

# NIGERIA

## 2017

Barbara BARUNGI / b.barungi@afdb.org  
Ojijo ODHIAMBO / ojijo.odhiambo@undp.org  
Robert ASOGWA / robert.asogwa@undp.org



## NIGERIA

- In 2016, Nigeria's economy slipped into recession for the first time in more than two decades reflecting adverse economic shocks, inconsistent economic policies, and deepening security problems in the north east and Delta regions.
- The outlook for 2017 is for a moderate economic recovery with real GDP projected to grow at 2.2% spurred by increased infrastructure spending and restoration of oil production to previous levels.
- The government has initiated a plan for an integrated framework for development programmes in the north east through implementation of targeted social safety initiatives across the country. Private investments are a key policy priority, aimed at driving economic diversification through entrepreneurship and industrialisation in the lead sectors of agribusiness, manufacturing and mining.

### Overview

The Nigerian economy continues to face serious macroeconomic challenges and is in a recession for the first time in decades. Gross domestic product (GDP) growth for 2016 is estimated at -1.5%, with a moderate recovery expected in 2017. This is attributed to a series of shocks, including the continued decline in oil prices, foreign exchange shortages, disruptions in fuel supply and sharp reduction in oil production, power shortages, and insecurity in some parts of the country, as well as low capital budget execution rate (51%). Managers of the economy responded to the recession with a package of monetary, fiscal and exchange rate policies.

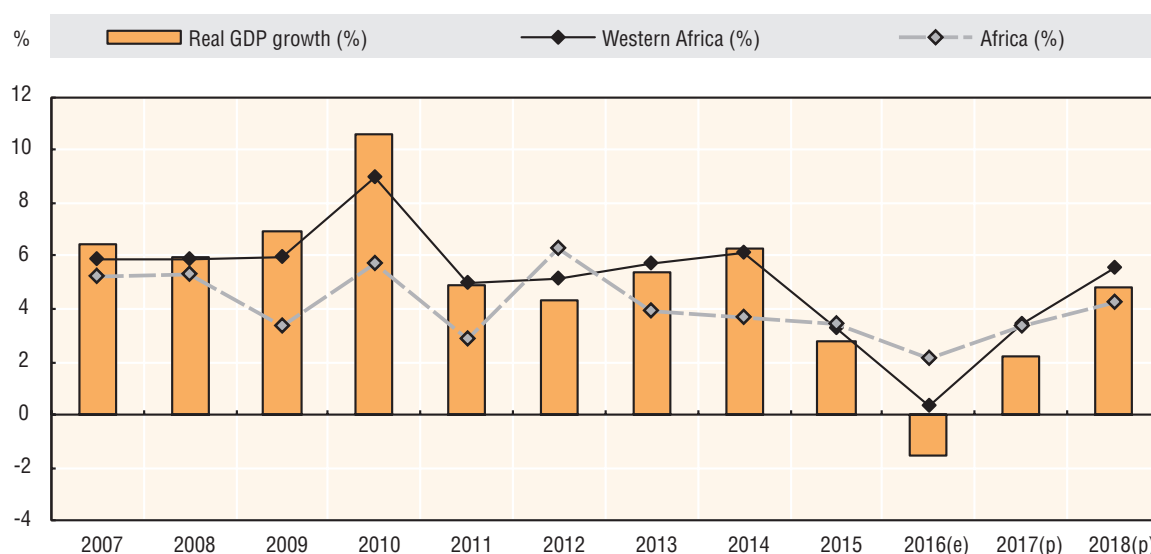
The CBN pursued a contractionary monetary policy stance. It increased the monetary policy rate to 14% from 11% in 2015 to attract capital inflow and control upward ticking inflation. To protect priority sectors from the rate hike, the cash reserve requirement was reduced and the amount raised was warehoused to be accessed by priority sectors at a single digit interest rate. The action resulted in an increase in broad money supply which together with cost push factors resulting from fuel, power and foreign exchange shortages contributed to the upward trend in the headline inflation which rose to 15.7% on average in 2016 from 9.1% in the previous year. The fiscal authorities on the other hand pursued an expansionary fiscal policy with the objective of reflation of the economy by allocating close to 30% of the budget to capital expenditure. The expansionary budget was planned on the back of existing fiscal consolidation underpinned by domestic resource mobilisation and expenditure rationalisation measures. In addition, the year saw a significant reduction in foreign reserves which fell to USD 25.8 billion as at year-end 2016 from USD 28 billion in the corresponding month of 2015. This was caused by a current account deficit as a result of low oil receipts, rising capital outflow caused by domestic and global financial market conditions and increased use of foreign exchange to defend the naira. A host of administrative measures were introduced to manage foreign exchange demand and an important policy shift was made to a more flexible exchange rate regime.

