is expensive and time consuming. In the vast majority of cases in rural Nigeria, rural landholders have not obtained formal certificates, and customary rights remain undocumented despite recent efforts in some states (for instance, Edo and Kaduna) to accelerate the documentation of rural land rights (World Bank 2014a). Because of the widespread lack of state-issued land occupancy or ownership documents and the ambiguity of certain clauses in the Land Use Act, commercial banks are reluctant to accept rural land as collateral.⁸¹

The governance of urban land creates difficulties for business and residential development. The Land Use Act vests all urban land in the hands of the governor such that the state can revoke prior claims and rights of occupancy. A certificate of occupancy granted by the state governor is the sole legal proof of occupancy. The required consent by the state governor for all formal transactions triggers the collection of a ground rent, which acts as a disincentive. Ground rents are one of the primary mechanisms by which

⁸⁰ Birner and Okumo 2011.

⁸¹ The Land Use Act gives state governments the power to take land, often without due process, adequate compensation or right of appeal. Thus, many customary land owners choose to stay informal or out of sight of the state, thereby diminishing the risk that the land will be taken by the state. Staying informal, however, makes it difficult to use the land as collateral.

the Land Use Act drives up the cost of formality. The process for regularizing tenure is estimated to cost 27 percent of the property value on average and 10 percent at a minimum. These costs come from official fees, which are often difficult to know in advance, a factor adding further risk to landholders hoping to formalize. If in addition, the owner wishes to subdivide and develop the site, the procedures for this are lengthy and costly. As cities expand, the sharp administrative division between urban and rural land leads to legal limbo on the peripheries of cities. Urbanization pressures are frequently the source of land conflicts (World Bank 2016d). Furthermore, the land market is hindered by the complicated requirements and high cost of transferring property already registered as well as the low quality of land administration.⁸²

Private financing of public infrastructure

Nigeria started implementing its investment framework for private sector participation in public infrastructure in the late 1990's. The 1999 Public Enterprise Act established the National Council for Privatization, which was tasked with formulating and approving Nigeria's privatization policies, while the Bureau of Public Enterprises acted as the implementation agency for privatization projects. In 2005, the Infrastructure Concession Regulatory Commission Act was implemented. The commission developed a national public-private partnership policy in 2009. First, the telecommunication sector was opened to private enterprises with the 2003 Communications Act. In the port sector, the government adopted the landlord model at Nigerian ports and started entering into concession agreements with the private operators and started mobilizing private financing of hard infrastructure through build-operate-transfer agreements. In the transport sector, the Federal Road Maintenance Agency was established in 2002 and given the authority to enter into maintain, operate and transfer concession contracts. In the energy sector, the government divested from Power Holding Company of Nigeria in 2013.

Despite these efforts, private financing of infrastructure investments remains low. According to the World Bank Private Participation in Infrastructure Database, there have been 49 projects that have reached financial closure to date, with total financing of US\$10.9 billion, whereas over half the total was raised for three large port projects.⁸³ Between 2008 and 2017, a cumulative total of US\$6.39 billion in private participation infrastructure projects reached financial closure (table 2.5), including the Azura-Edo independent power producer project, which the World Bank has supported (box 2.6). Reflecting the limited government budget, many emerging market countries finance a relatively high share of their infrastructure investments through private financing schemes, but this is not the case in Nigeria, apart from the port sector (figure 2.26).

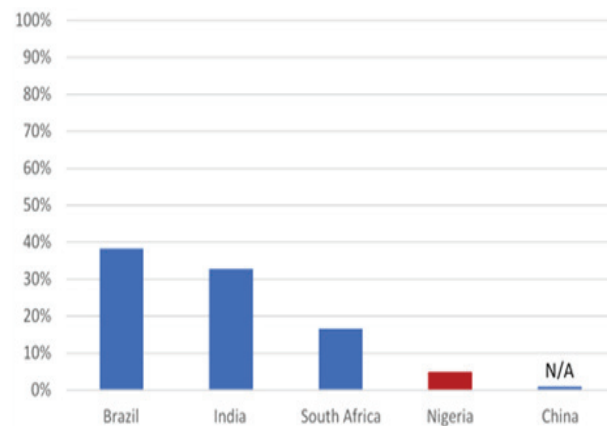
82 For example, in Lagos, transferring land takes an average of 76 days and costs 10 percent of the property value. (World Bank, 2018d).

83 The database includes only transactions with investors who are controlled, and majority owned by the private sector and exclude those with state-owned enterprises. Because of the significant role of state-owned enterprises in infrastructure investment in China, the data on China are not comparable.

Table 2.5 Private Participation Infrastructure Projects That Reached Financial Closing, Nigeria, 2008–17

Project	Sector	Investment, US\$ million
Onne Port Expansion, Phase 4B	Port	2,900
Lekki Deep Seaport	Port	1,500
Azura-Edo Gas-Fired Power Plant Phase I	Power	880
KEPCO Egbin Power Plant	Power	407
Lekki-Epe Expressway	Road	382
Apapa Container Terminal Concession	Port	135
Bullnose Port Facilities	Port	124
Afrigeria Power	Power	70
Afam Power Project	Power	0
Llypond Container Terminal	Port	0
Total		6,398

Source: PPI (Private Participation in Infrastructure Database), World Bank, Washington, DC, <http://ppi.worldbank.org/>.

Figure 2.26. Private Participation Infrastructure Investment Projects, by Country, 2008–15

Source: Calculations based on data from the Outlook of Global Infrastructure Hub and PPI (Private Participation in Infrastructure Database), World Bank, Washington, DC, <http://ppi.worldbank.org/>.

Box 2.6. Mobilizing Private Financing for Infrastructure: Azura-Edo

Solving the country's perennial power shortage has been arguably the biggest development challenge for successive governments in Nigeria, Africa's most populous nation. Available on-grid electricity generation capacity is less than 5,000 megawatts; yet, demand is estimated to be several orders of magnitude higher.

In 2010, the government embarked on a comprehensive power sector reform to liberalize electricity supply, increase private participation in the sector, and improve efficiency. In support of the reform process, the World Bank developed the Nigeria Energy Business Plan, bringing together the resources of the Bank to attract private investment in the sector.

As part of this plan, the Bank worked with 15 financial institutions, including commercial banks and development finance institutions, to support 461-megawatt Azura-Edo, an independent power producer, that would provide electricity to an estimated 14 million people in Nigeria. The Azura-Edo is Nigeria's first privately financed independent power project. It draws from the country's reserves of natural gas, a clean-burning transition fuel, to address critical electricity needs and shift toward a less carbon-intensive economy. The expectation of the government has been to use Azura-Edo's project and transaction documents as templates for follow-on independent power producers.

The approximately US\$876 million financing package signed in December 2015 was a breakthrough in power generation in Nigeria and received a stamp of approval from the World Bank and financing partners, including Standard Chartered Bank, the Netherlands Development Finance Company, Siemens Bank, Rand Merchant Bank, KfW, Proparco, Swedfund, and the Overseas Private Investment Corporation.

Box 2.6. Mobilizing Private Financing for Infrastructure: Azura-Edo *(continued)*

Azura-Edo was the first independent power producer to emerge from the federal power sector reform. The government, the Azura-Edo sponsors, and lenders had to be innovative in structuring solutions to the complex sectoral challenges. Because of the nascent institutional arrangements in Nigeria and the absence of precedent transactions, the Azura-Edo project required an array of contractual innovations and project participants. A lot of these elements were put in place to structure around the lack of a track record of positive cashflows in the sector and a proven sectoral operating history. An example was the need for a guarantee to cover termination payments under Azura-Edo's power purchase agreement in the event of an early termination of the agreement. Discussions with the Nigerian government revealed limitations to its ability to take on additional contingent liabilities. Consequently, IFC, other donors, and the government counsel (funded under a World Bank technical assistance program) developed the Put Call Option Agreement, which provided all the protections of a guarantee to lenders, but without the impact on the government balance sheet. The agreement is now part of the standard suite of contracts that support the procurement of power generation capacity by the government.

The Azura project has also been marked by high levels of transparency and contractual discipline, both of which helped the plant set record-breaking construction and operational milestones. In May 2018, the plant reached commercial operations under budget and eight months ahead of schedule; whilst its first year of operations was marked by an availability rate of over 98 percent.

