

## Nigeria Inclusive Growth Diagnostic (IGD) Screening Profile<sup>1</sup>

### Economic overview:

Nigeria is a lower middle income country of 163 million people, over two-thirds of whom, 110.5 million, live in severe poverty (below \$1.25 per day), even though its average per capita income (PPP GNI) rose by an average of 4.3% per year between 2001 and 2011 and was \$2,237 in 2011 (\$6.13 per day). Its Gini index of income distribution is 40, almost the same as that of the U.S. (41), but at a much lower level of average income. The poverty headcount ratio at \$1.25/day actually rose by 1.3% per year between 2004 and 2010, although the same ratio at the country's national poverty line fell by a marginal annual average of -0.4% over the same period. Nigeria's labor force participation rate is a relatively low 56%, and the female participation rate is only three-fourths that of men. In 2005 women comprised only 21% of non-agricultural wage employment.

Based on the online indicators discussed below, there appears to be potential for more productive employment and higher incomes in both the agriculture and non-agriculture sectors. While the Nigerian private sector faces a large number of serious constraints, including poor infrastructure, a poorly educated and unhealthy workforce, a poor business climate, a high level of corruption and lack of finance, many of these can be laid to extremely poor governance. An inclusive growth diagnostic should look at all of these areas, but especially at poor economic governance as possibly the most binding constraint of all and the root cause of the others.

### 1) Potential for higher smallholder agricultural production and rural incomes.

Half the population lives in rural areas and 45% of total employment is in agriculture; but agriculture accounts for only 33% of GDP, indicating lower productivity per worker than in the non-agriculture sectors. Cereal yield was only 1,331 kg. per hectare in 2011, comparable to the average for Sub-Sahara Africa (1,362 kg.) but only 2/3 of that achieved by low income countries worldwide (2,035 kg.) and less than half that achieved by lower middle income countries (3,078 kg.)(WB WDI).

#### 1A&B) On-farm productivity & Processing and marketing of farm products

1Aa) Agricultural research & extension services

1Ab) Access to credit for farm inputs & capital improvements

1Ac) Rural infrastructure for irrigation and farm-to-market roads

1Ad) Land tenure and land markets

1Ba) Market and pricing policies

1Bb) Availability of information about and contacts with higher value markets

1Bc) Rural infrastructure for transport, electric power, storage, markets, communication

1Bd) Access to rural credit for agriculture product processing, storage, marketing, etc.

The EIU Global Food Security Index (GFI) indicates Nigeria spent only 1% of the agricultural contribution to GDP on agricultural research and development, placing it in the bottom 39% of the 105 countries covered. The same index placed Nigeria in the bottom third in access to finance for farmers, and the bottom 43% in agricultural infrastructure. As components of the latter index, it scored high in the existence of crop storage facilities, but low for both road and port infrastructure.

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<sup>1</sup> This country profile presents indicators available online that are relevant to the IGD analytical nodes of the "Analytic Guide for an Inclusive Growth Diagnostic (the productive employment model)," which is available from <https://dec.usaid.gov/dec>

Fertilizer consumption was only 2.1 kg. per hectare of arable land in 2009, down from 7.7 kg. in 2008, and way below the Sub-Sahara average of 11.4 kg., the low income country average of 25 kg. and the lower middle income average of 122 kg. (WB WDI) In 2013 the MCC scored Nigeria as better than only 10% of its income group peers in land rights and access. The World Bank Doing Business Indicators ranked Nigeria near the bottom, 182 out of 185, for registering property. The 2012-2013 WEF Global Competitive Index ranked Nigeria 114 out of 144 in agricultural policy costs.

## 2) Potential for more productive, higher wage non-farm employment.

Adult labor force participation rates are low, 55.7% overall, 63.3% for males and 47.9% for females in 2011. There is insufficient data to break out formal-informal sector employment or vulnerable employment rates. The non-farm sector is hampered by a poor business climate, as the country ranks 131 out of 185 in the 2013 World Bank Ease of Doing Business Index.