The 2017 outlook is for a slow economic recovery. Growth is projected at 2.2% as economic policy reforms begin to take hold and a coherent set of policies to address the macroeconomic challenges and structural imbalances is implemented. In this regard, the federal government has developed a framework in the Nigeria Economic Recovery and Growth Plan (2017-20). The plan focuses on five key areas, namely: improving macroeconomic stability; economic growth and diversification; improving competitiveness; fostering social inclusion; and governance and security. Some key reforms have been rolled out, including the conditional cash transfer initiative targeted at the poorest and most vulnerable population, improving capital budget execution, and strengthening public financial management at both state and federal levels.

Security remains a challenge despite gains made in the conflict with Boko Haram in the north east and the intensification of dialogue with militants in the Niger Delta. In addition to a military solution, the federal government is committed to implementing economic recovery and development interventions aimed at addressing the deepening fragility and vulnerability in the conflict-affected north east and the Niger Delta. The Presidential Committee on the North East Initiative (PCNI) was inaugurated towards the end of 2016 and is charged with co-ordination of all assistance and projects targeted at the most affected states in the region. The federal government has started paying out a monthly stipend of NGN 5 000 to the poorest and most vulnerable through the conditional cash transfer initiative of its social investment programme.

The acceleration of the implementation of the Nigeria Industrial Revolution Plan (NIRP) is a key priority for fostering industrialisation. The priority sectors identified are mining and quarrying, which contributed 7.1% to overall GDP in 2016, and manufacturing, which declined 2.6 % year-on-year due to increased costs in business operations, resulting mainly from foreign exchange restrictions. The manufacturing sector recorded a general decline in 2016, with an estimated 272 firms shutting down and industrial capacity utilisation dropping significantly from 51.4% in 2015 to 35.4% in 2016.

Figure 1. Real GDP growth



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.8	-1.5	2.2	4.8
Real GDP per capital growth	0.1	-4.2	-0.5	2.1
CPI inflation	9.1	15.7	14.3	12.4
Budget balance % GDP	-1.3	-2.3	-2.2	-2.0
Current account % GDP	-3.1	-1.8	0.7	2.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Recent developments and prospects

Real GDP growth for 2016 is estimated to have been -1.5%, down from 2.8% in 2015. The economy slipped into recession in 2016 due to a combination of both structural bottlenecks and the impact of the fall in global oil prices and domestic oil production. Real GDP contracted consecutively for the four quarters of 2016 by 0.4%, 2.1%, 2.2% and 1.3% respectively. The oil sector contributed 8.4% of total real GDP, down from 9.6% in 2015. Growth in the non-oil sector declined by 0.22% y-on-y compared with 3.05% growth in 2015. The key drivers were agriculture, mining and quarrying. The fiscal deficit widened and inflation continued to rise, reaching 18.55% in December 2016 from 9.1% in 2015.

The federal government faces the challenge of maintaining fiscal sustainability while aiming to transition to more inclusive and diversified growth. The implementation of the 2016 budget was hampered by its late adoption by parliament. External financing fell short of the budgeted amount, with the African Development Bank (AfDB) providing USD 600 million before year-end 2016. However, a concerted effort has been made to improve the execution of capital expenditure, and 51% of the capital budget was released between May and December 2016. Consequently, the current focus is on ensuring that ongoing projects are continued and completed expeditiously. The fiscal challenge is compounded by considerable revenue slippages observed in 2016 as a result of lower economic activity, a shortfall in oil revenue due to insecurity in the oil producing Niger Delta and lower than planned external concessionary loans.

A drop in foreign exchange reserves to USD 25.8 billion at year-end 2016 from USD 28 billion a year earlier has weakened its external position. This has maintained pressure on the Nigerian naira, which authorities attempted to defend by resorting to a costly foreign exchange control to manage demand. An example of such control was a ban on foreign exchange supply at the official window for 41 items, which were classified as non-essential or possible of being produced locally. Against the backdrop of mounting pressure on the naira, the monetary authorities announced a more flexible exchange rate regime on 15 June 2016. In addition, in November 2016 the tight monetary policy stance was maintained by keeping the benchmark rate at 14%.

Furthermore, the Central Bank of Nigeria announced new foreign exchange policy actions on 21 February 2017 in a move towards creating a more flexible FX (forex) market and addressing the scarcity of foreign exchange. This followed an increase in foreign reserves to USD 29 billion. First, an instruction has been issued to banks to sell foreign exchange at a rate not more than 20% above the interbank market rate. Second, the 60:40 rule, whereby 60% of FX allocation to the manufacturing sector was mandatory (for importation of raw materials, plants and machinery), has been abolished. Third, an increase in the supply of foreign exchange for certain categories, namely school fees, medical needs and personal and business travel, comes into effect immediately. The full impact of the new policy actions remains to be seen.

The outlook for 2017 is one of moderate recovery. Forecasts for inflation show that it will remain in double digits, declining from 15.7% in 2016 to 14.3% in 2017 and 12.4% in 2018. The government will continue efforts to expedite infrastructure development spending so as to boost economic recovery and will also step up efforts in diversifying the productive base of the economy.