The government's capacity to prepare, procure, and manage public-private partnerships is considered weak. Nigeria scored well on procurement, but scored poorly on project preparation and contract management, according to the World Bank (2016e). Other constraints that are often cited include the legal and regulatory environment, especially the lack of clarity on the roles and responsibilities of government institutions; the scarcity of qualified local sponsors; the limited government support, such as the viability gap funding and guarantees; the lack of a fiscal risk management framework for government support; and the shallow domestic capital market, especially the scarcity of long-term local-currency debt financing.

Weak public sector governance also affects Nigeria's ability to attract private investments in public infrastructure projects. Nigeria scores poorly in public sector governance in the dimensions relevant for private financing of public infrastructure. This weakness affects the government's ability to honor contracts, not only on politically complex issues such as tariff regulations but also basic ones, such as timely payments against satisfactory delivery of products and services. These characteristics diminish the pool of potential sponsors who would be interested in infrastructure projects in Nigeria and attract those who are willing and able to maneuver in the challenging governance context rather than those who have relevant technical expertise. To compensate for these government performance risks, investors, sponsors and contractors add considerable risk premiums, pushing up the overall project and financing costs and further diminishing the scope for financing public infrastructure with private sector investments.

Shortage of long-term local-currency financing for infrastructure investment

The shortage of long-term local-currency financing is one of key constraints on infrastructure investments in the emerging market countries, including Nigeria. Infrastructure projects require large upfront capital investments and recover the investments over a long period, typically 20–30 years. Many projects, such as toll road, power generation and distribution and water and sewage projects, have domestic currency revenue streams, and they require long-term local-currency financing so that the project would not incur unsustainable financial risks. Nigeria has a relatively developed government bond market, with the maturity extending up to 20 years; and the government has reasonable access to long-term local-currency financing. Indeed, Nigeria is one of the first countries globally to launch a sovereign green bond issue and successfully raise medium-term local-currency financing to support renewable energy and forestry projects (box 2.7). However, the access for other borrowers to long-term local-currency financing is limited. Given the extremely tight fiscal space of the public sector, it will be critical for Nigeria to implement necessary policies to enable the private sector to raise long-term naira financing in support of infrastructure investments.

Box 2.7. The Green Bond: Bright Spot in the Greening of the Economy and Creating Jobs and Opportunities

One of Nigeria's landmark achievements since the signing of the Paris Climate Agreement is the successful issuance of Africa's first sovereign Green Bond (US\$30 million) in December 2017. Nigeria is classified as one of the 10 countries most vulnerable to climate change, according to the 2017 climate change vulnerability index. Climate change inaction (business-as-usual) could cost the country an estimated 2 to 11 percent of GDP by 2020 and between 6 and 30 percent by 2050 (DFID 2009). This is equivalent to a loss varying between US\$100 billion and US\$460 billion.

The government recognizes the significant threats climate change poses to the accumulation of the country's natural, physical and human resources, and to the prosperity of its population. In signing the Paris Climate Agreement in September 2016, President Buhari committed Nigeria to reducing greenhouse gas emissions unconditionally by 20 percent and conditionally by 45 percent. These targets are well articulated in the Nationally Determined Contributions. Beyond the targets, Nigeria's broader aim is to build a climate-resilient society across the country's diverse landscapes. The proceeds of the green bond issue are financing selected carbon-efficient projects mostly in the energy and forestry sectors, creating thousands of new jobs, greening the economy, and reducing carbon emission and deforestation. The selected projects have links to the ERGP and the Nationally Determined Contributions. The Green Bond Program contributes to Program 47 of the ERGP, striving to build a climate-resilient economy across the country's diverse terrain.

There is a great opportunity for scaling up green issuance, crowding in private sector participation, unleashing green jobs, diversifying of the economy, and financing climate change programs in national and sub-national budgets.

Nigeria's financial sector is shallow and narrow, dominated by banks, and does not adequately provide long-term financing. Banks represent 19 percent of the financial sector in asset volume in Nigeria. Given that their liabilities consist largely of short-term deposits, their ability to provide long-term financing is

structurally limited. Overly aggressive asset-liability-management practices, such as excessive maturity or currency mismatches, would increase the risk not only to each bank but also to the financial system; and it therefore would not provide a sustainable solution. Banks can make significant and sustainable contributions to infrastructure investments, only if they can take advantage of a deep capital markets, either by raising long-term funding to refinance the long-term loans they provide, or resale of the infrastructure project loans once the track record of profitable operations has been established for these projects. The Nigerian capital markets do not play a meaningful role.

There have been policy debates in Nigeria how institutional investors, such as pension funds, may play more active roles in infrastructure investments. The aggregate volume of the pension fund assets in Nigeria has been growing at a fast pace (over 20 percent a year for the last 10 years), now the figure reached ₦8.1 trillion (6 percent of GDP), and it is expected to continue growing in the coming years. The 2017 National Pension Commission regulation includes infrastructure funds explicitly as an asset class; however, the pension funds' investments in infrastructure projects, directly or indirectly, is almost nonexistent. The Nigerian pension funds currently lack technical skills to evaluate infrastructure projects or other complex instruments. To overcome these challenges, the federal government transferred US\$650 million to the Nigeria Sovereign Investment Authority and set up an infrastructure fund at the authority. The authority, in partnership with GuarantCo and Development Finance Institutions, also set up InfraCredit, which aims to mobilize capital market resources for infrastructure projects by providing credit guarantees. It is not yet clear if these recent efforts will change the dynamics of Nigerian financial markets and help channel more long-term naira financing to infrastructure projects.

Constraint 10: Environmental Degradation

Environmental degradation is a serious problem in Nigeria, diminishing its natural resource base and impacting on businesses, people and overall economic development. The issue is more pronounced in rural areas where degraded ecosystems affect livelihoods of the poor and contribute to high poverty rates, especially in the drier, semiarid north. In coastal regions, land degradation and pollution affect critical marine and onshore resources and associated livelihoods. Environmental degradation also is seen through reduced air quality, and pollution of water and soils, mainly in urban areas. Flooding is another serious environmental issue in the country, with land degradation and climate change as causal factors. Nigeria's renewable natural resource base is a major foundation for non-oil economic growth. Yet, poor policy, legal and regulatory frameworks, and weak management and enforcement practices are decreasing the quantity and quality of natural resource stocks and flows. For example, natural forests may be largely gone by 2020, through overharvesting and land conversion to agriculture. Freshwater and marine natural resources are under increasing human and ecological pressure and lack effective management practices to prevent unsustainable extraction. Water management suffers from institutional failure and poor coordination. Climate change is exacerbating environmental degradation and will likely have significant impacts on agricultural production, livestock, energy production, biodiversity and urban centers. The government has made positive advances to address climate change, however, to be effective concrete actions must be taken with sustained financing and technical support.

Land degradation, pollution, and the effects on businesses and individuals

Nigeria is facing serious environmental degradation, which is eroding its natural resource base and threatening the country's development process. Critical natural resources - land, air, water, coasts, forests, and biodiversity, are being degraded through population growth, high poverty, poor governance, and lack of market values on many of these resources. Environmental degradation is imposing significant costs on the local and national economies, and more importantly on people through health impacts (high mortality and morbidity), loss of livelihood opportunities (including fisheries and livestock), conflict over natural resources, and cultural impacts on communities as their resource base is reduced (Akinbami, Akinwumi, and Salami 1996).

In rural areas, land degradation is directly impacting the sustainability of key ecosystems and livelihoods of the poor and contributing to the high rate of poverty in Nigeria. Deforestation, large-scale land clearing, and floodplain encroachment, mainly for agriculture, have resulted in severe environmental degradation in Nigeria. An estimated 90 percent of Nigeria's land area is under some form of soil erosion and 6,000 km² (about 6 percent of Nigeria's land area) are severely degraded. Erosion removes fertile top soil, contributing to reduced agricultural productivity, siltation of water bodies and flooding, severe gully erosion in the south, and desertification in the north. In northern regions, about 351,000 ha of land is lost to desertification each year, and is a contributing factor to the conflict in the North East (Lester 2006).

Land degradation also affects the Nigerian coastal region, disrupting coastal resources and livelihoods. With a coastline of 853 kilometers, Nigeria's coastal areas host abundant land and marine resources, which are particularly vulnerable to climate change. Major impacts from environmental degradation include coastal land erosion, flooding and salt water intrusion, inundation of wetlands, pollution that impacts on marine ecosystems, mangrove depletion, and *Nypa* palm invasion. The costs of coastal degradation and restoration are high. A global synthesis of marine coastal restoration estimated average costs at US\$1.6 million per hectare (Bayraktarov et al. 2016).

