# Review of the Nigerian Economy in 2020 and Key Priorities for 2021 and Beyond

NESG Research

## Abstract

The Nigerian economy faced significant head winds in 2020 arising from the COVID-19 pandemic. The pandemic exacerbated the realities of rising inflation, unemployment, a tightening fiscal space, and a faltering currency. With the significant macroeconomic challenges facing the nation, critical steps need to be taken to promote economic recovery, sustained growth and socio-economic development. In its 2021 Macroeconomic Outlook Report, the NESG highlighted four key priority areas that are important in attracting private investment which is critical in achieving sustained growth and development in the short and long term. These priority areas are macroeconomic stability, policy and regulatory consistency, sector reforms and human capital development. The first two priorities are critical in the short run. The government has a key role to play in stabilizing the macroeconomic environment and implementing policies which will support economic recovery and promote sustained economic growth further into the future. Sectoral reforms and human capital development, on the other hand, will mainly support improved economic outcomes in the medium to long-run. The potential of key sectors of the economy to attract private investment needs to be harnessed through sectoral reforms. In addition, human capital development is critical to achieving human development and maximizing the productive capacity of the nation.

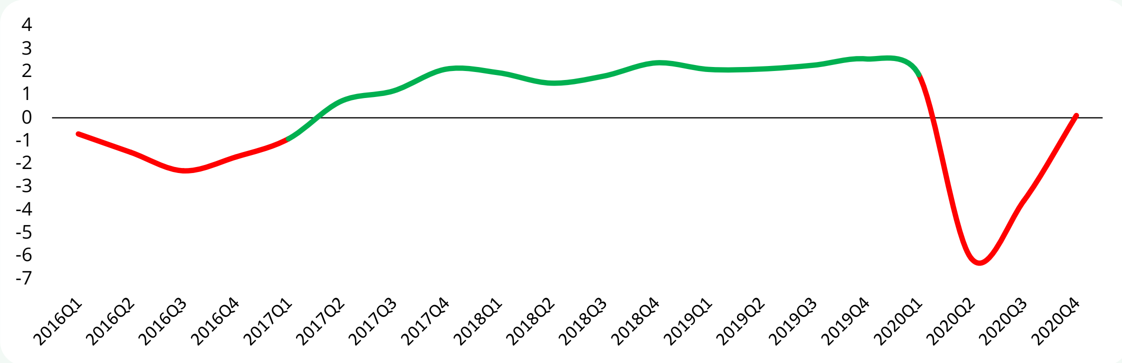
## 1. Introduction

### Real Sector Developments

**The global economy contracted in 2020, more than a decade since the 2008-09 global financial crisis.** Against the backdrop of the COVID-19 outbreak, the global economy contracted by 3.1 percent in 2020, largely driven by advanced economies, which recorded a contraction of 4.4 percent in the year. On a country level, the United States, the United Kingdom, Germany, France, Canada and Japan contracted by 3.1 percent, 9.8 percent, 4.6 percent, 8 percent 5.3 percent and 4.6 percent in 2020, respectively. On the other hand, emerging and developing economies grew by 2.1 percent. On a country level, the real Gross Domestic Product (GDP) of India, South Africa, Russia, Brazil and Saudi Arabia fell by 7.3 percent, 6.4 percent, 3 percent, 4.1 percent and 4.1 percent, respectively, in 2020, whereas the Chinese economy - where the rampaging virus emanated from - expanded by 2.3 percent in 2020.

**Nigeria slipped into its second recession in five years on the back of the COVID-19 pandemic.** Just like many other countries, Nigeria was not spared of the impact of COVID-19. In 2020, the economy halted its 12 consecutive quarters of expansion and contracted by 6.1 percent in 2020Q2, mainly driven by the global oil price plunge and the persistent implementation of lockdowns and stringent restrictions the world over. In 2020Q3, the Nigerian economy fell into a recession with a second consecutive negative growth of -3.6 percent (-6.1 percent in 2020Q2). This represents the second economic contraction since 2016. Cumulatively, the economy contracted by 1.9 percent in full year 2020, compared to an expansion of 2.3 percent in 2019.

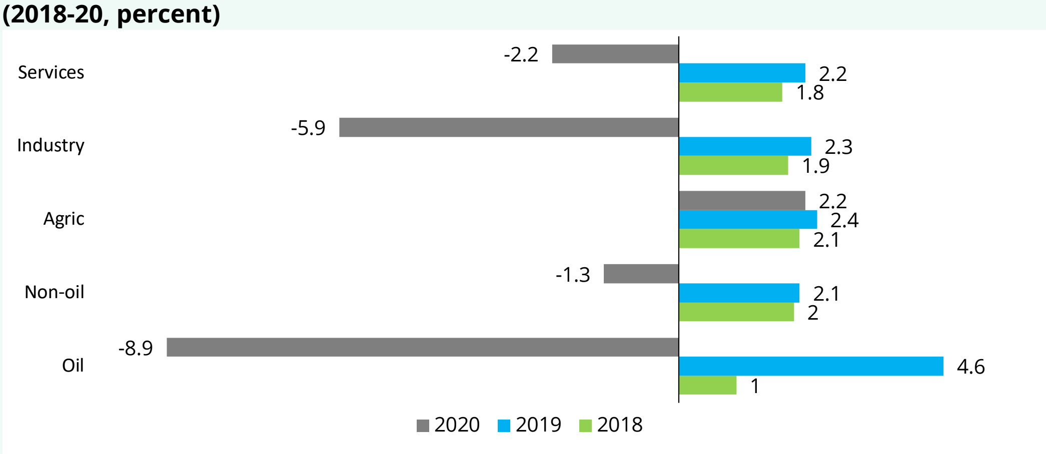
**Figure 1: Nigeria's Real GDP Growth (2016Q1-2020Q4, percent)**




**Source: Data: National Bureau of Statistics (NBS); Chart: NESG Research**

**Both Nigeria's oil and non-oil sectors were majorly affected by the pandemic.** The negative impact of COVID-19 on the global oil market was transmitted into the Nigerian oil sector. The oil sector which suffered from lower crude oil prices and production contracted by 6.6 percent and 13.9 percent in 2020Q2 and 2020Q3, respectively, compared with positive growth rates of 7.2 percent and 6.5 percent recorded in the respective corresponding periods of 2019. Meanwhile, the disruption of economic activities that came with COVID-19 alongside scarcity of foreign exchange negatively impacted the non-oil sector, which contracted by 6.1 percent and 2.5 percent in 2020Q2 and 2020Q3, respectively. Cumulatively, the oil and non-oil sectors contracted by 8.9 percent and 1.3 percent in 2020, relative to an expansion of 4.6 percent and 1.7 percent in 2019, respectively. The Industrial sector was the most susceptible to COVID-19 shocks as it contracted by 12.1 percent in 2020Q2 and by 5.9 percent in 2020 (2019 growth: 2.3 percent). The contraction of the sector was driven by poor growth performances of sub-sectors including crude petroleum and natural gas (-8.9 percent) and manufacturing (-2.8 percent).

**Figure 2: Growth Rate of Oil, Non-Oil and Sectoral Categorisation of Real GDP (2018-20, percent)**




**Source: Data: NBS; Chart: NESG Research**

Similarly, the Services sector's output fell by 2.2 percent in 2020 from an expansion of 2.2 percent in 2019. The deceleration of the sector's growth in 2020 was largely due to large contractions in major sub-sectors including transportation & storage (-22.3 percent), accommodation & food services (-17.8 percent), real estate (-9.2 percent) and trade (-8.5 percent). The negative growth rates in these activities largely suppressed the gains from the strong growth of ICT and financial services sectors – the major beneficiaries of the global pandemic - at 12.9 percent and 9.4 percent, respectively, in 2020. As with the recession in 2016, the agricultural sector exhibited resilience, as reflected by a positive but slower growth rate at 2.2 percent in 2020, relative to 2019 (2.4 percent). In addition to COVID-19 induced lockdowns, the agricultural sector was disadvantaged by incessant insecurity incidences, particularly in the food producing regions of the country. A further breakdown of the 2020 growth numbers showed that quarrying and other minerals led the 17 expanding sectors with a growth of 21.2 percent, followed by telecommunication and information services (15.9 percent), financial institutions (13.3 percent) and broadcasting (4.9 percent). Conversely, activities contracted in 29 sub-sectors led by oil refining (-62.2 percent), followed by major activities in transport sector including air transport (-37 percent), rail transport and pipelines (-33.6 percent) and road transport (-22.3 percent).