Table 2. GDP by sector (percentage of GDP at current prices)

	2011	2016
Agriculture, forestry, fishing and hunting	22.3	21.2
of which fishing	0.5	0.5
Mining and quarrying	17.6	5.5
of which oil	17.5	5.4
Manufacturing	7.2	8.8
Electricity, gas and water	0.5	0.7
Construction	3.0	3.5
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	16.8	21.3
of which hotels and restaurants	0.4	0.9
Transport, storage and communication	9.5	13.1
Finance, real estate and business services	13.1	16.2
Public administration and defence	3.9	2.7
Other services	6.0	7.1
<b>Gross domestic product at basic prices / factor cost</b>	<b>100.0</b>	<b>100.0</b>

Source: Data from domestic authorities.

## Macroeconomic policy

### Fiscal policy

Fiscal consolidation remains the key policy focus for 2017. Increasing infrastructure spending to drive growth and generating savings from more efficient public expenditure are at the heart of fiscal policy. The Economic Recovery and Growth Plan articulates a more integrated and credible policy package, with strong fiscal initiatives supporting business-friendly monetary policy and effective structural reforms. Emphasis is being laid on taking specific measures to accelerate the execution of the capital budget, focusing on viable and productive projects with a high growth impact. Savings are expected to be generated by the efficiency unit set up in 2016, continuous auditing of the federal government payroll and the standardisation of overhead, travel, allowances and procurement processes.

Some of the main fiscal challenges result from increased dependence on oil as a source of government revenue and non-oil revenue remaining sluggish. Tax administration efforts are being stepped up, and an additional 818 000 taxpayers have been registered in the process of widening the tax net. In addition, a more efficient tax administration is expected to result in an increase in corporate income tax (CIT) and value added tax (VAT) revenues. For instance, the federal government recently approved a new tax policy to raise the VAT on luxury goods. More external financing is also likely to be realised in 2017 as policy reform implementation becomes more effective.

Table 3. Public finances (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
<b>Total revenue and grants</b>	<b>20.1</b>	<b>12.7</b>	<b>11.0</b>	<b>10.2</b>	<b>9.0</b>	<b>9.1</b>	<b>9.4</b>
Tax revenue	2.6	2.8	3.3	2.8	2.5	2.5	2.5
Oil revenues	16.6	8.4	6.7	5.9	4.8	5.1	5.3
<b>Total expenditure and net lending (a)</b>	<b>20.1</b>	<b>15.3</b>	<b>13.0</b>	<b>11.5</b>	<b>11.3</b>	<b>11.3</b>	<b>11.3</b>
Current expenditure	12.4	11.7	10.1	9.2	9.0	9.2	9.2
Excluding interest	11.2	10.8	9.3	8.6	8.1	8.0	8.2
Wages and salaries	2.7	2.3	2.1	2.0	2.0	2.0	2.0
Interest	1.1	1.0	0.8	0.6	1.0	1.1	1.0
Capital expenditure	7.6	3.4	2.7	2.2	2.1	2.1	2.0
<b>Primary balance</b>	<b>1.1</b>	<b>-1.7</b>	<b>-1.1</b>	<b>-0.7</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-1.0</b>
<b>Overall balance</b>	<b>0.0</b>	<b>-2.6</b>	<b>-1.9</b>	<b>-1.3</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.0</b>

Note: a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

## Monetary policy

Maintaining price stability remains the core mandate of the monetary authorities. In the face of the mounting pressure on the naira, the monetary authorities adopted a more flexible exchange rate regime on 15 June 2016. They also introduced a primary dealer system in the interbank foreign exchange market. The immediate impact of these policy reforms was a depreciation of the naira by nearly 45%, thereby substantially reducing the premium on the parallel market rate. Moreover, in an attempt to dampen inflationary pressure and stimulate capital flows, the monetary policy committee chose to maintain the monetary policy rate at 14% on 22 November.

Growth in the key monetary aggregate increased in 2016 and has continued in 2017. In the third quarter of 2016, the broad money supply (M2) grew by 10.5%, compared with 8.08% in the preceding quarter. Net domestic credit grew by 29.2% in 2016. While credit to the private sector remains low, credit to the government grew by 39.4%, which exceeded the benchmark set for 2016. This growth in public borrowing was largely to compensate for the continued decline in oil receipts.

## Economic co-operation, regional integration and trade

Nigeria is a key player in the Economic Community of West African States (ECOWAS) and is part of the ECOWAS Common External Tariff (CET) arrangement. This aims to harmonise and strengthen the common market by working towards a customs union and common trade policy, thereby deepening economic co-operation and trade integration. The Minister of Industry Trade and Investment has announced that his ministry (FMITI) is working to correct imbalances in the country's trade relationships and reverse failures in negotiations. One of the items that FMITI is examining is the ECOWAS common external tariff. Nigerian manufacturers and industrialists have stated that the negotiation that resulted in the CET did not take into account the sensitivities of the Nigerian manufacturing sector. The pre-existing sensitivities have now been compounded with the onset of the recession and other related structural economic challenges.