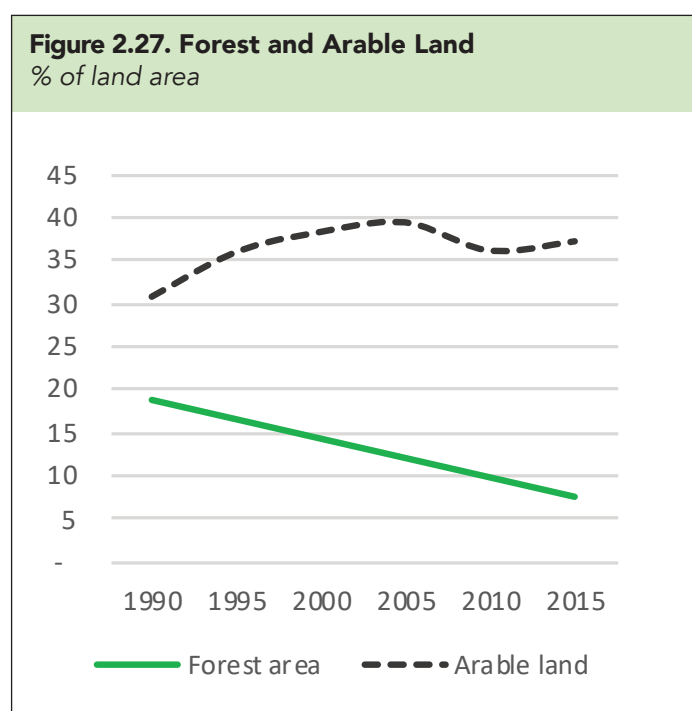
Air, water and soil pollution are prevalent, especially in urban areas. Though urbanization is an outcome of modern economic development and rural-urban migration, it also results in greater pollution, particularly when environmental policy, legal and regulatory frameworks are weak and poorly enforced. The main contributors to urban pollution in Nigeria are industry, the oil and gas sector, transportation, and municipal solid and liquid waste. Urban pollution leads to soil and groundwater contamination. Poor waste disposal can clog drainage systems, and aggravate urban flooding, and gully formation. Litter flowing into marine seas endangers aquatic ecosystems. In rural areas, poor management of inorganic fertilizers and pesticides is polluting surface and ground water, with health impacts on people using the water for human consumption.

Environmental degradation has multiple negative impacts on businesses and people. The cost of environmental degradation on businesses in Nigeria is high, with a disproportionately larger impact on small and medium businesses. At the same time, poorly framed environmental laws, regulations, and enforcement can impose significant operating costs on businesses. However, people bear the brunt of environmental

degradation, especially the poor. The need for cheap energy, especially for cooking, leads to both the loss of forest cover and indoor air pollution, which adversely impacts health, primarily for women and young children. Loss of fertile top soil impacts on agriculture yields, food security and nutrition, and causes excess use of fertilizer to make up for nutrient deficiencies in the soil. Environmental degradation from oil spills and illegal refining have serious health and livelihood impacts on populations living in coastal areas, for example with increased infant mortality and negative health effects on surviving children (Bruederle 2017). Degraded coastal areas disrupt peoples' livelihoods both in farming and inshore marine fishing.

Management of natural resources

Nigeria's renewable natural resource base is the foundation of non-oil economic growth and food security. Natural resources are the rural poor's key asset, but degradation is directly impacting on their livelihoods. Despite the acknowledged links between degradation of natural resources and economic and human development, this dimension of poverty alleviation is often neglected in most policy deliberations and program formulation around natural resource management.



Source: WDI.

The north of the country features a semiarid climate, with precipitations as low as 250 millimeters a year in the extreme North East. By contrast, climate in the south is humid, with precipitation reaching 4,000 millimeters a year in the South East. Annual average river flow and water replenishments are projected to decrease during the next decade by 10 percent–30 percent because of the growing demand for water and climate change, resulting in increased water stress in some parts of the country. Unsustainable water management and market failure contribute to increased demand for irrigation, water supply, and energy generation. The severe shrinkage of Lake Chad is a critical natural resource management challenge with enormous

Nigeria's natural forests are likely to disappear by 2020 because of poor forest management and the rising demand for agriculture land and fuel (Butler 2005). Nigeria is among the countries with the highest rate of deforestation globally. Nigeria's annual rate of deforestation stands at 4 percent, equivalent to the loss of 410,000 hectares of forest annually (figure 2.27). Key contributing factors such as overexploitation of forests for noncommercial livelihoods, encroachment and land conversion, and unsustainable extraction of commercial forest products, is largely due to governance and policy failures, poor management practices, and weak enforcement of regulations.

The country's freshwater and marine natural resources need better management. The

socio-economic consequences for the northeastern region of Nigeria. Increasing competition for resources is contributing to greater potential for conflict and regional instability. Unsustainable exploitation of marine inshore and offshore fish stocks in Nigerian waters, as in many other countries with marine ecosystems, is an outcome of excess fishing capacity, inadequate fisheries management planning and management, and weak monitoring, surveillance and control.

Water management suffers from institutional failure and poor coordination. The country's preference for massive, multistate, and multiyear infrastructure investments without paying sufficient attention to subsequent operations and maintenance has led to poor returns on investments and failure to meet water management objectives. The multiplicity and frequent reconfiguration of key water institutions has contributed to an incoherent policy and legal framework for the development of water resources, including irrigation, as well as fragmented planning and political interference. Water User Associations offer a way forward to improve rural and agricultural water use, especially with irrigation programs. Currently however, such associations in Nigeria have inadequate incentives to keep paying for service unless they see better water delivery and higher yields in conjunction with improved farming support services. Coordination between the Federal Ministry of Water Resources, River Basin Development Authorities and other agencies, such as the Ministry of Agriculture, is unsatisfactory. To address the larger coordination issues, a management system must be established at river basin levels instead of administrative boundaries. Further, the promulgation of key legislations, for example, the National Water Resources Bill, the Integrated Water Resources Management Commission, the Water Law and associated regulations for water user associations, and the completion and implementation of the national water policy, must be given more priority.

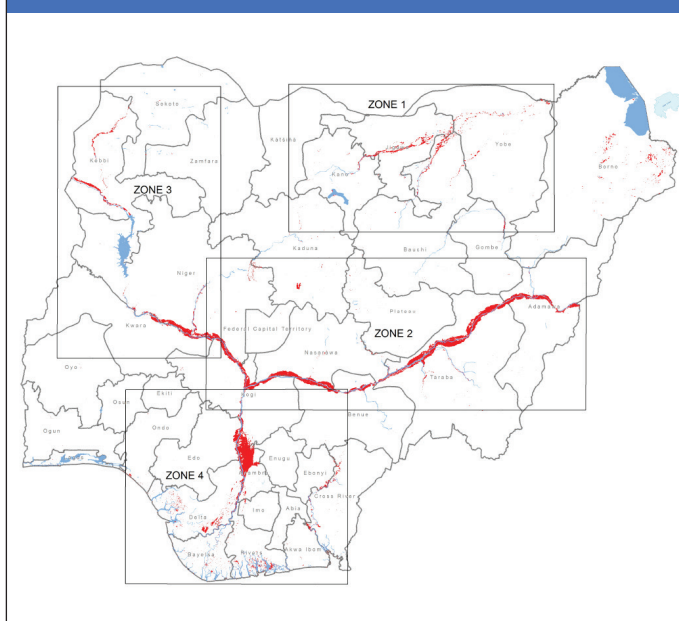
Impacts of climate change

Nigeria is especially vulnerable to climate change because of the impact on land and water resources, energy, coastal zones, inland flooding, biodiversity, and security. The growth and poverty reduction implications of climate change projections are far-reaching in key areas of the economy (Cervigni, Valentini, and Santini 2013).

Agriculture: The variability of weather (including the increasing probability of droughts) and changes in precipitation have a large impact on agriculture because almost all agricultural production is rainfed. Pasture land productivity and thermal stress affect livestock, which are especially important for household incomes and the economy in the north. Climate change could lead to an estimated reduction in crop yields of 20-30 percent now, and up to 50 percent by 2080. This would mean a 4.5 percent reduction in GDP by 2050 and would affect livelihoods among more than 90 million households engaged in subsistence farming and covering 80 percent of small farm holdings. Coupled with declining livestock productivity, climate change threatens sustainable agricultural production and food security.