**Constrained supply chain manifested in rising inflation and rising unemployment.** The headline inflation consistently rose from 11 percent in August 2019 to 15.8 percent in December 2020. Food inflation continued to account for the large increase in overall inflation. The food inflation rate increased by 4.9 percentage points to 19.6 percent in December 2020 from 14.7 percent in December 2019. Similarly, the core Inflation increased by 2.1 percentage points to 11.4 percent in December 2020 from 9.3 percent in December 2019. The average headline inflation rose to 14.9 percent in 2020 from 11.4 percent in 2019. Inflationary pressures have been overtime fueled by factors including heightened insecurity, foreign exchange scarcity and exchange rate depreciation, supply chain bottlenecks and increase in Value Added Tax (VAT).

**Figure 3: Nigeria's Inflation Rate (percent)**

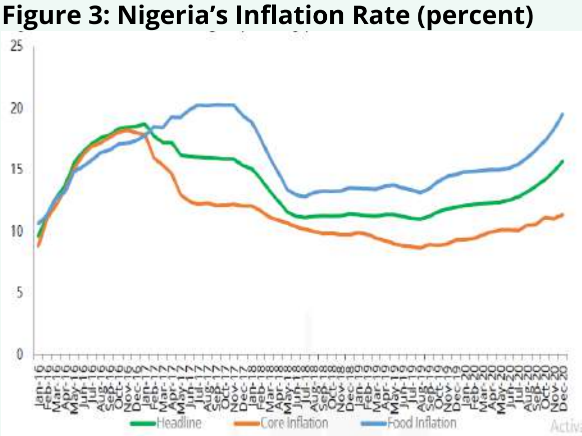
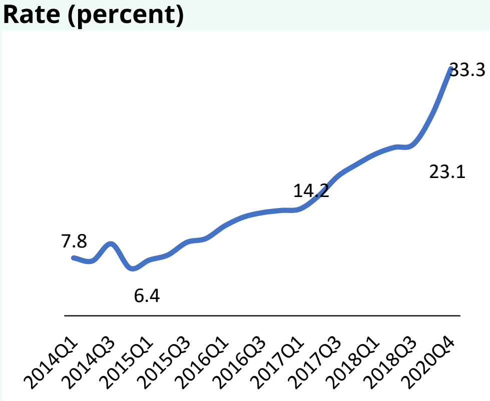



**Figure 4: Nigeria's Unemployment Rate (percent)**



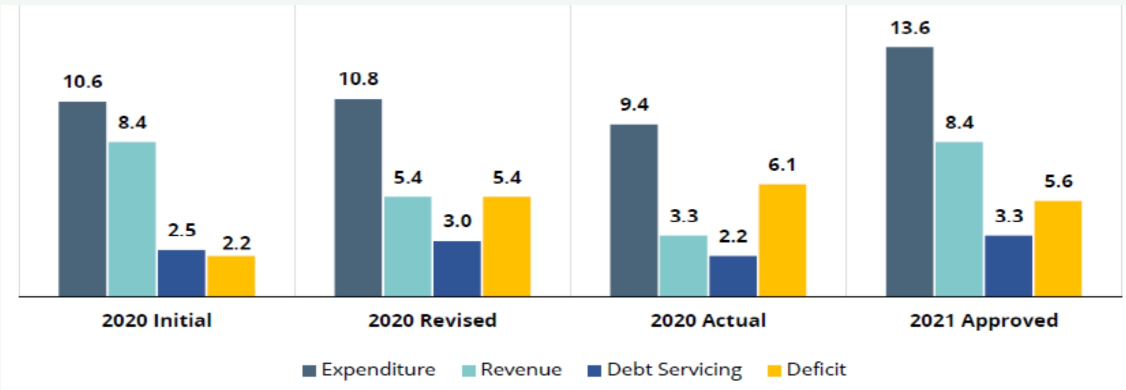

**Source: Data: NBS; Chart: NESG Research**

Moreover, the adverse impact of the global pandemic on economic activities manifested in rising unemployment rate, with many firms embarking on output scale down and retrenchment. According to data from the National Bureau of Statistics (NBS), the unemployment rate jumped to an all-time high of 33.3 percent in 2020 from 23.1 percent in 2018. The combined rate of unemployment and underemployment rose to 56.1 percent in 2020 from 38.1 percent in 2018. The misery index – the sum of inflation and combined unemployment and underemployment rate – worsened to 71 percent in 2020 from 50.2 percent in 2018.

**Domestic Policy Developments**

**COVID-19 worsened the already challenging fiscal position.** The strain on the global economy manifested in lower demand for crude oil as countries implemented lockdown and movement restrictions. This led to a crash in oil prices in the global oil market. As a result, the government revised the 2020 budget to accommodate the potential revenue shortfall and cater for the stimulus spending given the need to cushion the effect of the lockdown on citizens and businesses. The Federal Government earlier budgeted a total of N10.6 trillion in expenditure for 2020 with N8.4 trillion in revenue and N2.2 trillion in budget deficit. The budget was then revised as expenditure target was increased to N10.8 trillion, thereby pushing budget deficit up to N5.5 trillion. Budget assumptions were also revised: the oil price benchmark was revised to US$28 per barrel from US$57 per barrel and oil production was revised to 1.94 million barrels per day (mbpd) from 2.18 mbpd.

**Figure 5: Federal Government Estimates of Expenditure, Revenue and Budget Deficit (N'Trillion)**

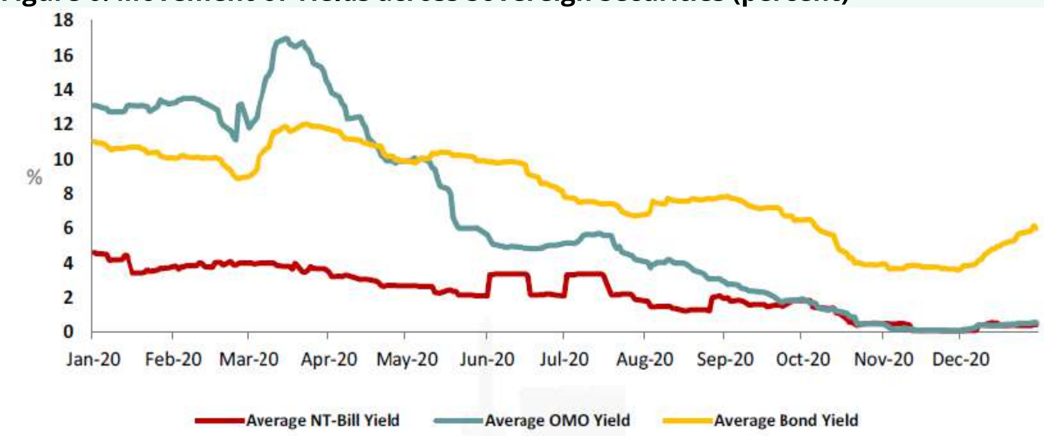



**Source: Data: Budget Office of the Federation; Chart: NESG Research**

Beyond the constraints on revenue mobilization, the surge in emergency spending to effect COVID-19 interventions and relief measures widened the budget deficit which stood at N6.1 trillion in 2020, an 11.7 percent increase from the initial estimates (N5.5 trillion). The rising debt profile and the growing momentum of external borrowing ultimately casts doubt about Nigeria's capacity to redeem her huge debts upon maturity, let alone servicing the debts so-accumulated. Very concerning is the uptick in public debt service-to-revenue ratio to 82.9 percent in 2020 from 54.3 percent in 2019, while the public debt stock stood higher at N32.9 trillion (USS$86.4 million) in 2020 from N27.4 trillion (US$84.1 million) in 2019.

Tough economic environment limits the effectiveness of monetary policy. Monetary policy tools became constrained in the face of rising liquidity, inflationary pressure, foreign exchange instability, and economic fallout of COVID-19 which led the economy into a recession. Rising liquidity was as a result of the Central Bank of Nigeria's (CBN's) Open Market Operation (OMO) policy in 2019 that restricted non-bank corporates and individuals from participating in OMO transactions both in the primary and secondary markets. This made it impossible for some investors to roll over their investments in the OMO market, thereby shoring up the liquidity level in the economy. Consequently, yields across all sovereign instruments declined – average yields on FGN Bond, Treasury Bill and OMO declined to 6.0 percent, 0.5 percent and 0.6 percent at the close of December 2020 from 9.1 percent, 4.7 percent and 13.1 percent on the first trading day of 2020.