### 2A) Private Sector Demand for More Productive Employment

#### 2Aa) Level of Private Investment (HRV Constraints Analysis)

##### 2Aai) Private returns to economic activity

Total investment was reported as 22.1% of GDP in 2012, down from 22.5% in 2011 and 25.8% in 2010 (IMF WEO), while foreign direct investment was reported as equal to 3.6% of GDP in 2011 (WB WDI).

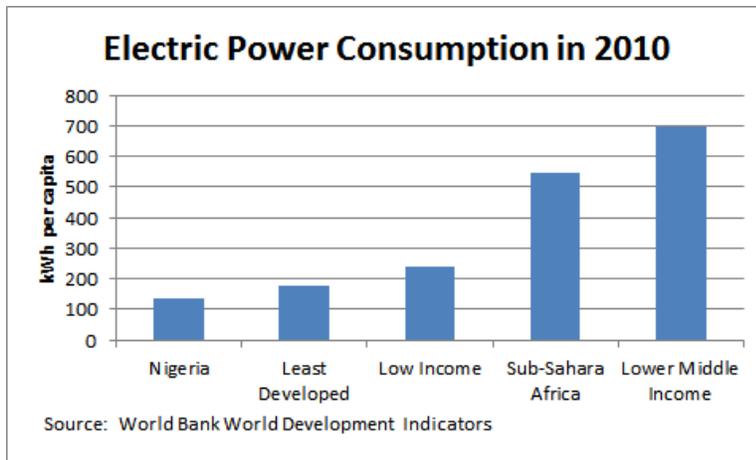
##### 2Aai1) Evidence of low social returns

###### Is there inadequate human capital to run a business successfully?

In the 2012-2013 World Economic Forum (WEF) survey of business leaders, only 1.6% listed an inadequately educated workforce, and only 1.2% listed poor public health, as the most problematic factors for doing business in Nigeria. (See Table 1.) However, as will be discussed below under the employability of the workforce, there is other evidence that these might indeed be serious constraining factors down the road.

###### Is there a lack of or poor condition of productive infrastructure?

The inadequate supply of infrastructure was listed by the third highest number of WEF respondents as the most problematic factor for doing business (Table 1), and the survey details indicate that the electricity supply, telephone service, quality of roads and port infrastructure are particularly troublesome. (Table 3) This is supported by other sources. According to the World Bank World Development Indicators (WB WDI) Nigeria's electric power consumption, in KWH per capita, was only 135 in 2010, compared with averages of 240 for Low Income Countries, 178 for Least Developed Countries, 546 for Sub-Saharan Africa and 695 for Sub-Sahara Africa. Private firms reported an average of 25 power outages per month. And according to the UNDP Human Development Report only 51% of the Nigerian population had access to electric power in 2009. The WB WDI reports that only 15% of Nigeria's roads were paved in 2004.



## 2Aai2) Private appropriability

### Government failure/poor governance

The World Bank Doing Business Report for 2013 ranked Nigeria 131 out of 185 countries in business climate indicators. The Heritage Foundation/Wall Street Journal Business Freedom Index gave Nigeria a score of 51.6 in 2011, a decline from 55 in 2005 (with 100 being the best). It ranked 111 out of 183 countries in the overall Economic Freedom Index. It ranked 115 out of 144 in the 2012-2013 WEF Global Competitiveness Index (GCI) (See Table 2). The Canadian Fraser Institute, in its annual Economic Freedom of the World Report for 2013, ranked Nigeria 138<sup>th</sup> out of 152 countries in its Business Regulations Index in 2011, 132<sup>nd</sup> in Legal System and Property Rights Index. Nigeria scored -1.25 in the 2011 Rule of Law Estimate of the World Bank Governance Indicators, out of a -2.5 to +2.5 range, ranking in a 3-way tie for 193rd in a list of 214 countries.