Energy: The energy sector could also be significantly affected, especially hydropower and selected oil and gas infrastructure. The variability of rainfall and changes in precipitation patterns will continue to affect hydropower production (which accounts for one-third of the national grid supply).

Map 2.2. States Most Affected by the 2012 Floods



Sources: SALB. ESRI. NASA analysis for flood (Modis imagery, July–November 2012). WFP.

Coastal zones: If sea levels rise by 1.0 meter, 35 percent of the land in the Niger Delta could be submerged, forcing more than 2 million people to migrate from the delta. The Niger Delta's entire oil and gas infrastructure would be at risk.

Inland flooding and disaster risk: The number of major events will likely increase with climate change (map 2.2). Such events are already affecting Nigeria's economy and society, as evidenced by the 2010 and 2012 floods which displaced over 2 million people. Though early warning systems exist, they need to be strengthened to be more effective in mitigating the risks facing the population.⁸⁴ Relevant policies should be expanded and updated to enhance the ability of the country's institutions to respond to flood emergencies. The current arrangements do not

integrate and coordinate actions across sectors or institutions. For example, the Nigeria Meteorological Agency collects weather data and information, while the Nigeria Hydrological Services Agency is responsible for hydrological data and information collection. In terms of prevention and response, the operating rules of major multipurpose dams should be reviewed, guidelines should be developed to coordinate the roles and responsibilities of the various agencies to ensure a uniform approach to the management of flood infrastructure.

Biodiversity: Climate change will also degrade the country's biodiversity, including mangroves (critical for maintaining coastlines and protecting coastal communities) and marine life (a source of food for coastal populations).

Security and conflict: Climate change is linked to security and population displacement. Draught and migration raise the pressure on natural resources, which implies a greater probability of food insecurity and heightened social tensions. The challenges posed by climate change could be viewed as the core of a new security agenda for the country. The government is striving to take adequate measures (box 2.8). For example, the Boko Haram insurgency in the North East and the violence between farmers and the Fulani herdsmen in the Middle-Belt states of Benue, Kogi and Taraba have some correlations with the changing climate.

84 Early warning systems support four main functions: risk analysis; monitoring and warning; dissemination and communication; and a response capability.

Box 2.8. Government Policies to Address the Risks to the Environment and Climate Change

The government's policies on the environment and climate change are robust, but implementation of adaptation measures is lagging. Unless Nigeria can implement measures to adapt to climate change, the long-term costs to the population and the economy are high. The government's understanding of the urgency of the problem can be seen through its various policies and frameworks. The Federal Ministry of Environment Special Climate Change Unit published the National Adaptation Strategy and Plan of Action on Climate Change for Nigeria in 2011. This strategy and action plan is integrative, comprehensive in scope, and inclusive of all stakeholders. In 2014, the National Agricultural Resilience Framework provided a robust implementation plan that incorporates innovative agricultural production strategies and risk management mechanisms to promote resilience. Additionally, the federal government has policies and guidelines such as the National Policy on Drought and Desertification and the National Policy on Erosion, Flood Control and Coastal Zone Management. More recently, the government ratified the Nationally Determined Contribution to the Paris Agreement, which emphasizes the need for enhancing national mechanisms and capacities to effectively defend against climate change risks in key areas (such as agriculture and coastal areas) and strengthen early warning and emergency response systems and disaster prevention and reduction mechanisms. However, to make these multiple commitments effective, the government needs to take concrete actions, provide sustained financing and technical support.

Though Nigeria's contribution to global carbon emissions is relatively small, Nigeria has proposed national strategies to address climate change. One of largest contributors to carbon emissions is gas flaring. In 2016, Nigeria ranks 7 out of the top 30 gas flaring countries, though it is making progress in reducing flaring.^a Nigeria's Nationally Determined Contribution, which outlines the targets and concrete strategies responding to climate change and carbon emission reduction, was adopted in 2015. The aim is to reduce by 20 to 45 percent carbon dioxide emission per unit of GDP, increasing the share of nonfossil fuel in energy consumption, increasing the forest stock and importantly enhancing national capacity and resilience to climate change shocks.

a. See National Centers for Environmental Information collected by the U.S. National Oceanic and Atmospheric Administration.

Climate variability and climate change will continue to affect growth in Nigeria. Enhancing climate resilience is important as climate shocks are expected to be more severe in the future. Environmental degradation and associated disasters (such as landslides and flooding), amplified by climate change in Nigeria is estimated to cost 9 percent of GDP (World Bank 2006). This cost is likely to increase under a business-as-usual scenario.

PATHWAYS TOWARD A MIDDLE-CLASS SOCIETY

The main purpose of the SCD is to prioritize the constraints Nigeria needs to address to transform into a middle-class society where extreme poverty is eliminated and prosperity is broadly shared. The previous chapter examines 10 key constraints by using a conceptual framework linking poverty reduction and shared prosperity to the interlocking elements of an economy (a macrofiscal framework, governance and functional institutions, human capital, a private sector, and assets). This chapter examines priorities and the links among them. It presents four possible pathways—which are not mutually exclusive but are complementary—to addressing the constraints. The following steps have been taken in this process:

- **Step 1: Select criteria to evaluate the impact and feasibility of addressing the constraints.** The criteria for evaluating the constraints are (1) impact on growth, (2) impact on inclusion, (3) sustainability, (4) length of implementation period, (5) availability of evidence-based solutions, and (6) the implementation capacity to address them.
- **Step 2: Rate each constraint against the 6 criteria.** The rating scale is from 1 – 3 (lowest to highest). A rating of “3” is preferable for each criterion. For example, addressing demographic pressures would have a high impact (“3” rating) on growth but has a long time horizon (“1” rating on length of implementation period”).
- **Step 3: Aggregate the ratings by constraint.** For each of the 10 constraints, sum up the rating scores. The lowest total score ranges from 6 points (little impact and difficult to implement) to 18 points (high impact and easy to implement effectively). This can be represented graphically in a heat map.
- **Step 4: Identify the top binding constraints based on high scores.** The constraints with the highest total score are the ones chosen to prioritize. The cutoff point selected was a “natural” break point between the top cluster and lower cluster of total scores.

The twin-goals filter assessed the impact of each of these binding constraints on growth, inclusion and sustainability. The implementation filter assessed them through the time horizon to see a meaningful impact, the evidence-base backing the potential solutions, and the preparedness of the institutions to implement potential solutions. A heat map was then used to illustrate the relative importance of each of the binding constraints. The ratings of the heat map were converted into scores to prioritize the constraints (table 3.1).

Table 3.1. Prioritizing the Constraints

Pathways	Constraints and opportunities	Potential impact			Implementation filter			Total score
		Growth	Inclusion	Sustainability	Time horizon	Evidence base	Feasibility	
Foundational breaking oil dependency	Continuing high oil dependency and associated economic instability, limited economic diversification, and low non-oil revenue	3	2	3	2	3	2	15
	Lack of good governance including federal-state coordination, transparency, and accountability are undermining successful delivery of public services	2	2	3	2	2	1	12
Building human capital to bridge the north-south divide	Demographic pressures are eroding the benefits of growth and exacerbate social instability	3	3	3	1	2	1	13
	Low human development indicators in health and education, particularly in the north and rural areas	3	3	3	2	3	2	16
Promoting a private sector-led growth	Difficult access to land and technology condemn agriculture to be a low productivity sector	3	2	2	3	3	2	15
	Limited domestic, regional and global integration constrain large scale industrialization	3	2	1	3	1	1	11
	Nonfarm SME development is impeded by administrative barriers and limited financial intermediation	3	2	1	2	1	2	11
	Infrastructure gaps limit market development	3	2	2	1	3	1	12
Rebuilding the social contract	Continued internal conflicts undermine development and security	3	3	3	1	3	1	14
	Environmental degradation (erosion, pollution) and climate change reduce productivity and imposes costs on people and businesses	1	2	3	2	2	1	11

To become a middle-class society, Nigeria needs to ensure sufficient opportunities for gainful employment in the private sector for its rapidly growing population while maintaining social cohesion. The thorough diagnostic conducted in the previous chapters and the prioritization matrix (see table 3.1) confirm the following four pathways to ensure sufficient opportunities for gainful employment in the private sector for its rapidly growing population:

- **Pathway 1:** Break oil dependency associated with economic instability, low non-oil revenue, limited economic diversification, and poor governance
- **Pathway 2:** Build human capital, with a special effort to bridge the north-south gap in human development outcomes
- **Pathway 3:** Promote a private sector-led growth adequately tapping the potential of large agglomerations, secondary cities, and rural areas

- **Pathway 4:** Rebuild the social contract to address continued internal conflicts undermining development and security

These pathways were also confirmed by the consultations organized with key stakeholders and with the Nigeria Country Team at different stages during the preparation of this Systematic Country Diagnostic (Annex B).