**Figure 6: Movement of Yields across Sovereign Securities (percent)**




**Source: Data: Debt Management Office (DMO); Chart: NESG Research**

Against the backdrop of monetary policy stimulus packages in the fight against COVID-19 and the continued implementation of the 65 percent Loan-to-Deposit Ratio (LDR), there was a jump in aggregate credit facilities available to the private sector in 2020. As at November 2020, the total credit to the private sector increased by N2.6 trillion (9.7 percent) to N29.3 trillion from N26.7 trillion in December 2019. This is also reflected in the decline in prime lending rate from 15 percent in December 2019 to 11.3 percent as at October 2020. Besides, the total banking sector credit as at September 2020 stood at N19.9 trillion, an increase of N2.7 trillion (15.6 percent) from December 2019. About 18.8 percent of the banking credit was channeled to the oil & gas sector. The manufacturing sector - a segment of the industrial sector - accounted for 15.3 percent of banking credit portfolio, while the agricultural sector had a 4.7 percent share.

**Figure 7: Banking Credit to the Private Sector (N'Trillion)**

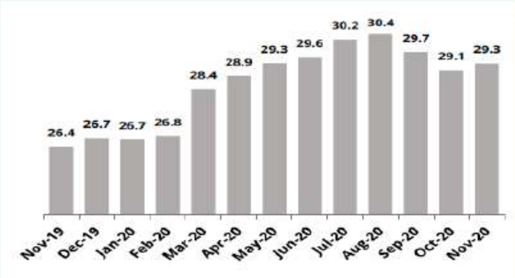
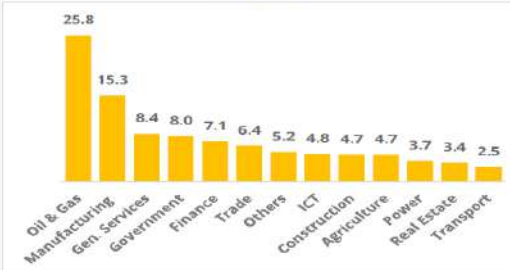



**Figure 8: Sectoral Utilization of Banking Credit (percent)**




**Source: Data: Central Bank of Nigeria (CBN); Chart: NESG Research**

In addition, the major outcomes of the CBN's unorthodox monetary policy stance in 2020 were the setting in of financial repression – low interest rate environment matched with high inflation regime – and huge disparity between the Monetary Policy Rate (MPR) – the supposed anchor rate – and rates that subsisted in the fixed income market (that is, yields on Treasury bills and government bond). The negative real returns to investment largely served as a major disincentive to investors in 2020. Meanwhile, the equity market recorded a rally in stock prices, with annualized returns estimated at 50 percent in 2020.

**Figure 9: Interest Rates across Markets (percent)**

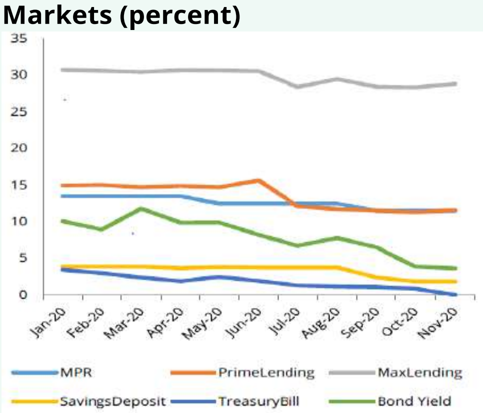



**Figure 10: Nigerian Stock Exchange (NSE) All-Share Index**


**Source: Data: CBN; NSE; Chart: NESG Research**

### External Sector Developments

**COVID-19 worsened Nigeria's trade balance position, plunged foreign investment inflows, stifled external reserves accretion and threatened currency stability.** The closure of land borders resulted in the initial slippage of the trade balance position into negative territory in the fourth quarter of 2019. The country recorded a trade deficit throughout 2020, with the overall deficit at –N7.4 trillion in 2020, relative to a trade surplus of N2.2 trillion in 2019. The worsening position of the trade balance so far in the year 2020 could be attributed to lockdown restrictions and suspension of international travels across the world as part of measures aimed at containing the spread of the coronavirus pandemic. Similarly, the overall investment inflows dipped by 59.4 percent to US$9.7 billion in 2020 from US$23.9 billion in 2019. The decline in total investment inflows in 2020 was primarily driven by a 68.9 percent drop in foreign portfolio investments (FPI) to US$5.1 billion in 2020 from US$16.4 billion in 2019 A combination of trade deficit and weak investment inflows suggests the deterioration of the balance of payments position in 2020. This is not unprecedented considering the country's overreliance on oil proceeds. In 2020, the average crude oil price fell sharply by 55.6 percent to US$42.1 per barrel from US$65.5 per barrel in 2019. The average domestic crude oil production fell to 1.7 million barrels per day in 2020 from 2 million barrels per day in 2019. Lower crude oil prices and a drop in domestic crude oil production translated into lower oil export earnings, which nosedived by 33.5 percent to N11.1 trillion in 2020 from N16.7 trillion in 2019.

**The worsening external economic environment was also reflected in the huge pressure on the country's external reserves and the instability in the forex market.**
Against the backdrop of higher demand for foreign exchange (forex) in the face of limited foreign exchange supply, the CBN adjusted the official exchange rate to N361/US$ and N381/US$ in March and July 2020, respectively from N307/ US$. Owing to lower oil export receipts, the persistent deterioration in the trade balance and dwindling investment inflows at the height of COVID-19 pandemic, there was a continuous depletion in external reserves. Between January and April, the reserves lost 13 percent of its value.

**Figure 9: Nigeria's External Reserves (US$ Billion)**

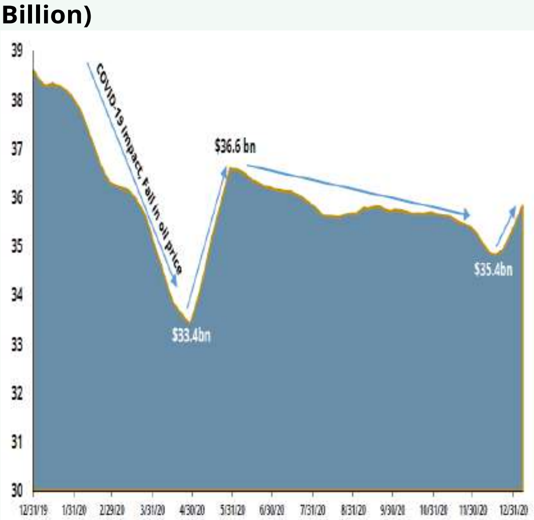
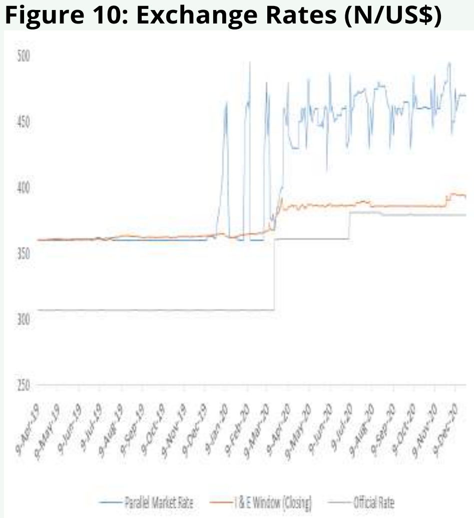



**Figure 10: Exchange Rates (N/US$)**




**Source: Data: CBN; Chart: NESG Research**

Meanwhile, the increase in external reserves in May 2020 was due to the approval of IMF's Refinancing Instrument worth US$3.4 billion for Nigeria in April 2020. Ever since, the CBN has continued to ration forex among end-users. For the most part of 2020, the inability of the Apex bank to meet the forex demand backlogs widened the parallel market premium, which stood at 25 percent on December 31, 2020. External reserves faced pressure in 2020, closing the year at US$35.4 billion, 8.4 percent lower than its level a year earlier (US$38.6 billion). In 2020, external reserves averaged US$35.9 billion (2019: US$43 billion).