Corruption was cited by the second largest number of WEF respondents as the most problematic factor, policy instability came in fourth, followed by crime and theft. The depth of institutional problems is revealed by the extremely low scores and rankings for Nigeria in the Institutional Pillar of the WEF GCI (Table 4), where the business costs of terrorism, crime and violence, the diversion of public funds, organized crime, irregular payments and bribes, and favoritism in government decisions all place the country near the bottom of the global rankings, along with inadequate protection of property rights, the reliability of police services and so on. Nigeria scored only 27 out of 100 possible points in the Transparency International Corruption Perceptions Index in 2012 and placed in a 5-way tie for 139<sup>th</sup> among 176 countries. The World Bank Governance Matters Control of Corruption estimate of 2011 scored Nigeria -1.14 in the -2.5 to +2.5 range, ranking 191 out of 212 countries. Nigeria scored -1.12 in the 2011 Government Effectiveness Estimate of the World Bank Governance Indicators, out of a -2.5 to +2.5 range, ranking 185 in a list of 212 countries, underscoring poor governance as a serious constraint.

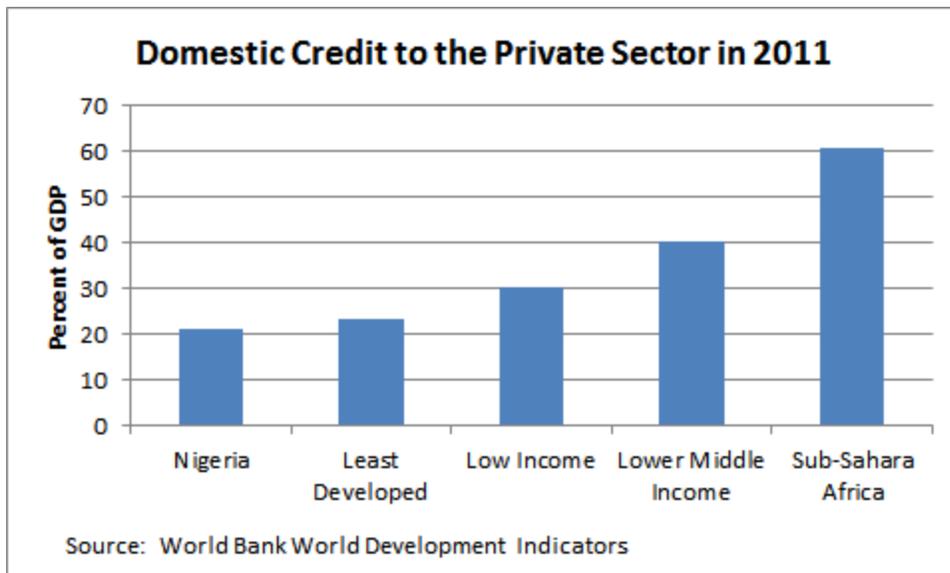
### Market failures in the availability of information for innovation and “coordination”

Nigeria ranked a low 112 (out of 144) in the 2012-13 WEF GCI Technological Readiness Index and a moderately low 73 in its Business Innovation & Sophistication Index (See Table 2).

## 2Aaii) Cost of finance

Banking sector data raises questions. Domestic credit to the private sector equaled only 21% of GDP in 2011 (as opposed to a 61% average for Sub-Sahara Africa), and net foreign direct investment equaled

only 3.6% of GDP. Gross capital formation and domestic investment rates are not reported. Real interest rates and the banking interest rate spread have been volatile in recent years, probably due to a combination of unstable prices and anti-inflation/anti-recession policies. Real interest rates have gyrated between -2.2 in 2006 and +23.8 in 2009, -7.3 in 2010 and +13.4 in 2011. The interest rate spread has historically been within a reasonable range, falling from 7.2 in 2006 to 3.5 in 2008, but rising to 10.3 in 2011. The Heritage Foundation/Wall Street Journal Investment Freedom Index scored Nigeria a relatively low 40 out of 100 possible points in 2011, indicating strong government influence over the financial sector. In the 2012-13 WEF GCI Nigeria scored 4.1 (from 1-7 high) and ranked a respectable 68 out of 144 in Financial Market Development, but access to financing was listed as the most problematic factor for doing business by the largest number of entrepreneurs surveyed. (See Table 1.)