In this regard, diversifying exports and improving competitiveness is a key priority, and an inter-ministerial committee has been set up to review the export expansion grant mechanism, with a view to reintroducing it. Nigeria has recently ratified the Trade Facilitation Agreement (TFA), and it is anticipated this will lead to an increase in the volume and value of trade in goods.

Table 4. Current account (percentage of GDP at current prices)

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	13.7	8.5	4.8	-1.2	-1.3	0.4	1.5
Exports of goods (f.o.b.)	25.7	18.4	15.0	8.2	6.4	7.0	7.4
Imports of goods (f.o.b.)	12.0	9.9	10.2	9.3	7.7	6.6	5.9
Services	-6.7	-3.9	-4.0	-2.9	-2.6	-2.5	-2.0
Factor income	-4.5	-5.0	-3.6	-3.3	-3.1	-2.6	-2.5
Current transfers	6.1	4.3	3.9	4.3	5.2	5.4	5.1
<b>Current account balance</b>	<b>8.7</b>	<b>3.9</b>	<b>1.1</b>	<b>-3.1</b>	<b>-1.8</b>	<b>0.7</b>	<b>2.0</b>

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

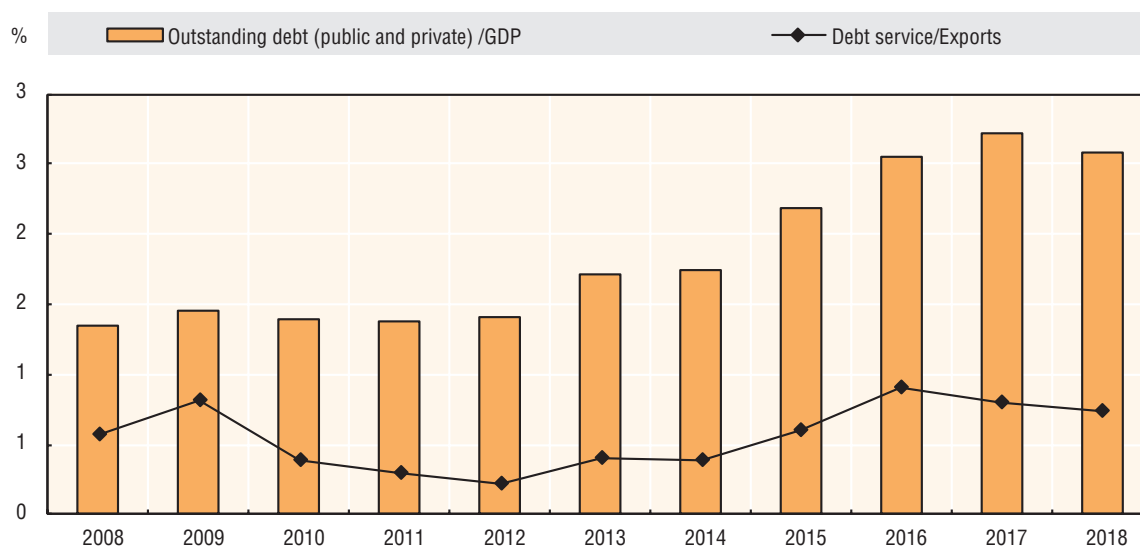
## Debt policy

As of the end of December 2016, the total public debt stock stood at USD 63.7 billion. A total of 82.3% was accrued by the federal government and 17.0% by the 36 states and the Federal Capital Territory (FCT). The total debt stock is comprised of external debt stock of USD 10.7 billion and domestic debt stock equivalent of USD 53.0 billion at December 2016 exchange rates.

The public debt-to-GDP ratio remains low at 14.3 % of GDP, but debt servicing costs are rising, with the interest payments-to-revenue ratio doubling to 69.0% at the end of December 2016 from 35.0% a year earlier. As a result, the federal government is targeting more concessionary borrowing to finance its borrowing requirements.

The Debt Management Office prepared a medium-term debt management strategy for 2016-19, which was approved by the federal executive council. One of the key recommendations is the refinancing of maturing domestic debt with cheaper external debt, and this is important given the rise in the external borrowing requirements for 2016. The AfDB has provided USD 600 million in concessional borrowing, and the second tranche of USD 400 million will be provided on the implementation of key policy reforms. Additional concessionary financing is expected to be received in 2017 from other multilateral financing institutions and bilateral partners. The federal government issued a eurobond of USD 1 billion in February 2017, and this was oversubscribed to the tune of USD 7.8 billion.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source : IMF (WEO & Article IV).