# Timelines of Key COVID-19 related events

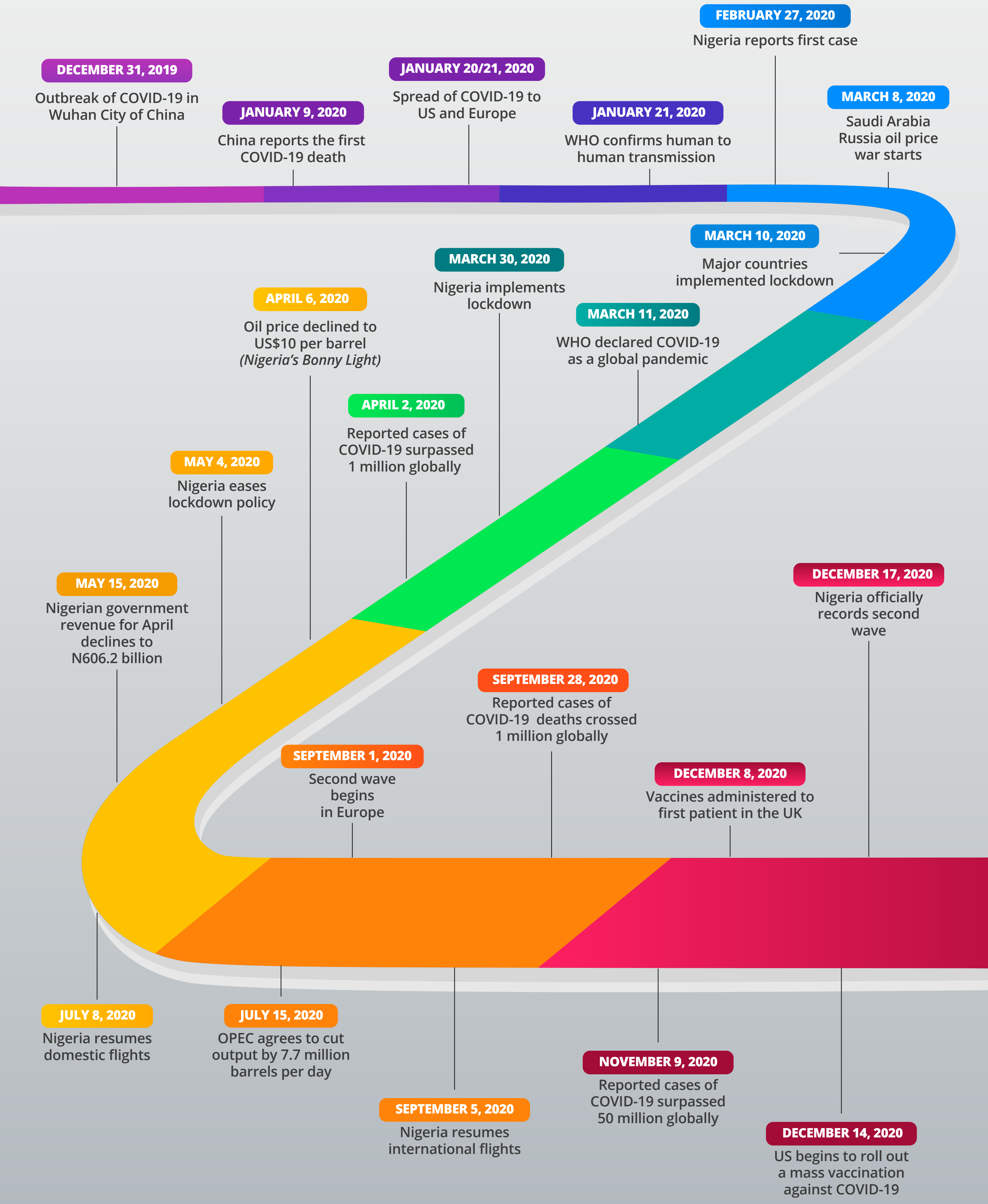


**Figure 12: Impact of COVID-19 pandemic on the Nigerian Economy**

**Real sector performance in Nigeria nosedived on the impact of COVID-19. However, the agricultural sector showed some level of resilience**

**Chart 1: Nigeria's Real GDP Growth**

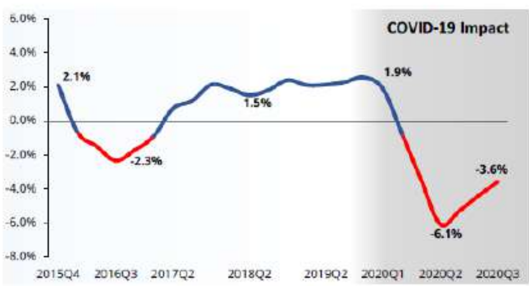
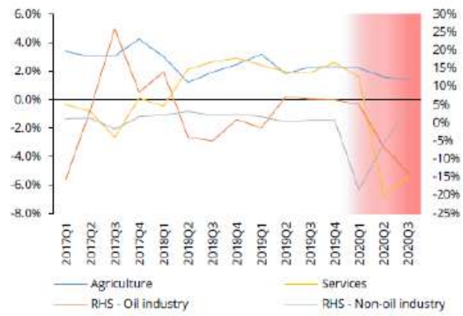



**Chart 2: Sectors' Performance (Growth rate)**




**Inflation rate consistently increased, Exchange rate became volatile in the parallel market**

**Chart 3: Inflation Rate (%)**

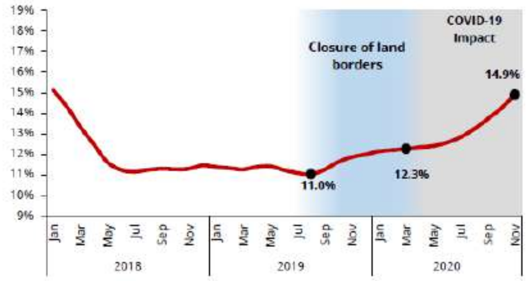
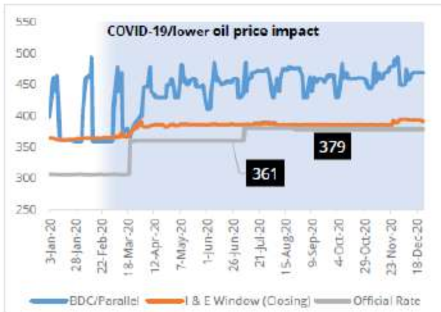
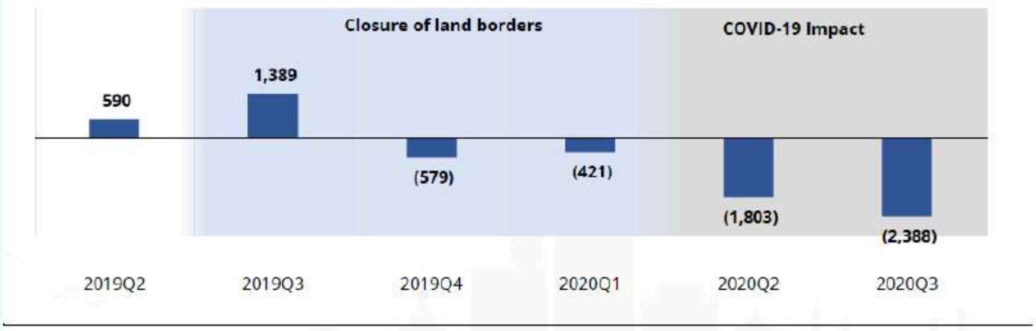