Pathway 1: Breaking Oil Dependency

Today, the petroleum sector accounts only about 10 percent of Nigeria's GDP and the private sector should be able to contribute more to the government budget. However, a large share of the Nigerian businesses remain in the informal sector, and the social contract between the government and the people is too weak for tax assessments in a broadbased progressive income tax regime. In a near future, available policy options are limited. An increase in the value added tax is among the few options. The establishment of a stronger social contract between the people and the government that would enable more broadbased taxation would take time. The government could create a conducive environment through more transparent budget formulation and execution, accountability in the management of public resources, the effective delivery of public services, and citizen engagement.

The policy options are limited, and better management of oil resources will be critical. There is room for the petroleum sector to strengthen fiscal payment assessments, collection, and monitoring of revenue transfers to the Consolidated Revenue Account. Currently there is fragmentation of regulatory and revenue collection functions, resulting in different numbers being reported for the collected petroleum revenues by different government entities. Audits conducted by the Nigeria Extractive Industries Transparency Initiative, the Office of the Auditor-General for the Federation, and others have found large sums in irregular expenditures or withholding of what is due to the Federation. There is an effort led by the Office of the President to reconcile petroleum revenues more rigorously. In parallel, bringing closure to a decade-long uncertainty on the future of the fiscal regime in a way that ensures fairness to both the government and investors would help unlock new and significant investment in the sector.

Revisiting federal and state tax policies and revamping the respective tax administrations to increase non-oil domestic revenue mobilization would be worthwhile. Clarification of division of expenditure responsibilities between federal, state, and local government agencies, eliminating duplication and achieving better strategic alignment among them should also help improve the expenditure efficiency and effectiveness. To this end, enabling a conditional fiscal transfer from the federal ministries, departments and agencies to states upon realization of national standards may be also helpful.

A robust countercyclical fiscal stance will also help limit the impact of resource price volatility on government spending. This includes adherence to the rules of fiscal transfer and withdrawal rules to the excess crude account. Emphasis on proper budget frameworks linked to priorities, better public finance management, and increased transparency facilitated by making all related data available online are also essential for a more predictable fiscal policy.

The role which private sector plays as investor in infrastructure will become increasingly important given the limited fiscal space. By financing more infrastructure with private investments, the limited fiscal space could be directed toward investments in human capital to fill the skill gaps. That will help not only to get the Nigeria's labor force to be employed more gainfully but also to establish the necessary social contract to enable more broadbased taxation. It will be critical for the government to foster a conducive and enabling environment; and fair, transparent and predictable regulations and regulatory interventions, strict contract enforcement not only on the private sector contractors but also on the government obligations to the private sector, and fair and equitable conduct by the government vis-à-vis private sector institutions, will be among ingredients of such a conducive environment. As a first step, it will be critical for the governments, especially at the state and local levels, to establish credibility about their adherence to contractual obligations, such as paying contractors on time upon delivery of goods and services as specified in the contracts. The experience of public finance management reforms in Edo state may provide some examples how some practical solutions, such as more accurate cash flow forecasting, may help address these issues.

Pathway 2: Building Human Capital to Bridge the North-South Divide

The low human development indicators in health and education, particularly in the north and rural areas, are a major constraint to inclusive growth and poverty reduction. To ensure inclusive growth and thereby bridge the north-south divide, Nigeria needs to formulate and implement an explicit strategy to increase human development indicators in the north. The strategy would entail investing substantially in the health and welfare of poor mother and children, increasing access to quality education for all, especially girls, and clean water and sanitation services, and empowering women, especially adolescent girls. A concerted effort to improve immunization coverage, reduce stunting, reduce the number of out-of-school children, and fill in critical skills gaps of youth would markedly strengthen the north's human capital base and allow for its faster progress. Human capital investments would need to be scaled up now to not only address the rapid and urgent changes in demography, fragility, and technology, but also prevent setbacks to growth, equality, resilience, and stability. Addressing adult literacy through skills and jobs for youth and adults, enhancing employability and access to finance for entrepreneurship, and increasing economic opportunities for women and adolescent girls would help create a productive and more balanced workforce for the development of Nigeria's economy. Increasing productivity of agriculture, the north's main economic activity, and ensuring access to affordable transport connectivity and digital infrastructure would also foster economic convergence and links between the north and south and between rural and urban areas, bolster the incomes of the population and reduce poverty. Removing internal barriers to labor mobility and trade, expanding the road network connecting production basins to key urban centers, and ensuring access to digital infrastructure and technologies by all would facilitate the development of regional private sector-led agrobusiness value chains and the creation of gainful farm and nonfarm employment in both the north and the south.

To address the critical human capital deficits, the government, together with its stakeholders, has formulated a Human Capital Development Vision. The vision aims at securing 24 million additional healthy,

educated and productive Nigerians by 2030 and sets ambitious strategic targets in the fields of health and nutrition, education and labor force participation. It identifies short-term interventions, but acknowledges that many human capital challenges (for example, demography, learning quality, under-5 mortality, youth employment, and women empowerment) require sustained long-term efforts jointly by the government and stakeholders, including civil society organizations, the private sector, and development partners.

In the immediate future, Nigeria would benefit from focusing on a few effective policies and interventions to make dramatic progress in improving human capital where the needs are most urgent: improving immunization coverage, reducing the number of out-of-school youth, and addressing critical skills gaps of youth. For example, Nigeria is on the cusp of eradicating polio. This would be an important accomplishment, as the last polio cases were found in the conflict-stricken and difficult to reach the North East states of Borno and Yobe. This success was possible because of a strong government commitment, coupled with careful attention to data and use of community-based approaches.

Increasing investments and strengthening the national dialogue on country-led solutions to empower women is evolving. Continued efforts to work with nonstate providers, including the private sector, civil society organizations, and communities, should be encouraged, as well as deepening the partnership to encompass tribal leaders, imams, and church leaders in advocacy. Policies and interventions should aim at increasing investments in adolescent girls and women considerably by promoting education and empowerment among increased girls, expanding family planning services, and enhancing the coverage and quality of maternal and child care and nutrition services. Investments that strengthen primary health care services, including family planning, will help ensure reduced morbidity and the time out of school or off from work. Improved nutritional inputs will contribute to reducing stunting, thereby raising the potential of human capital. Investments in the quality and coverage of education among girls, including demand- and supply-side interventions, such as improving the affordability of schools (cash transfers and stipends), enhanced physical access to schools, and more effective advocacy, will not only bolster fertility decline and child survival, but will also raise productivity thereby contributing significantly to economic growth.

Nigeria continues to look for innovative ways to use technology, leverage the private sector, and introduce incentives to provide critical social services to the poor. Examples include recent efforts in Edo State to support teachers with digital content and empower them to use data and technology to drive increased learning outcomes. Scaling up efforts to use disruptive technologies to create jobs and improve efficiency and transparency in service delivery should be encouraged. Incentives and support structures for teachers are required to improve their subject knowledge and adopt effective teaching practices making sure that more students can read by Grade 3 and master core concepts and skills in key learning areas in higher grades. Expanding opportunities for and strengthening private sector delivery of basic health services for the poorest and most vulnerable will increase access to health services for pregnant women and for children to reduce high maternal and under-5 mortality rates and improve immunization coverage.

The federal government has committed itself to continuous efforts to empower states in the identification and implementation of programs that will allow citizens to access their right to basic health and education. This would require explicit steps toward improving federal-state coordination and the efficiency of education, health and social protection-related expenditures, with special emphasis on achieving better outcomes in the north. By developing clear national minimum standards for health and education outcomes and supporting the development of robust data and monitoring systems to measure achievement of these standards, states could be empowered, but also held accountable for results. This has been done in the past, for example through the recent adoption of the National Health Act, operationalized through the Basic Health Care Provision Fund. The fund is an innovative instrument, which offers a new source of financing from the federal level to the states, primarily dedicated to push health care to the front line using a range of innovative financing mechanisms, such as decentralized facility financing and performance-based financing.