#### 2Ab) Conversion from Informal to Formal Sector

The 2013 World Bank Doing Business Report ranked Nigeria 119 out of 185 countries in its Starting a Business Index, and 182 for Registering Property, 155 for Paying Taxes. Nigeria scored 51.6 in the 2011 Heritage Foundation Economic Freedom Index for Business Freedom, placing it at 144 among 183 countries scored. The policies relating to these activities could be seriously impeding the conversion of enterprises from informal to formal sector, in addition to the general unattractiveness of the formal business climate discussed above, thus reducing the generation of more productive employment.

#### 2Ac) Labor Intensity of Production

Nigeria's total 2011 labor force participation rate of 55.6% is significantly lower than the 69.6% average for Sub-Sahara countries and the 75.1% average for all low income countries. Its female labor participation rate was still lower, at 47.6%, than either the Sub-Sahara rate of 62.9% or the low income country rate of 67.4%. While Nigeria did not rank too poorly in the 2012-2013 WEF GCI overall Goods Market Efficiency and Labor Market Efficiency indices, 88 and 55, respectively (out of 144, see Table 2), within those categories it scored particularly low in trade tariffs, agricultural policy costs, imports as a percentage of GDP, number of days to start a business, and the prevalence of trade barriers in the first and in labor-employer relations and pay and productivity in the second. (Tables 5 and 6) It ranked 120 out of 179 countries in foreign trade as a percentage of GDP (65%) in the World Bank World Trade Indicator series (2006-2009 latest), and in its Trade Restrictiveness Index it ranked 98 out of 125

countries. These are all areas that impact entrepreneurial incentives to create new jobs. Personal remittances from abroad equaled 8.5% of GDP in 2011 (WB WDI). This may indicate an exodus of workers looking for jobs elsewhere because they cannot find them at home.

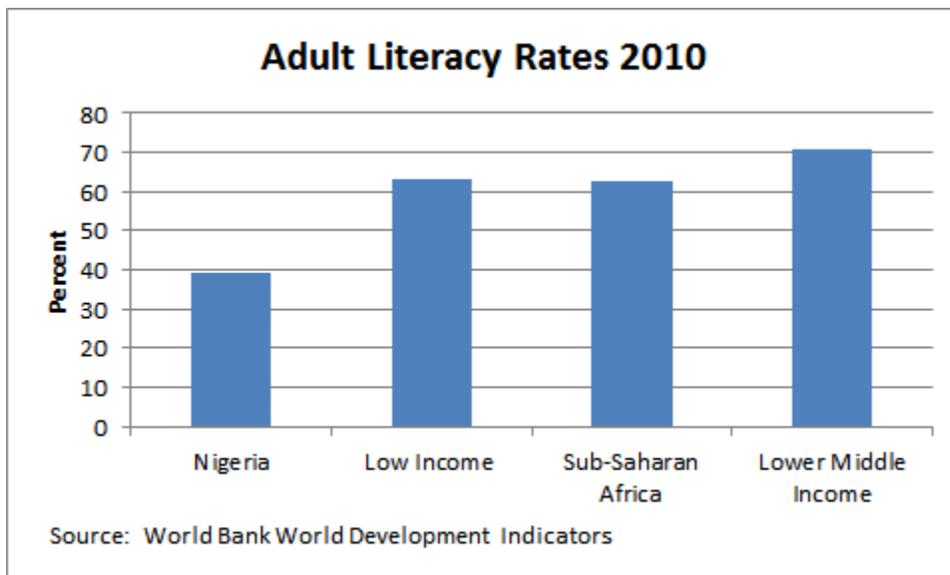
2B) Employability of the Workforce:

Adult literacy rates are low in Nigeria, only 61% total, 72% male and 50% female in 2010 (WB WDI). The total is slightly lower than the Sub-Sahara and low income country averages of 62.6% and 62.9%, respectively. It was ranked 140 out of 144 countries in primary education enrollment in the 2012-2013 WEF GDI with only 57.6% enrolled, and ranked 102 in terms of the quality of primary education. The gross percentage of students enrolled in secondary education was only 44.0%, and only 10.3% in tertiary education, ranking Nigeria 120<sup>th</sup> and 111<sup>th</sup>, respectively. (See Tables 7 and 8.)