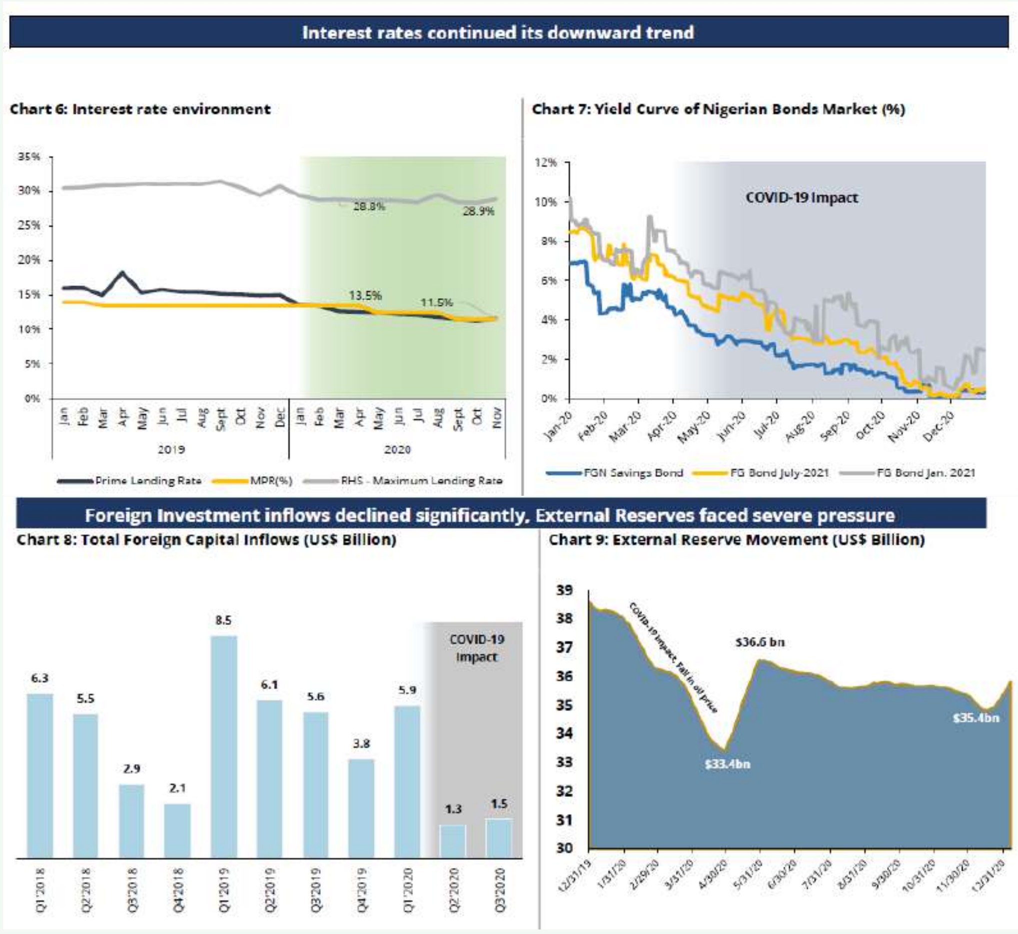

**Chart 4: Exchange rate Movement (US$/N)**




**Value of Imports has been higher than Exports since the full closure of land borders in 2019Q4**

**Chart 5: Trade Balance in Billion Naira**



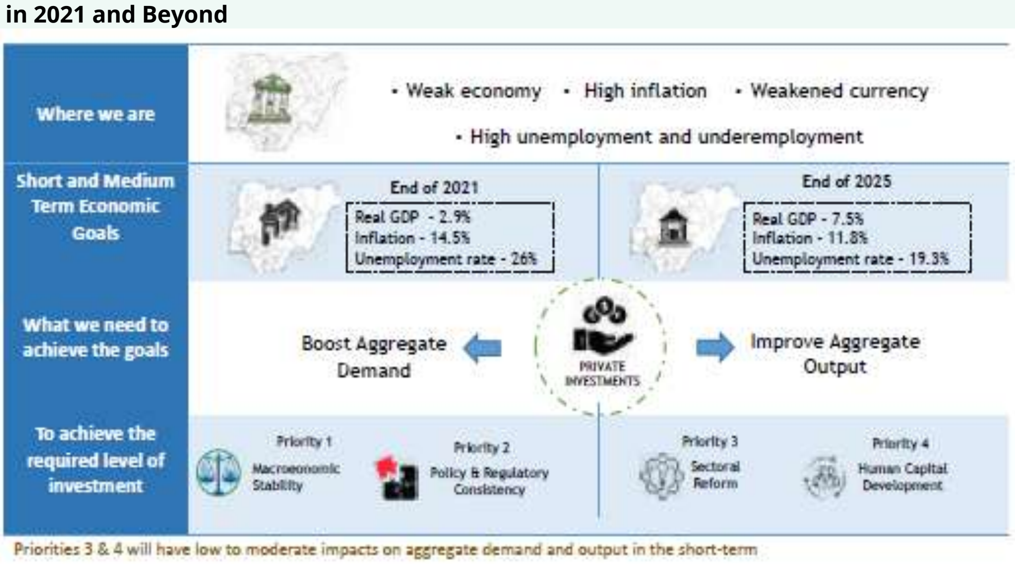



**Source: Data: CBN, NBS, FMDQ; Chart: NESG Research**

## 2. Four Key Priorities for the Nigerian Economy in 2021 And Beyond

In the 2021 Macroeconomic Outlook Report, the NESG proposed a theory of change that highlights four key priority areas that are important in attracting significant investments and in turn, improving Nigeria's socio-economic outcomes in the short and medium term. These priority areas are macroeconomic stability, policy and regulatory consistency, sector reforms and human capital development.

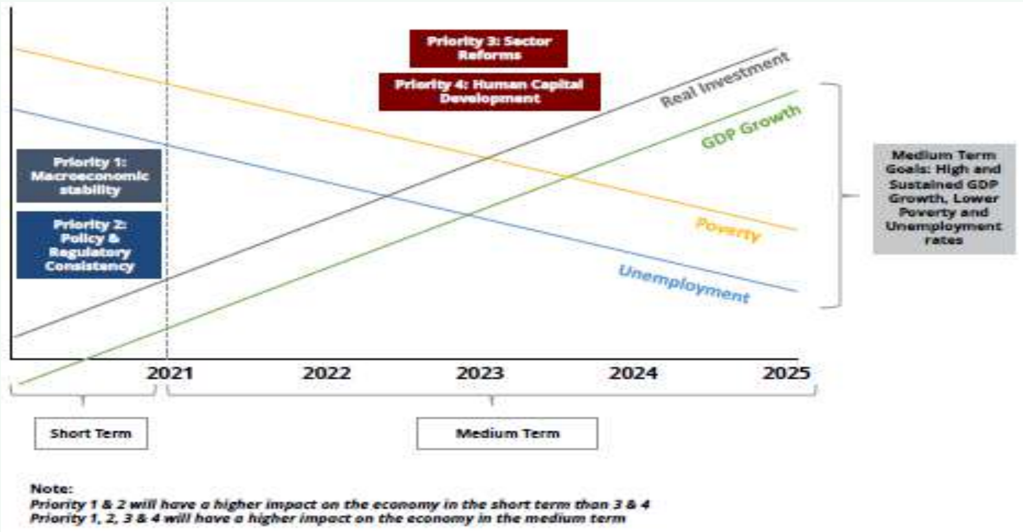
**Figure 13: Theory of Change and 4 Priority Areas for Nigerian Economy in 2021 and Beyond**




**Source: NESG Research**

From an impact perspective, although all the priorities will have significant effects on Nigeria's socio-economic landscape over the next five years, two of the four priorities – Macroeconomic Stability and Policy/Regulatory Consistency – if achieved, will deliver a much higher impact in the immediate and short term. Because COVID-19 induced shocks resulted in volatility and instability of macroeconomic indicators such as inflation rate, GDP growth, fiscal balance and exchange rate, among others, macroeconomic stabilization and policy coherence should be the first point of call towards economic recovery and also in achieving high and sustainable economic growth over the medium term.

**Figure 14: Priorities Impact overtime**




**Source: NESG Research**

## Priority 1: Macroeconomic Stability

Macroeconomic instability became evident in 2020. Nigeria's poorly diversified economy is reflected in its heavy reliance on the oil sector, which is fundamentally prone to shocks and fluctuations. On account of this, the country is subjected to many shocks that trigger macroeconomic instability and adverse socio-economic outcomes. Notwithstanding the country's extraordinary economic growth episode in the first decade of the 2000s, the unstable macroeconomic environment seems to have eroded the benefits achieved during the high growth era. Assessing Nigeria's performance using the Maastricht Indicators , the country can be said to have a volatile macroeconomic environment - steep economic growth, acute foreign exchange (forex) shortages and volatility, and deteriorating current account position (as shown by the graphs in previous sections). Inflation rate has exceeded the Monetary Policy Rate (MPR) since February 2016, thereby creating a suppressed yield environment and negative real returns on most of the country's investment instruments.