Improving the efficiency of interventions that support lifting people out of poverty and enable them to access health and education services and be empowered has also been identified as a key priority. Building on this commitment, the government has begun to enhance support for the poorest by disaggregating human capital outcomes thematically and by state, improving state and national statistics to fill data gaps, and identify key drivers of the poor human capital outcomes to target interventions and make resource allocations accordingly. An important next step would be to continue to strengthen the coordination mechanism of the social safety net system to target the most vulnerable and help reduce risks among the population. Specifically, this would entail institutionalizing the National Social Safety Net Coordinating Unit and state government social safety net structures, streamlining the coordination and management of social safety net programs between federal and state governments, expanding the coverage of programs targeting the poor and vulnerable, and ensuring that these incorporate key human capital interventions.

Supporting youth obtaining the skills to be productive in a rapidly changing global economy requires a balanced skills development system combining education and training at universities and technical and vocational training institutions, as well as recognition of informal skills development in line with the needs of the economy. Tight links with industry, improved supply and competence of technical teachers and instructors, introduction of modern technology-based teaching and learning methodologies and addressing critical employability skills are critical first steps. Equally important is a resolute reorientation of skills development toward addressing the digital skills requirements of future markets are needed, focusing on raising the digital literacy of the workforce in general, digital competences required in existing jobs, and new digital economy occupations. Furthermore, the informal economy accounting for some 90 percent of total employment has to get into the focus of skills development efforts. The level of basic, entrepreneurial, digital and technical skills among workers is generally significantly lower in the informal economy than in the formal wage sector. Ongoing efforts to enhance the quality and relevance of apprenticeships provided by master craftspersons in the informal sector should be further strengthened through capacity building of master craftspersons and supplementary theory classes, soft and foundational skills training, and digital skills development and entrepreneurship promotion should be further strengthened.

Acknowledging that agriculture is the main economic activity in the north, initiatives to increase agricultural productivity must be supported. Incentivizing the adoption of appropriate digital technologies has an enormous potential to increase the income and reduce poverty among the rural population, while freeing many to shift to nonfarm economic activities in rural and urban areas. Promoting internal connectivity by removing internal barriers to migration and trade, expanding the road network connecting production basins to key urban centers, and ensuring access to digital infrastructure will facilitate the creation of gainful farm and nonfarm employment in the north and in the south.

Pathway 3: Promoting Private Sector–Led Growth

Improving key areas of the business environment can improve productivity of the Nigerian economy and competitiveness of Nigerian firms. By 2050, Nigeria will host a 240 million labor force, mainly living in urban areas. By reducing administrative barriers on establishing, operating and closing businesses, and by fostering deeper financial markets for the private sector, especially to firms which are not connected to large established conglomerates, the government can leverage on the Nigeria’s highly entrepreneurial people to foster a private sector–led economic growth. Concurrently, the government can implement policies to help upgrading skills of the labor force, filling infrastructure gaps, allowing more domestic, regional and foreign competition among firms, and adopting productivity enhancing solutions. For Nigeria to foster a middle-class society, the government will need to aim at both increasing the overall economic productivity and creating more gainful employment opportunities. Sectors with the highest employment potential include light manufacturing, construction, information and communication technology, wholesale and retail trade, and the agricultural sector, such as meat and poultry, oil palm, and cocoa.

The CBN may shift its monetary policy to focus on controlling inflation rather than on nominal foreign exchange rates. The expected outcomes of the policy shift would include lower nominal and real interest rates over the long run and more frequent but less drastic depreciation of the local currency. That will help deepen the local financial and capital markets, set interest rates in more transparent and market-based manner, and enable more long-term local-currency financing at sustainable interest rates. The improved financial access in turn will improve the chances for newer but promising enterprises to compete with large and well-resourced conglomerates. The policy shift will enable more efficient resource allocations, including the available foreign exchanges. That will reduce input prices and improve the Nigerian firms’ external competitiveness.

By strategically closing infrastructure gaps, Nigeria can improve its growth prospects and job creation. The focus areas for infrastructure improvement include roads and electric power. Nigeria is currently working with the elaborate Integrated Infrastructure Master Plan that prescribes the mobilization of US\$3 trillion over 30 years, including substantial resources from the private sector.⁸⁵ It provides a long-term aspirational goal, but it is a tall order, reflecting the current growth trajectory of the Nigerian economy, the small size of the government, and the progress to date on private financing of infrastructure projects. Along

⁸⁵ Nigeria Integrated Infrastructure Master Plan.

with that long-term aspirational goal, the government can formulate a more near-term, concrete infrastructure investment strategy that reflects the financial constraints and absorption capacity of Nigeria. Two areas of focus for such a strategy would be (1) mobilization of private sector resources for infrastructure investments and (2) prioritization of infrastructure that connects markets in the context of rapid urban agglomerations in the country. By relying more on the private sector and less on the public budget for infrastructure investment, the government can also create more fiscal space to make much needed investments in human capital, which also improve the productivity and the growth prospects of the Nigerian economy.

Improving connectivity between rural and urban areas will help overall agricultural sector productivity as well as poverty reduction in rural areas. With improved connectivity between rural and urban areas, farmers can be better integrated in the overall agribusiness value chain, organized as businesses, and have better opportunities to be engaged in higher value activities by moving closer to the final processed foods which cater more to the growing urban needs or export to overseas markets. In this regard, investments last-mile accesses to connect the main corridors to the centers of production and consumption can bring significant economic benefits. In addition, more effective deployment of digital technologies may also transform the ways the rural farmers and small businesses are connected their consumers and the markets. Improved agricultural productivity will have direct impact also on reducing poverty as a large part of the poor in Nigeria is engaged in agriculture in rural areas.

Agglomeration economies from well-managed urban development alongside gains from regional cooperation can enhance productivity and spur economic diversification. The key challenge for policymakers at the federal and state level is to identify interventions (policy, regulatory, institutional and investment, and so on) that are best suited to realize development potential of subnational regions and integrate domestic markets. These include investments in transport corridors alongside well managed urban development (as discussed above), investments in basic services, and special economic zones. However, in designing and implementing these interventions, it is essential to recognize that efforts should be differentiated by local specificities including natural endowments, economic potential, and regional capabilities. In fact, reflecting the contrast among states and the difficulties of coordinating policies in such a diverse landscape, the government's Economic Recovery and Growth Plan 2017–20 (ERGP) emphasizes the need for greater subnational coordination and outlines incentives to ensure that the federal and state governments work toward the same goals.

Integration into the regional and global economies can have a transformative impact on Nigeria's growth trajectory. Although more Nigeria specific analytical work is needed, the theoretical and empirical trade literature documents that anchoring a country's growth on demand from middle-class consumers across the world is a powerful driver of gainful job creation. The Growth Commission report states that "sustainable, high growth is catch-up growth. And the global economy is the essential resource. The open world economy also offers developing countries a deep, elastic market for their exports. Since the division of labor is limited by the extent of the market, this extensive world demand allows countries to specialize in new export lines and improve their productivity in manifold ways." Furthermore, World Development

Report 2009 (World Bank 2009) advises countries in a situation similar to that of Nigeria to promote regional integration to scale up their supply capacities and global integration to scale up the demand they face. Non-oil exports to regional and global markets will help anchoring Nigeria's growth on a job-creating private sector.

Pathway 4: Establishing Social Contracts for a Prosperous Nigeria

A strengthened social contract with greater inclusiveness in the spread of the benefits of economic growth can provide a pathway to a prosperous Nigeria. In the context of a diverse pluri-ethnic society, the centralized accumulation of oil resources led to a strong risk of dominance by a single group which has been mitigated by the creation of an extensive institutional apparatus to ensure that all groups have protected access to public resources. A central function of federalism is to manage perceptions of equity in the distribution of and access to resources, balance power, and meet demands for autonomy. Current arrangements are focused on equity of inputs largely due to the focus on oil revenues. In the long run, economic diversification is the most powerful pathway for reshaping the social contract.