## Economic and political governance

### Private sector

Nigeria has a ranking of 169 out of 190 countries according to the World Bank report *Doing Business 2017*. The regulatory environment for business still faces the challenge of weak institutions, poor enforcement of regulations and laws, and corruption in some cases. The macroeconomic challenges that the country has been facing since mid-2015 have weakened its competitiveness. The 2016-17 Global Competitiveness Index (GCI) of the World Economic Forum (WEF) ranks Nigeria 127 out of 138 economies, with a score of 3.39, down from the 124 and 3.46 in 2015.

In 2016, the federal government set up a presidential council on the ease of doing business to improve Nigeria's ranking by 20 places in the medium term by implementing measures to fast track business procedures, the acquisition of land titles, visa applications and issuance processes. It also targets increasing foreign direct investment (FDI) through harmonised incentives and diaspora remittances and investments. This council reports to the federal executive council on a monthly basis. In January 2017, the government announced a 48-hour visa for foreign investors, with immediate effect as part of the policy reforms underway. The Nigeria Investment Promotion Commission (NIPC) is being strengthened and is reviewing procedures for facilitating investment in the country.

### Financial sector

The macroeconomic challenges the country has faced since the end of 2014 have weakened the financial system's stability. The slowdown in growth, the naira depreciation, and large exposure to the oil and gas sector have put considerable stress on the banking system.

While liquidity and capital adequacy ratios for the financial industry as a whole remain above prudential levels, asset quality has deteriorated, with non-performing loans for the banking sector at 11.7% as of Q2 2016. This is mainly attributed to the economic recession and additional exchange rate depreciation.

Some measures have been taken to contain risks to financial stability, including tightening of bank supervision and the prohibition of dividend payments and bonuses for banks with a high level of non-performing loans.

The equities segment of the capital market has declined as the All-Share Index (ASI) and market capitalisation have fallen. Relative to the end of December 2015, the indices decreased by 9.9% and 9.6% respectively in 2016. The decline in share prices was largely due to subdued activity as foreign reserves continued to decline on the back of falling global oil prices. Foreign reserves have picked up since the end of 2016, with the external current account recording a surplus.

Financial infrastructure needs to be improved for greater financial penetration or inclusion. Reports show that the country lags behind its peers in terms of financial inclusion, with only about 30% of the adult population holding an account in the formal banking system. There are some more or less advanced ongoing initiatives by the Central Bank of Nigeria (CBN). They include a cashless policy, mapping access points for financial services, establishing the Micro Small and Medium Enterprise Development Fund (MSMEDF), a mobile money initiative and improving financial literacy to deepen financial inclusion.

### Public sector management, institutions and reforms

The federal government continues to deepen the implementation of bold fiscal reforms while increasing budget allocations to infrastructure and social development to support economic diversification, competitiveness and inclusiveness. Several public financial management reforms



are being implemented with a view to creating the much needed fiscal space. This includes improving the mobilisation of non-oil revenue, plugging leakages and expenditure controls and streamlining procurement processes to get value for money. An E-procurement strategy has also been in place since December 2016. The establishment of an efficiency unit in the Ministry of Finance in February 2016 aims to promote efficiency in the public sector and generate savings from cutting down on wastage.

To minimise medium-term fiscal risks in light of the challenges faced by state governments, the federal government seeks to enhance fiscal responsibility through a fiscal sustainability plan (FSP). State governments will also be required to submit quarterly fiscal reports and annual audited financial statements to the office of the auditor general. The federal government has introduced a presidential initiative on continuous audits of ministries, departments and agencies to strengthen control over federal government finances. This work has started with payroll and will be extended to all entities where federal money is being spent or received so that the federal government can exercise better oversight. The current administration has a strong political will to fight corruption, and it has moved to strengthen the capacity of existing institutions. This is most visible through the Economic and Financial Crimes Commission (EFCC), which has seen its mandate strengthened, with enforcement greatly improved. Nigeria still has a reputation for widespread corruption, and in 2016 it ranked 136 out of 176 countries in Transparency International's corruption perception index.

Other key reforms include joining the multilateral initiative, the Open Government Partnership (OGP), in July 2016, developing the Money Laundering Prevention and Prohibition Bill 2016 and the steps being taken as part of the Nigeria Extractive Industries Transparency Initiative (NEITI), involving disclosure requirements on entities involved in the extractive industries.

Structural reforms are underway in the lead sectors. An agricultural promotion policy and strategy for 2016 to 2020 was adopted in June 2016, with the objective of deepening agricultural transformation and modernisation by building an agribusiness ecosystem and broadening commercialisation of the sector. Finally, the power and energy sector and the mining industry are all undergoing institutional reforms.

## Natural resource management and environment

Major policy changes in the sector are geared to making it more transparent and efficient through a clear definition of roles and responsibilities of the operators in the sector. The Nigerian National Petroleum Corporation (NNPC) will become a commercial entity, oil and gas will become separate entities and the procedures for awarding licences and contracts will be streamlined. Overall, the regulatory framework is being strengthened.

