UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

National workshop on
Fostering Productive Capacities and Structural Economic Transformation in Nigeria

Abuja, 13-16 September 2022

Concept Note

Background

Nigeria is the most populous country in Africa with an estimated population of 211 million (2021). The country operates a federal system comprising of central government, 36 state governments and 774 local governments. It has enjoyed a democratic rule for over 20 years.

Nigeria is also the largest African economy with GDP at $440,780 (2021), and with GDP per capita at $2,085 (2021) it is classified as a lower middle-income country. Its economic growth has fluctuated following commodities super cycle. In the last 20 years growth has mostly been positive, peaking at 15.3% in 2002, with periods of mild recession in 2016 (-1.6%) and 2020 (-1.8%). Although the country has witnessed a steady decrease in poverty since 1995, the poverty ratio remains high at 39.1% (2018) of the population living below the poverty line of $1.90 a day (in 2011 PPP). Performance varies markedly between the northern and southern regions. While the poverty level stands at around 30% in the South, it hovers above 60% in the North, with states such as Zamfara and Sokoto with poverty rates above 80% (2020). Human capital underdevelopment is also prevalent in these high poverty regions, signalling a connection between poor education, poor health access and poverty. This is reflected in the disparities in Human Development Index, with Lagos at 0.686 (2019) – a medium human development and comparable to that of Morocco, and Yobe, Sokoto and Kebbi states at 0.368, 0.340 and 0.339, respectively – a low human development and comparable to that of Somalia.

Nigeria's economy is oil dependent and 90% of exports is attributable to fossil fuels. However, the services accounted for 46% of GDP in 2020, though was largely dominated by the informal sector. Agriculture continues to be important, contributing about 24%, but it is also concentrated around subsistence farming. Poor productivity in the service and agricultural sectors inhibits strong and inclusive growth as well as structural economic transformation. For example, the oil sector which accounted for 8.8% of the GDP between 2010-2020, contributed about 60% of the government revenue in the same period. Recent revenue shortfalls have increased deficit, raising public debt from 27.6% of GDP in 2019 to 35% in 2021. With the Covid-19 pandemic, the revenue problem is aggravated, and fiscal sustainability is emerging as a major concern to the long-term growth.

Nevertheless, with its large population and large economy, as well as the availability of rents from oil exports, Nigeria has substantial potential to build productive capacities, undergo structural economic transformation, and advance development. The recent fiscal and monetary policies have focused on economic diversification and development of the non-oil sectors. Supportive policies to expand private sector contribution have been significantly scaled up. Another positive development is in the investment at the federal level on the infrastructure with capital expenditure increasing from about N1.1 trillion to more than N2.7 trillion in 2018, although covid-19 has slowed down capital spending to about N1.9 trillion in 2020. These interventions have the potential to improve Nigeria's productive capacities.

However, the trade policies tend to focus more on import substitution approach to reduce the foreign exchange demand, whereas export promotion seems neglected despite the fact that it is critical given the large African market. Policy environment is sometimes contradictory, sending mixed signals to private investors. For instance, presence of a multiple exchange rate system could dampen foreign investment at the time when the Government is keen on export promotion. The new African Continental Free Trade Area (AfCFTA) is an opportunity Nigeria's for export diversification, provided the productivity of agriculture is increased and the manufacturing sector is unlocked. The manufacturing sector contributed 12.6% to the national economy in 2020 and it will remain at this level, should no adequate investment in key productive resources, energy, human capital and institutions take place.

At the same time, the country still faces some institutional crises. Global Peace Index ranked Nigeria at 146th position of 163 countries in 2021 due to rising insecurities and weak state capacity in responding to them. The Chandler Good Government Index ranked Nigeria 102 out of 104 countries in its tracking of governance quality. Institutional weaknesses are replicated or even amplified at the local level. For example, it is estimated that 30 out 36 states in Nigeria are not fiscally viable without monthly disbursement from the Federation Account Allocation Committee (FAAC) and other fiscal support from the federal government. Both federal and state governments are dependent on oil revenue, and this dependency is a catalyst for inadequate public service delivery and weak social contract. Political institutions are weaker at the sub-national level.

As far as Nigeria's overall Productive Capacities Index is concerned, at 21.65 it positions the country at 185th place in the world and 44th in Africa- the position which is not reflective of the economic might of Nigeria. With the exception of Natural Capital component of PCI and Private sector component, Nigeria also fares low in other components such as Human Capital, Energy, Transport, ICT, Institutions, which are critically important for accelerating inclusive and sustainable growth as well as kick-starting the process of structural economic transformation.

The development challenges Nigeria faces call for a new policy approach and the formulation and implementation of new generation development policies centred on the fostering of productive capacities. This should signal a shift away from short-term, sector and project specific interventions. To that end, Nigeria needs to capitalise on its strengths and potential to further enhance its domestic productive capacities and to advance structural transformation. Indeed, the analysis of Nigeria's PCI clearly indicates an urgent need to refocus policy interventions and national development strategies towards fostering domestic productive capacities which will allow for structural transformation and economic diversification and ensure that the country participates in value added segments of the global economy, rather than a commodity supplier.

Objective

Building on Nigeria's potential, the national workshop will discuss the role of productive capacities and structural economic transformation. It will examine how productive capacities and structural transformation can best be placed at the centre of Nigeria's national policies and strategies. It will also introduce Productive Capacities Index (PCI) as the critical tool to measure sectoral gaps in domestic productive capacities and to subsequently formulate adequate policy response and interventions.

UNCTAD's assessment shows the limited improvements across various PCI components over the years. Nigerian overall PCI score in 2018 was 21.65, representing a marginal increase from 18.9 in 2010. In fact, the value of some indicators, namely, transportation, ICT, and natural capital, has slightly declined. Moreover, Nigeria scored below the African average in six out of the eight PCI components. The better performing areas were private sector and natural capital. The performance was particularly dragged down by weakness in structural change, given high dependency on the oil sector, and the transport sector, an effect of cumulative years of underinvestment in infrastructure.

Specific issues to be examined during the national workshop include:

a) Levels of productive capacities in Nigeria as compared to other developing economies;
b) Utilisation of Productive Capacities Index (PCI) as the tool to evaluate gaps in productive capacities and binding constraints to structural transformation;
c) Challenges to fostering productive capacities, diversifying the national economy and accelerating structural transformation in Nigeria;
d) Successful experiences and best practices in policy formulation and implementation for productive capacities and structural economic transformation and their implications for Nigeria.

Modality of the national workshop

Participants of the national workshop will include senior government officials, national, regional, and international experts in the field of economic development and representatives of the private sector and civil society, including academic institutions in Nigeria.

The workshop will consist of a segment for policymakers (13-14 September), back-to-back with statistical and methodological training for statisticians and development policy experts on the Productive Capacities Index (14-16 September).