Formulating a social contract focused on equity of outcomes can provide a pathway toward breaking the current vicious cycle of low trust and establishing state legitimacy. Pockets of effectiveness mentioned earlier in the document reflect the uneven nature of public sector capabilities. While this provides the ability of some sectors or states to move ahead, it also means that some sectors, states, and citizens are being left behind. The inequity of outcomes is manifested by a vicious cycle in which citizens routinely opt out from seeking services from the state, opt out from paying taxes, and are deprived of the benefits of economic growth in the country. While it is true that interests in maintaining the status quo are strong, windows of opportunity temporarily reconfigure interests and state capabilities which can gradually shift economic and political incentives. Opportunities arising from pockets of effectiveness open a space for change. Situations of crisis and constraints can create temporary incentives that encourage the initiation of reforms. These catalysts occur regularly and complement each other. States such as Lagos have successfully used economic and political crisis as well as the steady institutionalization of pockets of effectiveness to reconfigure the historical social contract.

To realize the aspirations of the Economic Recovery and Growth Program, good governance is crucial at all levels. The Economic Recovery and Growth Program emphasizes the enhancement of transparency in the planning and utilization of public resources, reinforcing public safety and security, and strengthening subnational coordination in the development of plans incorporating the aspirations and needs of all tiers of government.

The division of revenue under Nigeria's federalism necessitates a mechanism to coordinate federal and local policies. Given the macro-vulnerabilities because of oil dependency, securing revenue mobilization and its effective and efficient allocation through the three tiers of government is essential. The federal budget may include incentives for states to achieve minimal or higher standards in public service delivery

in key sectors as well as raising more non-oil revenues. This would have many common features with the Fiscal Sustainability Plan and could serve as a powerful mechanism for mobilizing all states to improve outcomes. Similar systems are found in other federations, where rules around determining amount of transfers from the federal to subnational governments usually play a key role in incentivizing expenditure efficiency and policy coordination and leading to more effective utilization of public resources. To achieve these results, a necessary prerequisite is clarity of expenditure responsibilities among the federal, state, and local governments to avoid duplication and ensure strategic alignment.

Transparency of information and forums for social accountability are key elements toward empowering citizens, increasing trust in government and strengthening the social contract. Nigeria's commitment to the international Open Government Partnership has been hailed globally and several states have taken the welcome step to joining this initiative. In the context of government voluntarily providing access to information, the citizens have the information to exercise social accountability. Existing examples of avenues for citizen engagement through participatory planning and consultative budget formulation can be expanded to provide the public with means to understand how the government is delivering plans in the national interest. Digital technologies provide an excellent means to support the government at all levels in providing tools for access to information and tools to engage widely. An empowered public is the foundation for a stronger society, effective government, and a successful state.

Addressing the underlying drivers of conflict including social exclusion and fragility is important for stability and economic progress. This covers several areas through direct and indirect interventions. For example, improving management of natural resources and land regulations (including for pasture land), while taking into account climate change as a threat multiplier to natural resource and livelihood degradation, to build resilience of communities; and cooperating with neighboring countries, especially in the Lake Chad region, to address drivers of conflict. At the same time, addressing the needs of people affected by conflict (especially internally displaced persons), who have suffered from trauma, loss of assets and community to help them regain their independence. Beyond those affected by conflict, groups such as the disabled, orphans, and women and children associated with Boko Haram will also require support. Security to all citizens, ensuring that all Nigerians regardless their gender, physical condition, religion or ethnicity have equal opportunities is essential for Nigeria to become a middle-class society where the rule of law is enforced, integrity with respect to both public and private investments is secured.

Knowledge Gaps

With this prioritized list of engagement areas, the World Bank could help Nigeria start its transition to a middle-class society. The SCD analysis drew upon existing research to help identify key constraints and priorities for Nigeria to be able to achieve sustainable and inclusive growth. Background research for the SCD revealed some significant data and knowledge gaps that could inform a better diagnosis and understanding of the key constraints affecting Nigeria's development. Four knowledge areas identified for future research are as follows:

- **Agriculture.** To increase productivity, promoting innovation and technology adoption in agriculture, including climate-smart agriculture, is likely to be critical. The assumption is that this will help to increase agriculture productivity and transform the sector from subsistence to efficient agribusiness connected to global value chains. However, more research is needed on what technologies will be especially beneficial for Nigeria, the complementary skills and training needed to adopt them, and how to maximize benefits, for example through trade or gender targeting.
 - **Climate change.** More analysis is needed to better understand the economic and social costs of climate change through climate informed poverty and/or vulnerability assessments. A better understanding of household welfare and resilience to climate change and extreme events can use household survey approaches. Future efforts could also look into gender-disaggregated impacts of climate change.
 - **Data.** Nigeria lacks basic surveys that adversely affects the effectiveness of government initiatives. Data are used to provide an evidence base for policy and programs. Some basic surveys are missing such as population census, business and agriculture sample census; GDP disaggregated by state (for all 36 states and the Federal Territory of Abuja), and labor force. Currently, the National Bureau of Statistics is implementing a household survey that will be used to update official poverty statistics from 2010.
 - **Digital Economy.** A digital economy can transform economic activities by unleashing new productivity gains, offering new services, and improving government's efficiency. It can also lead to greater engagement, rebuilding trust and enabling access to services by broader citizenry. In this context, the WBG is conducting the Digital Economy for Africa assessment in 2019 (World Bank 2018b). The quantification of expected efficiency gains, impact on economic growth and jobs, and improvement in key governance indicators through digital transformation in various areas will help policy makers set priorities.
 - **Education.** Nigeria's weak performance on the human capital index reflects the sizable challenges that the education sector faces in the key dimensions of access, quality, governance, and financing, and across all levels of education, from early childhood education through basic, upper secondary, and tertiary education. The Service Delivery Indicators Survey found that teachers in Nigeria exhibit severe content and pedagogical gaps. It will be critical to understand the types of incentives and support required to allow teachers to improve their subject knowledge and adopt effective teaching practices to ensure that more students can read by grade 3 and master core concepts and skills in key learning areas in higher grades.
 - **Finance.** The domestic financial sector's ability to provide long-term local-currency debt financing needs to be ascertained. There have been numerous market development efforts in this and related areas, such as channeling pension assets to infrastructure investments, the president's infrastructure fund at the Nigeria Sovereign Investment Authority, establishment of InfraCredit, and so on. To understand the
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prospects for different financing models, the potential for mobilizing local-currency savings and their risk bearing capacities should be assessed.

- **Internal migration.** Internal migration implies mobility between not only communities and states, but also between areas of low opportunity to high opportunity, whether measured by jobs, basic services, or security. There is little empirical evidence on voluntary internal migration patterns, though one small study exists (Oyeniya 2013). The extent of internal migration is not known, whether it is intrastate or interstate, or the characteristics of the migrants. To understand geographic mobility, more data and analyses are needed on a range of topics such as transport, housing markets, social networks, labor markets, legal issues with residency, and emerging issues, including climate induced migration (Kumari Rigaud et al. 2018).
- **Skills development.** Skills and tracer surveys would help to better assess whether the education system provides the skills needed for men and women to be gainfully employed. This would also help to shed light on whether vocational and technical education help to increase employability of students. Of special importance is the need in the north to improve employment opportunities for women so that the benefits from investing in girls' education and reducing child marriage and early childbearing could be reaped by households.
- **Social protection.** As the government seeks to expand the coverage of social protection to the poorest, additional evidence on (1) how best to address urban poverty, (2) the most effective mechanism for advancing the targeting strategies for social protection and job interventions, and (3) how to reinforce complementarities in the nexus of social protection, jobs, and human capital in a federal system, would help inform the debate on building a robust social protection system.
- **Trade.** Global and regional trade of non-oil-related goods and services has played a small role in Nigeria's development. The prevailing belief among policy makers and the public is that opening the economy to foreign competition will decimate the domestic private sector due to the large infrastructure gap that makes production and internal trade in Nigeria inefficient. Yet, the positive experience of sectors that opened up (for instance, telecommunication) challenges this view. To advance the dialogue on trade, it is important to close the knowledge gap by undertaking analyses of (1) the costs and benefits of opening up specific sectors (to be identified) and (2) the costs and benefits to promoting regional and global integration, for example, in the Continental Free Trade Area.