In 2016, Nigeria showed its commitment to the global effort to reduce the impact of climate change by signing the Paris Agreement. Nigeria is committed to reducing greenhouse gas emissions unconditionally by 20% and conditionally by 45%, which is in line with Nigeria's Nationally Determined Contributions (NDCs). In partnership with the Ministry of Finance, the Ministry of Environment is finalising preparations for a green bond issuance during the first half of the year. The green bond issuance is aimed at attracting investments for low carbon infrastructure development relevant to the targets set in the NDCs in priority projects in renewable energy, transport and afforestation.

## Political context

Nigeria consolidated its democratic institutions with the peaceful elections in March 2015. However, like other young democracies, it faces continuing challenges. Fragmentation within the ruling party and the main opposition party may deepen as political campaigning for 2019 picks



up towards the end of the year. Challenges in fiscal federalism, particularly differences of views over the oil revenue sharing are important considerations leading to political tensions.

Nigeria is also facing a range of complex conflict and security challenges, with pockets of violence in the north east, the Niger Delta and the Middle Belt. Tensions have eased in the north east region as the federal government regained considerable control over local government areas previously under the militant Islamist group Boko Haram. However, the region still continues to experience sporadic terrorist attacks, and this has prolonged the return of internally displaced persons to their homes. In partnership with development partners, the private sector and civil society, the federal government has started implementing key elements of a plan initiated by President Buhari, which outlines policy measures for emergency and development assistance to the north east.

In the latter half of 2016, there was an increase in the activities of militant groups in the Niger Delta that conducted several attacks against oil and gas facilities and infrastructure. Improving security in the Niger Delta is a major policy focus, and in addition to dialogue with all stakeholders the federal government has also ensured the resumption of payments to former militants under the presidential amnesty programme as part of efforts to stabilise the region.

## **Social context and human development**

### **Building human resources**

Nigeria is classified as a low human development country, with a Human Development Index (HDI) of 0.514. However, over the 2010-14 period it registered an impressive annual growth in HDI of 1.06 %, outpacing other low human development and sub-Saharan African countries, which registered growth rates of 0.92% and 0.94% on average, respectively. Despite this the country faces critical challenges in its efforts to achieve the Sustainable Development Goals (SDGs). In terms of the SDG Index, which ranks countries based on their performance across the 17 goals, the country is ranked 141 out of 149 countries, with a score of 36.1%, against the regional average of 42.5%. Despite the existence of a favourable policy environment aimed at improving access to education, net enrolment in basic education has been on a downward trend over the past decade due to a combination of socio-cultural factors and the Boko Haram insurgency. From a peak of 84.0% in 2005, the net enrolment currently stands at 63.9%, while literacy rates for 15- to 25-year-olds stands at 66.4%. As the region most adversely affected by the insurgency, the northern part of the country contributes an estimated 90.0% of the estimated 11 million children currently out of school. The Sustainable Development Solutions Network has reported an under-five mortality rate of 109 deaths per 1 000 live births and a maternal mortality ratio of 814 deaths per 100 000 live births. Life expectancy at birth is a mere 49 years. As stated above, the policy environment in the social and other sectors of the economy is generally favourable and supportive. This is exemplified by the Saving One Million Lives Initiative, an incentive-based programme which aims to improve child morbidity and mortality, officially launched in July 2016. But such policies continue to suffer from a lack of implementation due in part to low public investment in these sectors, with a paltry 4.6% and 8.4% of the national budget devoted to the health and education sectors respectively in 2016. This level of investment is inadequate to address the many challenges in these sectors and is inconsistent with the country's commitment to internationally agreed targets, such as the 2001 Abuja Declaration, which among other things calls for an increase in health expenditures to at least 15.0% of the national budget.

### **Poverty reduction, social protection and labour**

Prior to the slump in economic activity which culminated in the current recession, the country had registered impressive growth during the 2000s, averaging 8.4% per annum. This strong growth, however, was not matched by significant job creation and poverty reduction. The

UN's 2015 *Global Human Development Report* reported that an estimated 62.0% of the population live on less than USD 1.25 per day in purchasing power parity (PPP) terms, while some 27.9 % are poor. The northern parts of the country have the highest proportions of the poor and vulnerable.

The government has formulated many policies and programmes aimed at creating jobs and addressing poverty. This includes: the National Directorate of Employment, established in 1996, which has been instrumental in building the capacities and skills of the unemployed, especially women and youth; the National Poverty Eradication Programme, which aims to train and empower the youth with skills required for the job market; the conditional cash transfer programme, which provides households with funds for human capital development; and recently created national social protection programme.

Unemployment has been rising over the past two years, with the proportion of those aged 15 to 64 currently available for work, actively seeking work but without work – i.e. the unemployment rate – more than doubling from 6.4% in Q4 2014 to 13.3% in Q2 2016. The rate for women is 15.5%, while it is 11.5% for men. Somewhat surprisingly, unemployment is 17.8% in urban areas but 11.3% in rural areas. What's more, 23.2% of those with a post-secondary education are unemployed, while the figures are 9.4% for those with a primary education, 11.4% for those with a secondary education and 13.4% for those with no education.