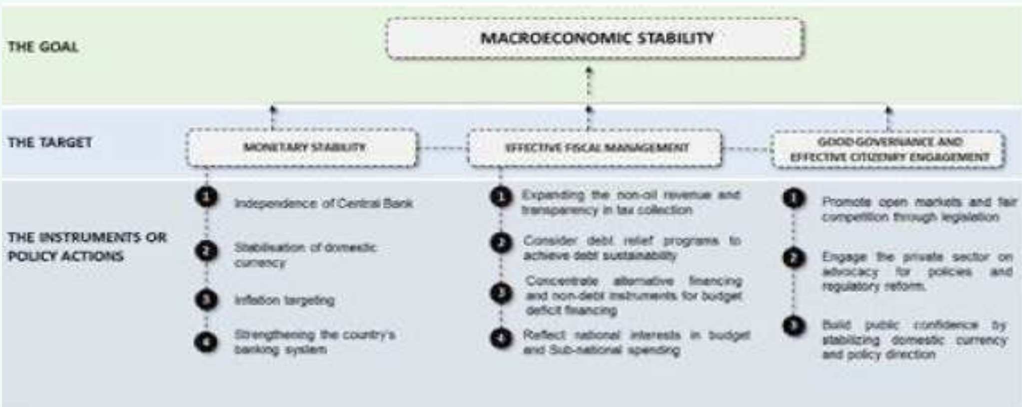
Some critical policies, such as forex restrictions on food items and land border closure also contributed to price volatility. On the government side, fiscal deficits remained high in 2020 and exceeded the 3 percent of GDP benchmark as the government increased total expenditure in the 2020 budget. While the country faced a stagnated revenue situation, the hope of a quick recovery is limited by COVID-19 outbreak, resulting in lower crude oil price and weakened global oil demand. Although the country's debt stock remains low, debt service is increasingly troubling the effective implementation of her annual budget. These, in total, have adversely impacted investments, human capital development and stalled economic growth potentials of Nigeria. The unstable macroeconomic environment has contorted some economic progress

[1] Maastricht indicators or Criteria are used to define Macroeconomic Stability in the European Union. These indicators are low and stable inflation; low long-term interest rates; low national debt relative to GDP; low fiscal deficits; and domestic currency stability.

and thrust many people into poverty and unemployment . While the economic structure in terms of shock transmissions via the oil price channel is the primary driver of macroeconomic instability in Nigeria, many other policy and non-policy factors contribute weighty shockwaves to the economy. Some of the policy factors include rigidity of FX management, the inertia to implement the needed pro-market reforms in crucial sectors such as liberalisation of downstream oil and gas sector, deregulation of the energy sector, and harmonisation of monetary and fiscal policy direction, among others. Other factors include insecurity, high level of corruption, high unemployment and under-employment rate, policy inconsistency and perceived limited capacity of the Nigerian government to properly implement many of the reforms initiated to drive the economy.

It is generally agreed that growth-promoting policies work effectively in a stable macroeconomic environment. Consequently, improving the country's macroeconomic environment should be the most vital priority for the Nigerian government - fiscal and monetary authorities. This is so because economic stabilisation is a prerequisite for higher levels of investments (domestic and foreign) and economic growth. These indicators' favourable performance positively correlates with job creation, reduction in violence, and a higher standard of living. With the initiation of the right reforms, Nigeria can attain a level of macroeconomic stability needed to attract considerable investments to trigger economic potentials, achieve accelerated growth, and bring many Nigerians out of poverty in the shortest possible time. Our approach for Nigeria to achieve a stable macroeconomic environment is through a three-pronged policy stratification: monetary stability, effective fiscal management; and good governance and effective citizenry management. These policy recommendations are segmented into short and long-term based on their impact.

**Figure 15: Three-Pronged Policy Stratification for achieving Macroeconomic Stability in Nigeria**




**Source: NESG Research**

[2] Arieff, A. et al (2010) The Global Economic Crisis: Impact on Sub-Saharan Africa and Global Policy Responses. Congressional Research Service.

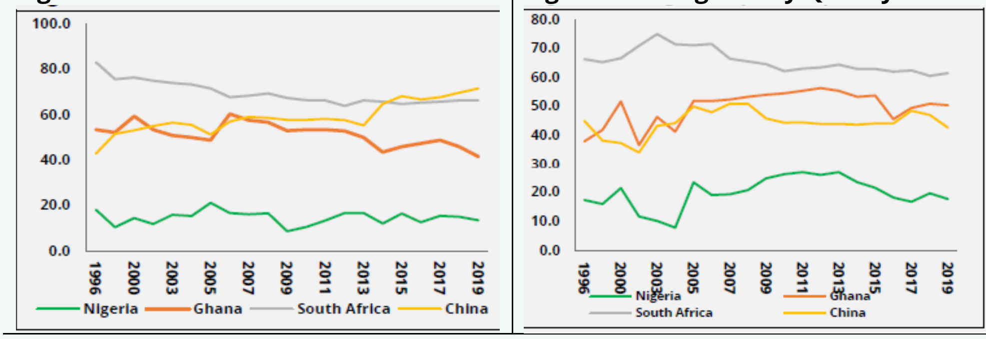
## Priority 2: Policy and Regulatory Consistency

Nigeria has faced a series of challenges that have hindered economic prosperity and inclusive development. Some of these challenges include insecurity, deep-rooted corruption, deepening poverty & inequality, dwindling domestic & foreign investment and worsening socio-economic conditions. At the core is the issue of policy misfit and regulatory inconsistency or overlaps. Policy misfit is a situation where a strategy or policy designed to address a specific issue does not consider the dynamics of interactions economic agents and therefore worsens the exiting condition or creates new challenges. In numerous circumstances, crucial decisions that affect businesses are made without proper consultation of stakeholders and without consideration of evidence and research. Impulse, rather than evidence, is a major factor that drives policy making in Nigeria. A clear example is the closure of the land border, which was swiftly implemented without a clear and documented analysis of the potential winners and losers; the duration of the closure as well as needed reforms to position local industries to take advantage of the closed borders.

Moreover, there is often a lack of a central vision, ideology and goals which are crucial in ensuring coherence of policies and reforms within and across the different levels of government. This challenge of lack of coherence has consistently resulted in economic and social losses. The recent reduction of tariffs on imported vehicles by the government despite efforts to support local vehicle production falls under this category. Even in some cases where plans, visions and agendas exist, such as the Economic Recovery and Growth Plan (ERGP), they are often not considered by different levels of government in their decision-making process. There are instances where policies are driven by good intentions and proper economic considerations but execution becomes a challenge. This speaks to the capacity of implementers and the capabilities of government institutions to ensure full compliance and monitor progress. In addition, issues relating to continuity of policies and programmes, monitoring, implementation, and evaluation are specific challenges that continue to limit the inflow of investments and, by extension, job creation in Nigeria.

**Figure 17: Nigeria's Performance on Selected Indices on the Global Competitiveness Indicators**

**Figure 17a: Governance Effectiveness** | **Figure 17b: Regulatory Quality**




**Source: Data: World Bank; Chart: NESG Research**

### Bad Policies result in social and economic losses

Bad policy decisions come at a cost to both citizens and businesses operating in the country. For instance, while the closure of land borders may have triggered an increase in rice production. This policy decision reversed the few gains – stable price level and positive trade balance, as discussed above. Meanwhile, in view of the African Continental Free Trade Area (AfCFTA) agreement, the Nigerian government ordered the reopening of the borders in December 2020. This raises several questions – what gains and losses has the country made since the borders were shut? Did the closure of the land borders improve productivity of rice farmers to enable them to withstand foreign competition? Since the borders were shut, have there been pronounced reforms to improve the efficacy of border and other security agencies such as Nigeria Customs Services, the Nigerian Police Force and the Nigerian Immigration Services? Has the government invested in border facilities by adopting modern technologies to ensure effective operations and detection of smuggled items? To this end, before crucial decisions are made, it is important for policymakers to engage in proper consultation, as well as, conduct evidence-based analyses on potential benefits and costs associated with the intended policy actions.