ANNEX 1:**Data Diagnostics for World Bank Client Countries****Country: Nigeria****Date: 04/04/2018**

Section 1: General Information about the Statistical System	
Legal status of NSO	Independent government agency
Statistical Legislation (latest)	Statistics Acts: 1957, 2007
NSDS/Statistical masterplan	(2010–14)

Section 2: Microdata						
Type of census/survey	Latest year	Second latest year	Representativeness (national, regional, urban/rural)	Data accessibility (open access/with permission/no access)	Optional disaggregation (Y/N)	
					Sex	Regional
<i>Censuses</i>						
Population census	2006	1991	Census	No access	Yes	Yes
<i>Surveys</i>					Yes	Yes
Harmonized Nigeria Living Standards Survey	2009/08	2004	National, zonal, urban/rural, state, around 77,400 households	No access	Yes	Yes
General Household Survey	2016/15	2013/12	National, zonal, urban/rural, around 5,000 households	Open	Yes	Yes
Education Data Survey	2015	2010	National, zonal, urban/rural, state, 32,335 households	No access	Yes	Yes
Multiple Indicator Cluster Surveys	2017/16	2011	National, zonal, urban/rural, state, 34,376 households	Open	Yes	Yes
Demographic and Health Surveys (NPC and ICF International 2014)	2013	2008	National, zonal, urban/rural, state, 40,680 households	Open		
Labor force survey	Quarterly	Quarterly	?	No access	?	?
Small and medium enterprise survey	2013	n.a.	National, zonal, urban/rural, state	No access	Yes	Yes
Service delivery indicators, Health and Education Survey	2013/12	n.a.	National, zonal, urban/rural,	Open	Yes	Yes
Enterprise Survey (World Bank)	2014	2007	19 regions/states	Open	Yes	Yes
National agricultural (census) sample survey	2006	2003/01	National, zonal, urban/rural, state, 32,850 farm households	No access	Yes	Yes
Core welfare indicators questionnaire	2006	n.a.	National, zonal, urban/rural, state, and communities, 77,062 households	No access	Yes	Yes
Migration Household Survey	2009	n.a.	National, 2,200 households	Open	Yes	Yes

Note: n.a. = not applicable.

Section 3: Macrodata				
e-GDDS data category	Periodicity		Timeliness	
	e-GDDS	NGA	e-GDDS	NGA
<i>Macroeconomic and financial data</i>				
National accounts (gross domestic product)	Q	Q	1Q	45D
Consumer price index	M	M	2M	2W
General government operations	A	A	3Q	12M
Central government operations	Q	M	1Q	1M
Central government gross debt	Q	Q	2Q	1M
Depository corporations survey	M	M	1Q	3W
Survey of the Central Bank of Nigeria	M	M	2M	1M
Interest rates	M	M		3W
Stock market				
The Nigerian Stock Exchange	M	M		3W
Balance of payments	Q	A	1Q	6M
External debt	Q	Q	2Q	1M
Official reserve assets	M	M	1-3M (1M encouraged)	2M
Merchandise trade	M	M	12W	4M
International investment position	A	A	3Q	3M
Exchange rates	D	M		1M
<i>Macroeconomic and financial data: supplementary data</i>				
Production index	M	Q	12W	9M
Employment	A	Q	3Q	1M
Unemployment	A	Q	3Q	45D
Producer price index	M	Q	2M	1M
Financial soundness indicators (FSIs)	Q	Q	1Q	2Q
<i>Demographic and selected socio-economic indicators</i>				
Population	A (census every 10 years)	A	3-6M for annual updates; 9-12M for census	6M

Section 4: Compliance with Core World Bank Data Standards			
<i>Source</i>	<i>World Bank standard</i>	<i>Compliant (Y/N)</i>	<i>Actual yearly interval or %</i>
Household survey of income or consumption	One every 3 years	Yes	2–3 years
Purchasing power parity price survey	One every 3 years	Yes	Participates in the International Comparison Program
Civil registration and vital statistics	80 percent of births registered 60 percent of deaths registered with cause of death	No	Estimates vary

Section 5: Statistical Capacity Indicators	
Method	30
Source data	80
Periodicity	80
Memo item: overall average all IDA	63.3 (62.8)

Section 7: Data for Country Priorities			
<i>Indicator name</i>	<i>Available?</i>	<i>Latest year</i>	<i>Issues</i>
Population and demographic statistics	Yes		The quality of data is subpar
Labor market statistics	Yes		Data are subpar and not accessible
Agricultural farm census	No		Not conducted
Household living standards surveys	Yes		Increase coverage and periodicity
Gender data	No		Not available
Data sharing	No		Mechanisms for data sharing have not been developed by the National Bureau of Statistics

Section 8: Data Gaps Identified and Recommended Actions	
<i>Major data gaps identified</i>	<i>Recommended actions</i>
The most pressing problem is the access to and quality of data across the spectrum of topics. This is likely linked to governance and capacity issues in the national statistical system.	Conduct an assessment of the national statistical system to be used as the basis of a new national statistical development strategy

ANNEX 2: Household survey data and poverty lines in Nigeria

Nigeria's Living Standards Measurement Study (LSMS) was first undertaken in 2003. Prior to 2003, the National Bureau of Statistics conducted Consumer Expenditure Surveys in 1960, 1985, 1992, and 1996. The first LSMS-type survey institutionalized by the National Bureau of Statistics to measure poverty was the Nigeria Living Standards Survey of 2003–04 (NLSS 2003), followed by the Harmonized Nigeria Living Standards Survey of 2009–10 (HNLSS 2009). Both surveys were representative nationally and by state with large sample sizes (in 2009, consumption data were collected for about 39,000 households). Though the data collection for HNLSS 2009 was completed, analysis raised concerns about the data consistency on household consumption—a key input for the construction of a welfare aggregate. The data inconsistency made for the reliable estimation of poverty by the World Bank based on HNLSS 2009 difficult. NLSS 2003 and the HNLSS 2009 are both considered official surveys by the government of Nigeria.

Three recent household surveys have collected data that can be used to measure welfare, but not to update 2010 official poverty rates. In addition to the large household surveys, the National Bureau of Statistics conducts smaller panel-type household surveys of 5,000 households at an interval of two or three years, the General Household Survey (GHS) panel. These surveys are not used to compute official poverty estimates. The panel is a subsample of the General Household Survey (GHS) of 22,000 households collected periodically. The GHS-Panel is supported by the World Bank's Living Standards Measurement Study–Integrated Surveys on Agriculture (LSMS-ISA) Project and aims to generate nationally representative household panel data with a focus on agriculture and rural development. GHS-Panel data are collected in waves, which includes two visits per wave, post-planting in the late summer or in fall and post-harvest in late winter or early spring). They are available for 2011, 2013 and 2016. The GHS-Panel design drew on the HNLSS and allows for poverty national and zonal estimates. However, differences between the HNLSS and GHS in the reference periods and food consumption module methodology limit direct comparison of the respective poverty estimates.

The measurement of national poverty trends is based on establishing a national benchmark line that is consistent across time. The national poverty line for Nigeria was drawn in 2003 using NLSS 2003 data and stood at ₦28,830 per capita per year. To apply this line to the GHS-Panel derived welfare aggregate, the line was adjusted to account for inflation and spatial differences in the cost of living across the six zones. Given that national poverty lines are defined according to each country's specific economic and social circumstances, the use of poverty estimates based on a national line is most appropriate for national development policies. This contrasts with the use of international poverty lines, which attempt to hold the real value of poverty lines consistent across countries by accounting for differences in purchasing power across countries. The value of the international extreme poverty line was estimated at US\$1.90 per capita per day in 2011 purchasing power parity terms. This line has a higher value than the national poverty line.

Welfare is measured using a consumption aggregate. Individuals must be ranked based on one or more indicators of living standards to measure poverty. As in many other countries, welfare status in Nigeria is measured using per capita household consumption expenditures. The choice of the welfare aggregate based on consumption expenditures instead of income is driven by the survey data, that is, availability of a detailed consumption module and the prevalence of agricultural activities among households. For the GHS-Panel 2011, 2013, and 2016, the consumption aggregate is calculated as a sum of food, education, nonfood expenditures and imputed housing rent. The aggregate for 2003 was computed by survey-to-survey imputation based on data from the NLSS 2003 and GHS-Panel 2011. The consumption data of the NLSS 2003 were not considered sufficiently robust to be used directly. For time series and cross-regional comparability, the aggregate is adjusted using spatial and temporal price deflation and household size. Given issues with quality and the vintage of the data of HNLSS 2009, the subsequent analysis of poverty is based on GHS-Panel 2010–16.

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MOVING TOWARD A MIDDLE-CLASS SOCIETY

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NIGERIA SYSTEMATIC COUNTRY DIAGNOSTIC JUNE 2019