Income inequality, as measured by the Gini coefficient, stands at 43.0%, implying inclusive growth remains elusive. This calls for a re-examination of the source and nature of growth and the effectiveness and coverage of the nascent social protection programme. Inequality is evident not just with respect to income but also access to basic social services and opportunities. When Nigeria's HDI (0.514) is discounted for inequality, it falls to 0.320, a loss of 37.8%, well above the average of 32% for low HDI countries and 33.3% for sub-Saharan Africa (SSA). Social protection ranks high on the government's policy agenda. In May 2016, the government launched the NGN 500 billion social protection programme, founded on five pillars: creating 500 000 jobs for teachers and artisans; providing 5.5 million children with school food; developing a conditional cash transfer scheme for one million vulnerable beneficiaries; helping one million market women, 400 000 artisans and 200 000 agricultural workers with entrepreneurial development; and establishing an education grant scheme, targeting students studying sciences, maths, engineering, and technology. The rollout of this plan across the country has, however, suffered from slow implementation. In addition, President Buhari initiated a plan for an integrated framework for co-ordinating all initiatives for sustainable peace and development in the north east, which has been ravaged by conflict over the past six years. Development partners and the private sector are supporting these efforts through interventions in key social sectors and infrastructure rehabilitation, as well as microfinance and youth employment programmes.

## Gender equality

A combination of historical and contemporary factors, especially the pervasive patriarchal culture in some parts of the country, continues to hamper gender equality and women's empowerment. Recent policy and institutional reforms are delivering some positive results although challenges remain. An example is the national gender policy, which promotes mainstreaming gender issues in governance and changes in electoral practices such as the non-payment of nomination fees by women in some political parties. While the country has almost attained gender parity in basic education (94 girls per 100 boys), the proportion of women in wage employment in the non-agricultural sector stands at a paltry 7.7%. The labour force participation rate for females, estimated at 48.2%, is also significantly lower than the rate for males, estimated at 63.7%. Women also hold significantly fewer seats in parliament than men, with only 7.3 % in the senate and 5.0% in the House of Representatives.



## Thematic analysis: Entrepreneurship and industrialisation in Nigeria

The industrial sector, which includes mining and quarrying as well as manufacturing, remains an important contributor to aggregate output. Although the manufacturing sub-sector expanded over the past decade, the relative contribution of the industrial sector as whole has been on a downward trend, declining from a high of 21.9% in 2010 to 15.5% in 2015. This decline can be attributed to the recent GDP rebasing, which elevated the contribution of the services sector, and a general contraction in the mining and quarrying sub-sector.

Entrepreneurship in Nigeria pre-dates colonisation and independence in 1960. Historically, the major Nigerian tribes had what today would be termed entrepreneurs who participated in the trans-Sahara trade. The Binis, an ethnic group living around Benin City, for instance, traded in palm oil, ivory, pepper and textiles with the Europeans in the 16th and 17th centuries, while the Hausas were involved in tanning, dyeing, weaving and metal works. The Igbos, in addition to excelling in metal work, traded in craft goods and agricultural products, while the Yorubas were mainly craftspeople. Formal and modern entrepreneurship, however, can be traced back to the colonial era, especially the early 20th century when the United African Company (UAC) controlled most of the import and export trade and helped to shape the focus of Nigeria's early entrepreneurs into export-import, shipping, warehousing, freighting, food processing, financial services, banking, packaging and small scale manufacturing activities. By the early 1980s, Nigeria had about 180 functional textile mills, employing about 1 million people and accounting for over 60% of the textile industry in the West Africa. Nigeria also had several automobile assembly plants. However, like other industrial sub-sectors the manufacturing sub-sector was faced with severe difficulties by the late 1980s. These were attributable to a lack of entrepreneurship and industrial promotion strategies, plus increasing employment opportunities in the civil service due to a booming oil economy.

The first major attempt at focusing policy on industrialisation and entrepreneurship outside the framework of successive national development plans was the creation in 2006 of the Small and Medium Enterprises Development Agency (SMEDAN) and the subsequent formulation in 2007 of the first national policy on Micro, Small and Medium Enterprises (MSMEs). The policy outlined specific areas for government to focus on, including finance, the legal framework, skills development, technology, research and development, extension support, marketing and the cost of doing business, as well as infrastructure. It also identified target sub-sectors in the manufacturing sector, such as textiles and clothing, leather products, wood processing and furniture, and solid minerals.