### What needs to be done

The COVID-19 pandemic has heightened the need for the government to make better decisions and ameliorate the situation of citizens and businesses to earn trust. The pressure will be on the government to implement better policies that will attract new investments, result in job creation and improve the welfare of citizens. Policymaking, therefore, should be driven by the need to create public value, which is a combination of what the people value and what is of value to the people. From an economic perspective, there are immediate and long-term gains when policies and decisions are focused on delivering public value: (1) Trust deficit between the people and the Nigerian government would be narrowed and the government would be seen as acting in the best interest of the people; (2) Social vices would be reduced to the barest minimum, and (3) The first two points would result in a stable environment that can attract significant investment, which is crucial for job creation and poverty reduction. Policymakers must take into account that private investments, particularly Foreign Direct Investment (FDI), tend to move towards economies with stable policy environment. Policies and actions of key decision makers across all the levels of government must be driven by clear visions and goals that are consistent with improving the business environment. This will improve the confidence of investors on the economy over time.

For regulators, the motivation must be to support businesses and ensure compliance with relevant standards that have been agreed to, by all stakeholders. Government (at different levels) and its agencies must truly act as "enablers" in the business environment rather than creating hurdles for businesses through fierce regulations and numerous charges. The motivation and incentives for business and industry regulators such as Nigeria Customs Service (NCS), NAFDAC, SON, among others, need to be re-engineered to focus on efficient and effective service delivery to their immediate stakeholders, in a simplified and easily accessible manner. This proposition is based on the premise that quality, clear and business-friendly regulation, are key in removing business hurdles across sectors and are germane to the expansion of existing businesses as well as to the growth of new businesses across the country. To address the issue of continuity, the institutionalisation of public policy is important. Policy makers must be guided by clear rules, processes and practices that must be followed before crucial policy decisions are made or altered. They must also be consciously aware that discontinuity is associated with huge costs which could have medium to long-term implications on the economy. To ensure continuity of long term plans, irrespective of political affiliations, some countries have established laws that ensure compliance with the existing development plan. This practice would be of significant benefit to Nigeria.

### Priority 3: Sectoral Reforms

**The poor performance across many sectors is a strong reflection of dwindling investment.** Investment in Nigeria has remained below potential. All through the last decade, the country's real investment as a percentage of GDP was below 20 percent - this share is significantly low compared with those of fast-growing economies such as China (43 percent) and Indonesia (33 percent). In terms of foreign investments, FDIs have consistently fallen under US$1.5 billion per annum since the year 2016, a meagre amount when compared with that of countries like Indonesia, Malaysia and Brazil. Principal factors contributing to this stunted investment growth include a harsh business environment, policy inconsistency and regulatory bottlenecks.

**Figure 18: Challenges to Doing Business in Nigeria**


Source: Nigerian Investment Promotion Commission

It is important to note that the disincentives for private investors (domestic and foreign) to commit to investing in sectors of the economy are somewhat similar. They are primarily demotivated by the persistence of structural challenges ranging from the inadequate power supply and infrastructure deficit to a volatile exchange rate, sectoral rigidity and the economy's susceptibility to oil prices swings. Other challenges facing the sectors include regulatory bottleneck and corruption; inefficiency in the judicial system and an unreliable dispute resolution system; the multiplicity of taxes; limited financing (corporate and consumer) and high cost of borrowing; inefficiency of standardisation and quality control processes; poor implementation of government policies, projects and programmes; the dominance of SMEs; inadequately skilled workforce; and increasing insecurity level.

Private Investment in strategic sectors is what Nigeria needs, urgently. In Nigeria, given the constraints associated with government finances, private investment in key sectors is what will drive growth in output as firms will seek to innovate, leverage new opportunities that the pandemic offers and take advantage of new markets in view of the commencement of the AfCFTA agreement. Investment in crucial sectors is also what will get workers back to work in 2021. As much as Nigeria needs private capital in every sector of the economy, the government needs to prioritise sectors based on their linkages with economic growth; other sectors of the economy; employment and inclusion. In our Macroeconomic Outlook for 2020, we identified six crucial sectors that fit the above criteria. They include Manufacturing, Construction, Trade, Education, Health and Professional Services with ICT and Renewable energy sectors serving as enablers (See Figure 19).

**Figure 19: Identification of Critical Sectors based on Potential to contribute to Growth, Job Creation and Economic Competitiveness of Nigeria**


**Source: NESG Research**

These sectors were selected based on the facts that: (1) they account for a sizeable share of employment; (2) there is strong potential for growth in output, but their contribution to overall GDP growth is low; (3) they have strong backward and forward linkages with other sectors and (4) they have strong linkage with inclusive growth (poverty reduction). The framework also includes the Information and Communication Technology (ICT) sector, which plays a crucial role in the outcome of other sectors. With the introduction of technology to create new opportunities within the sectoral framework, we believe these suggested reforms will help to open up the sectors for private investment. What is more comforting about investment is that the global economy is not short of capital; neither is the local economy. As at November 2020, there was about US$17 trillion of capital invested in negative-yielding interest-bearing securities globally . Thus, the negative real returns on investments in Nigeria does not constitute a major barrier in attracting and retaining investments into critical sectors. The country needs to provide a stable environment, where policies are relatively predictable, and uncertainties are reduced to the barest minimum.

### Priority 4: Human Capital Development

Given the key goals of achieving economic recovery in 2021 and sustaining growth into the future in Nigeria, the imperative of investment in human capital development cannot be over-emphasized. The sudden outbreak and rapid spread of the coronavirus pandemic has not only overstretched the country’s healthcare system but has also tested the resilience of the education sector. The pandemic has further highlighted the need for both health and education sectors to continuously adapt to a changing environment characterised by limited physical interactions.

**Nigeria ranks low on health outcomes relative to the rest of Sub-Saharan Africa.**

The UNDP’s 2020 Global Human Development Report showed that Nigeria's human development performance has remained poor over time. The human development index (HDI) stayed constant at 0.5 from 2014 to 2019, with the country ranking 161st out of 189 countries surveyed in 2019. While having the same HDI as Sub-Saharan Africa’s average, Nigeria underperformed the global average of 0.7. The country's unimpressive ranking over the years could be attributed to inadequate funding of education and health sectors, limited capacity to harness citizens' human capital potential – resulting in brain drain, high level of school drop- outs and child labour.

Nigeria's average life expectancy, currently at 54 years, underperforms sub-Saharan Africa's average of 61 years and other countries including Ghana (63 years) and South Africa (64 years). In 2018, the World Health Organization ranked Nigeria’s healthcare system as 178th out of 192 countries. Similarly, the country has recorded unimpressive performance in some other health outcomes (incidence of malaria and under-five mortality rate) due to higher out-of-pocket spending on healthcare relative to the Sub-Saharan average and few other SSA countries including Ghana and South Africa. Specifically, while South Africa and Ghana are close to achieving the under-five mortality rate SDG target of 25 per 1,000 live births by 2030, Nigeria is still far away at 120 per 1,000 live births. The inadequacy of health workers – physicians and nurses & midwives relative to its peers - casts doubt about the capacity of Nigeria's health sector to meet the healthcare needs of the growing population.

[3] See https://www.bloomberg.com/graphics/negative-yield-bonds/

**Table 1: Health Care Financing and Personnel Adequacy Indicators**

| | Nigeria | South Africa | Ghana | SSA |
|---|---|---|---|---|
| Government health expenditure (percent of current health expenditure) | 14.2 | 53.7 | 33.5 | 36.1 |
| Out-of-pocket expenditure (percent of current health expenditure) | 77.2 | 7.8 | 40.3 | 35.5 |
| Physicians (per 100,000 people) | 40 | 90 | 10 | 20 |
| Nurses and midwives (per 100,000 people) | 120 | 240 | 130 | 90 |

**Table 2**: Health Outcome Indicators

| | Nigeria | South Africa | Ghana | SSA |
|---|---|---|---|---|
| Under-five mortality rate (per 1,000 live births) | 120 | 35.3 | 50 | 77.5 |
| Prevalence of HIV (percent of population ages 15-49) | 1.5 | 20.5 | 1.7 | 3.9 |
| Incidence of malaria (per 1,000 population at risk) | 291.9 | 3.9 | 212.6 | 219.1 |
| Life expectancy at birth (years) | 54 | 64 | 63 | 61 |

**Data Source: World Development Indicators as at 2017 & Federal Ministry of Health**

**Poverty and unemployment are pervasive among segment of the population with no formal education.** Statistics showed that Nigerians with no formal education are faced with the highest levels of poverty and unemployment. As individuals and households attain higher levels of education, poverty and unemployment rates tend to decline. This raises the question as to whether individuals are poor and unemployed because they have no formal education or whether they have no formal education because they are poor and unemployed. For poverty and education, the relationship tends to be bi-directional while a one-way relationship can be argued for unemployment and education. What is crucial to note, however, is the importance of human capital development in boosting the chances of being gainfully employed in the formal sector with less likelihood of falling into abject poverty. This also implies that while job creation is a necessary condition for poverty reduction, the quality of job matters as individuals with higher educational qualifications are more likely to obtain quality jobs. This is the more reason for huge investment in human development i.e. both health and education sectors.