Even more worrying from an employability standpoint, however, is the poor health of the workforce. The 2012-2013 WEF GCI overall ranking for Nigeria in Health and Primary Education is 142 out of 144, 3<sup>rd</sup> from the very bottom (Table 2). It ranked worse than 100 in all 8 health indicators surveyed, including the business impacts of malaria, TB and HIV/AIDS. Malaria cases are recorded for 36% of the population. Life expectancy is only 51.4 years. (See Table 7.)

It is difficult to reconcile this data on the poor state of health and education with the fact that such a small percentage of businessmen cited inadequate education and poor public health as the most problematic factor for doing business in Nigeria, but perhaps this is simply an indication of the low aggregate demand for labor among the formal sector entrepreneurs surveyed.

Nigeria's population growth rate is relatively high at 2.5% per year (WB WDI), which makes it difficult for the country to improve its health and education services fast enough to keep up with the increasing need for them.



## Appendix

**Table 1. The most problematic factors for doing business**

	(Percent of responses)
Access to financing .....	22.7
Corruption .....	18.1
Inadequate supply of infrastructure .....	17.6
Policy instability .....	10.9
Crime and theft .....	6.5
Government instability/coups .....	4.7
Inefficient government bureaucracy .....	4.2
Inflation .....	4.1
Tax regulations .....	2.3
Foreign currency regulations .....	1.8
Poor work ethic in national labor force .....	1.7
Inadequately educated workforce .....	1.6
Poor public health .....	1.2
Tax rates .....	1.1
Insufficient capacity to innovate .....	0.9
Restrictive labor regulations .....	0.7

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 278

<b>Table 2. The Global Competitiveness Index</b>	Rank	Score
<b><u>NIGERIA</u></b>	<b><u>(out of 144)</u></b>	<b><u>(1-7)</u></b>
GCI 2012–2013 .....	115	3.7
GCI 2011–2012 (out of 142) .....	127	3.4
GCI 2010–2011 (out of 139) .....	127	3.4
<b>Basic requirements (60.0%) .....</b>	<b>130</b>	<b>3.5</b>
1. Institutions .....	117	3.3
2. Infrastructure .....	130	2.3
3. Macroeconomic environment .....	39	5.2
4. Health and primary education .....	142	3.2
<b>Efficiency enhancers (35.0%) .....</b>	<b>78</b>	<b>4.0</b>
5. Higher education and training .....	113	3.3
6. Goods market efficiency .....	88	4.2
7. Labor market efficiency .....	55	4.5
8. Financial market development .....	68	4.1
9. Technological readiness .....	112	3.1
10. Market size .....	33	4.6
<b>Innovation and sophistication factors (5.0%) ..</b>	<b>73</b>	<b>3.5</b>
11. Business sophistication .....	66	4.0
12. Innovation .....	78	3.1

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 278

<b>Table 3. Infrastructure</b>	<u>Value</u>	<u>Rank</u>
2.07 Quality of electricity supply	1.7	138
2.09 Fixed telephone lines/100 pop.*	0.4	135
2.08 Mobile telephone subscriptions/100 pop.*	58.6	124
2.01 Quality of overall infrastructure	3.2	117
2.02 Quality of roads	2.8	114
2.04 Quality of port infrastructure	3.6	106
2.05 Quality of air transport infrastructure	4.0	100
2.03 Quality of railroad infrastructure	1.9	95
2.06 Available airline seat kms/week, millions*	308.3	51