With the exception of the Nigerian Enterprises Promotion Decree of 1972, which gave Nigerian industrialists 40% equity in major multinational corporations, while foreigners retained 60%, and the Indigenization Decree of 1977, which reversed the ownership structure to 40% for foreigners and 60% for Nigerians, the country lacked an explicit industrial policy prior to 2007. Rather, industrialisation goals were contained in the successive national development plans and strategies. The government used these to develop programmes and operational mechanisms to promote industrial development. Between 1970 and 1975, for instance, the government established 23 Industrial Development Centers (IDCs) across the country to provide technical and managerial assistance to indigenous medium and large companies with respect to product development, entrepreneurial training and technical appraisal of loan applications. These centres were, however, abandoned because of gross under-utilisation, although they have recently been brought under the purview of SMEDAN to revive their operations. Similarly, in a bid to ensure the availability of financial resources for indigenous entrepreneurs, the government established the Nigerian Industrial Development Bank (NIDB) in 1964 and the Nigerian Bank for Commerce and Industry (NBCI) in 1973. These two were later amalgamated to form the present Bank of Industry (BOI), with a key mandate of lending to MSMEs. Furthermore, the CBN launched the Small and Medium Enterprises Equity Investment Scheme in 2006 and the Small and Medium Enterprises



Credit Guarantee Scheme in 2010, both of which were designed to guarantee commercial banks' lending to SMEs. In 2008, the CBN commenced the establishment of entrepreneurship development centres in each of the six geopolitical zones of the country for the sole purpose of nurturing entrepreneurs.

A 2010 baseline survey revealed that there were a total of 17 284 671 MSMEs in Nigeria, concentrated mostly in Lagos and Kano, the two most populous states, and that they faced a number of constraints. These include low levels of private investment in key industrial activities a high cost of doing business and low FDI. The Nigeria industrial policy was therefore developed in 2013 to liberalise the industrial space by removing constraints to private investment in key industrial activities, reducing the cost of doing business and creating conditions attractive for FDI in selected sectors of the economy. The policy focuses on enhancing the growth of key industrial sub-sectors or product groups, including: food, beverage and tobacco; textile, apparel and leather products; wood products and furniture; and cement and glass. It also aims to curb anti-competitive behaviour, and encourage anti-trust tendencies and consumer protection.

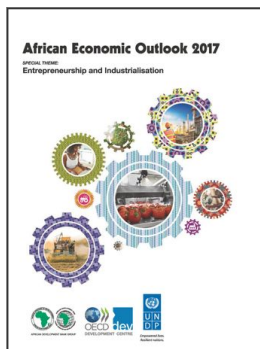
According to the National Demographic and Health Survey (NHDS), between 2008 and 2013 the proportion of women who were self-employed in the non-agricultural sector increased from 75.2% to 79.9%, with the corresponding figures for men being 54.9% and 60.1%. Similarly, the 2013 MSME survey showed that the number of MSMEs stood at 37 067 416 and that these were mostly owned by people in the age bracket of 24-50. This finding is corroborated by the 2014 Global Entrepreneurship Monitor, which identified Nigeria as one of the most entrepreneurial countries in the world, with 35 out of every 100 Nigerians engaged in some kind of entrepreneurial activity. In response to the findings of the two surveys, the national policy on MSMEs was revised in 2014 to improve access to finance, skills development, technology, research and development, extension services, infrastructure and the cost of doing business. In addition, the policy targets specific sub-sectors and enterprises, including agro allied industries, arts, textiles and clothing, wood processing, leather products, metals and solid minerals, as well as enterprises owned by women and youth.

The National Enterprises Development Programme (NEDEP) was launched in 2014 to address critical factors facing the sector and to assist enterprises in growing from micro to small, small to medium and medium to large. A key strategy under NEDEP is to bring together all key public sector players in entrepreneurship and industry to address the challenges and constraints identified in the 2013 survey. The five-year NIRP, which aims to build up industrial capacity and improve competitiveness, was also launched in 2014. The plan targets sectors where Nigeria has a comparative advantage. Moreover, it addresses key constraints to manufacturing and for the first time in the country's history links its trade policy with investment and industrial policies. The plan also identifies industry groups with a national focus, including agro allied industries, metals and solid minerals processing, oil and gas related industries, construction, light manufacturing and services. A key aspect of the plan is the detailed implementation strategy and oversight structure, with an industrialisation advisory board mainly from the private sector and a public sector dominated steering committee, both of which report to the president on a quarterly basis.

The Economic Growth and Recovery Plan (2017-20) highlights as key priorities restoring growth and building a competitive economy through improving the ease of doing business, investing in infrastructure and diversifying the economy, with a focus on manufacturing, agribusiness, services and solid minerals. This puts entrepreneurship and industrialisation at the heart of the economic agenda going forward.







From:

## African Economic Outlook 2017

### Entrepreneurship and Industrialisation

Access the complete publication at:

<https://doi.org/10.1787/aeo-2017-en>

---

#### Please cite this chapter as:

African Development Bank/OECD/United Nations Development Programme (2017), "Nigeria", in *African Economic Outlook 2017: Entrepreneurship and Industrialisation*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/aeo-2017-50-en>

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.