**Health insurance coverage in Nigeria is low.** This reflects the predominance of out-of-pocket spending on healthcare delivery in Nigeria, which currently accounts for over 70 percent of total healthcare spending. It has also been estimated that over 90 percent of Nigerians are excluded from social and private health insurance cover. Estimates show that only federal workers, which account for less than 1 percent of the total workforce, are sufficiently enrolled under the National Health Insurance Scheme (NHIS) introduced in 2005, with passive participation of state governments. Similarly, several private establishments have also keyed into enrolling their employees on Private Health Insurance; notwithstanding, the enrollees have been estimated to be less than 1 percent of Nigeria's population (see Medic West Africa, 2019).

**Inadequacy of personnel arising from brain drain syndrome.** Nigeria's health sector has long suffered from a huge deficit in modern health facilities and highly skilled personnel. The number of medical professionals, including doctors, nurses, and midwives, is insufficient to serve the growing population's health needs in Nigeria. The patient-to-doctor ratio remains abruptly high at 2,500: 1, which falls short of WHO's recommendation of 600: 1. The reason for this is not far-fetched as many health professionals and medical experts have sought asylum elsewhere, mainly to advanced countries in search of better working conditions. This challenge along with inadequate health infrastructure have resulted in a high level of outbound medical tourism. According to Pricewaterhouse Coopers (PwC), Nigeria loses about US$1 billion to outbound medical tourism on an annual basis. Their estimates also showed that 60 percent of outbound medical tourism are related to vital medical specialties including oncology, orthopedics, nephrology and cardiology.

**Existence of mismatch between educational qualification and job requirement.** There is an increasing gap between the level of education and the actual industry needs. This suggests the poor state of technical and vocational education, in addition to, inadequate and, in some cases, unproductive internship schemes. The resulting gap in technological know-how stood at 59 percent, far above the global average of 38 percent (see WEF, 2017). The school curriculum is faulty to the extent that graduates remain unprepared to fulfil society's practical needs. This, therefore, imposes an additional burden on the employers of labour to invest in their employees through on-the-job training, among others. In Nigeria, technical and vocational education is widely perceived as an avenue for academically weak students and school drop-outs only. This has resulted in disinterest in acquiring technical and vocational skills among the youths, who end up as apprentices and casual workers in the informal sector. The low receptiveness and limited relevance of technical and vocational education is reflected in the high unemployment level among non-graduates, which stood at 76 percent of the total unemployed in the second quarter of 2020, according to NBS data.

## Key Priorities for Human Capital Development in Nigeria

Human capital development is a medium to long-term priority. The NESG highlights the key policy reforms associated with the Health and Education sectors in terms of their respective timelines of implementation over the short-term, medium-term and long-term horizons (see Table 2).

**Table 2: Key Reforms to the Health Sector**

| Action Points | Timelines of Implementation | | |
|---|---|---|---|
| | Short-term | Medium-term | Long-term |
| ***Need to collate relevant health-related statistics regularly for adequate planning***. One of the reasons why intervention programmes and policy responses to health crisis fail to achieve desirable outcomes is the absence of data on the beneficiaries and vulnerable segments of the population, including women and children. Building a sustainable and robust health system requires decisive leadership, improved governance and continuous gathering of data. | √ | √ | |
| ***Need for massive investment in the health sector through partnerships between the government and other stakeholders.*** The growing population in Nigeria offers huge market opportunities for private sector investment. Therefore, private and non-profit organizations need to be incentivised to provide affordable and quality healthcare services. Achieving this would also require the collaboration of the government with local and international communities. | | √ | √ |
| ***Need for adequate funding of the health sector.*** The annual budgetary allocations to the health sector are quite sub-optimal. Several countries, including Nigeria, are yet to meet the 2001 Abuja's Declaration that mandated African countries to allocate 15 percent of their budgetary estimates to the health sector. The health sector accounts for only 4.4 percent of total expenditure in the approved 2021 budget. Improved public spending on healthcare would support efforts aimed at achieving universal health coverage. | √ | √ | √ |
| ***Need for huge investment in research and development.*** The limited funding of the healthcare sector is also reflected in low public investment in research and development, particularly, in the area of developing domestic value chain in the country's pharmaceutical industry. Many lessons could be drawn from the experiences of heavy-weight pharmaceutical companies including Pfizer, Moderna and BioNTech, which have received financial support from private and public entities, to develop an effective vaccine against COVID-19. | | √ | √ |
| ***Need for digitization of healthcare services.*** Digitalizing activities in hospitals would ensure that many patients enjoy seamless healthcare delivery and would guarantee timeliness in service delivery at public hospitals, most especially. | | √ | √ |
| ***Better working conditions are needed to avert brain drain or human capital flight.*** There is a need to make the environment more conducive for medical practitioners to optimize the opportunities available in the country to reduce the rate of human capital flight. The prospect of better pay and working conditions for health professionals in the developed world has led to a brain drain from Africa, including Nigeria. | √ | √ | √ |

**Table 3: Key Reforms to the Education Sector**

| Action Points | Timelines of Implementation | | |
|---|---|---|---|
| | Short-term | Medium-term | Long-term |
| ***Need to bridge regional disparity in school enrolment and education quality***. For Nigeria to achieve the SDG goal 4 – inclusive and equitable quality education – by 2030, there is need to promote universal access to affordable education across gender and regions. For instance, there is urgent need to address some known barriers to school enrolment such as poverty, insecurity and gender discrimination. This would become a matter of urgency given that children of school age accounts for half of the country's total population. | √ | √ | |
| complemented with organizing regular on-the-job training and seminar programmes for teachers so as to keep pace with global standards. | | | |
| ***Need to embrace digitalized learning.*** This would build and strengthen the resilience of the education sector in periods of crisis, such as, the COVID-19 induced lockdown restrictions. This is highly important to ensure that the population of out-of-school children are drastically reduced. | | √ | √ |
| ***Need for a school curriculum reform to reflect specific and dynamic industry needs.*** This calls for an effective synergy between the government, academic environment and the industry. There isa need for the existing internship schemes to be tied to specific skills to improve youths' employability potential. | √ | √ | |
| ***Need to empower youths with productive skills development.*** There is an urgent need to empower Nigerian youths through social investment in skills development. Achieving this would require the resuscitation of the country's technical and vocational education scheme. Nigeria could take a cue from the German technical and vocational education system, which embraces both schooling youths and drop-outs. Investment in skills development has helped close the country's skills gap among the youths (aged 15-24 years), which stood at 28 percent in 2017[1] | √ | √ | √ |
| ***Need for improved funding of the education sector to prepare the youths for the Fourth Industrial Revolution***. In 2021, the budgetary share of expenditure on education (5.7 percent) falls short of UNESCO's benchmark of 26 percent. There is need for investment in specialized field areas, such as Science, Technology, Engineering, and Mathematics (STEM) to adequately prepare Nigerian youths for future jobs, that would be highly digitalized and automated. | √ | √ | √ |

## Conclusion

Nigeria is indeed at a turning point! What needs to be done is not only about recovering from recession, it is also about holistically deploying appropriate measures to sustain the economy on a strong growth path accompanied by massive job creation and poverty reduction. On policy and economic management, a departure from the past practice is essential to move forward. The insurgence of COVID-19 has exposed the country's structural vulnerabilities and has revealed the need to achieve better outcomes by implementing evidence-based reforms. Therefore, the status quo cannot be maintained. As a way forward, the Nigerian government needs to reverse the current recessionary trend and build a more resilient economy. Working on the four key priorities – macroeconomic stability, human capital development; holistic sector reforms, and policy and regulatory consistencies, will boost private sector investment which is central to economic recovery efforts in 2021 and beyond. In addition to these priorities, exemplary leadership, alongside strong political will to implement tough reforms, is needed to yield desirable outcomes.

[4] A See WEF (2017)

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