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 279

<b>Table 4. Institutions</b>	<u>Value</u>	<u>Rank</u>
1.14 Business costs of terrorism	3.7	139
1.03 Diversion of public funds	2.2	135
1.16 Organized crime	3.5	133
1.15 Business costs of crime and violence	3.3	128
1.05 Irregular payments and bribes	2.9	127
1.07 Favoritism in decisions of government officials	2.5	122
1.01 Property rights	3.4	119
1.17 Reliability of police services	3.2	115
1.19 Strength of auditing and reporting standards	3.9	113
1.08 Wastefulness of government spending	2.6	111
1.02 Intellectual property protection	2.9	110
1.18 Ethical behavior of firms	3.5	106
1.04 Public trust in politicians	2.2	102
1.13 Gov't services for improved business performance	3.2	96
1.21 Protection of minority shareholders' interests	3.9	91
1.20 Efficacy of corporate boards	4.3	89
1.06 Judicial independence	3.7	73
1.11 Efficiency of legal framework in challenging regs.	3.7	65
1.12 Transparency of government policymaking	4.4	63
1.22 Strength of investor protection, 0–10 (best)*	5.7	52
1.10 Efficiency of legal framework in settling disputes	4.1	48
1.09 Burden of government regulation	3.9	36

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 279

<b>Table 5. Goods market efficiency</b>	<u>Value</u>	<u>Rank</u>
6.10 Trade tariffs, % duty*	11.3	115
6.08 Agricultural policy costs	3.4	114
6.14 Imports as a percentage of GDP*	32.7	110
6.07 No. days to start a business*	34	109
6.09 Prevalence of trade barriers	3.9	108
6.13 Burden of customs procedures	3.6	94
6.01 Intensity of local competition	4.5	92
6.16 Buyer sophistication	3.2	90
6.15 Degree of customer orientation	4.5	88
6.06 No. procedures to start a business*	8	87
6.12 Business impact of rules on FDI	4.4	86
6.11 Prevalence of foreign ownership	4.7	67
6.05 Total tax rate, % profits*	32.7	46
6.03 Effectiveness of anti-monopoly policy	4.4	45
6.02 Extent of market dominance	4.2	41
6.04 Extent and effect of taxation	4.3	22

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p.279

<b>Table 6. Labor market efficiency</b>	<u>Value</u>	<u>Rank</u>
7.01 Cooperation in labor-employer relations	3.9	115
7.05 Pay and productivity	3.6	100
7.08 Women in labor force, ratio to men*	0.76	80
7.04 Redundancy costs, weeks of salary*	16	76
7.02 Flexibility of wage determination	5.0	74
7.06 Reliance on professional management	4.4	58
7.07 Brain drain	3.8	48
7.03 Hiring and firing practices	4.9	17

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p.279

<b>Table 7. Health and primary education</b>	<u>Value</u>	<u>Rank</u>
4.02 Malaria cases/100,000 pop.*	36,059.5	141
4.10 Primary education enrollment, net %*	57.6	140
4.07 Infant mortality, deaths/1,000 live births*	88.4	139
4.08 Life expectancy, years*	51.4	134
4.06 HIV prevalence, % adult pop.*	3.6	130
4.01 Business impact of malaria	3.4	129
4.03 Business impact of tuberculosis	4.3	118
4.05 Business impact of HIV/AIDS	4.3	114
4.09 Quality of primary education	3.2	102
4.04 Tuberculosis cases/100,000 pop.*	133.0	101

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 279

<b>Table 8. Higher education and training</b>	<u>Value</u>	<u>Rank</u>
5.01 Secondary education enrollment, gross %*	44.0	120
5.02 Tertiary education enrollment, gross %*	10.3	111
5.03 Quality of the educational system	3.5	83
5.04 Quality of math and science education	3.6	92
5.05 Quality of management schools	3.9	86
5.06 Internet access in schools	3.5	99
5.07 Availability of research and training services	4.2	68
5.08 Extent of staff training	4.1	57

Notes: Values are on a 1-to-7 scale unless otherwise annotated with an asterisk (\*).

SOURCE: WEF, *Global Competitiveness Report 2012-13*, p. 279