Nigeria's Economic Transformation Roadmap: Medium-Term Priorities

NESG Research[1]

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Abstract

The Nigerian economy has recently faced stringent challenges characterised by the rigorous implementation of demonetisation policies, a highly contested general election and insufficient investments, contributing to the worsening of the pre-existing structural bottlenecks. The advent of the new government ushered in substantial policy changes, encompassing swift fuel subsidy and exchange rate reforms. As a result, Nigeria's economic growth has remained fragile, accompanied by escalating inflationary pressures, exchange rate depreciation, and fiscal and policy constraints. To address this myriad of socioeconomic challenges necessitates a drive for significant economic transformation. As proposed by the NESG in the 2024 Macroeconomic Outlook Report[2]. The "Economic Transformation Roadmap" entails a strategic roadmap dissected into three distinct phases: Stabilisation, Consolidation, and Acceleration. This article outlines these phases, articulating the sequential steps and policy priorities for achieving a robust and sustainable economic transformation.

Introduction

Nigeria faces a critical juncture necessitating bold action for economic transformation beyond plans, emphasizing the need for a clear economic philosophy. In 2023, the economy saw a modest real Gross Domestic Product (GDP) growth of 2.7 percent, falling from 3.1 percent in 2022, primarily due to its heavy reliance on oil, which negatively impacted other sectors. The oil sector experienced consecutive contractions negatively affecting the Industrial sector growth, which stood at 0.7 percent in 2023. However, the Services and Agricultural sectors, which were critical growth pillars, expanded by 4.2 percent and 1.1 percent, respectively, in 2023. To this end, three Services sub-sectors, including the Information and Communications Technology (ICT), Trade and Financial Services, which accounted for 38 percent of GDP in 2023, are regarded as growth pullers in the year. Sectors such as Agriculture, Manufacturing, Construction, and Real Estate are regarded as growth stagnators, while sectors including Oil and Gas and Transport are considered growth draggers in 2023.

Moreover, Nigeria experienced an unprecedented surge in inflation, reaching an 18-year peak of 28.9 percent in December 2023, driven by global supply chain disruptions, escalating global energy costs and domestic issues like disrupted planting activities, security and currency depreciation. Persistent inflation led to a hawkish monetary policy, causing around 4 million Nigerians to fall into poverty due to weak purchasing power. On a positive note, the Federal Government's revenue exceeded its budget projections by 4.8 percent in the first nine months of 2023 due to the sustained high crude oil prices, improved domestic crude oil production, and the expeditious removal of fuel subsidies. However, the export proceeds from crude oil sales have failed to translate to external reserves accretion. Amidst the exchange rate harmonisation policy, the exchange rate depreciated sharply as foreign investment inflows dropped in 2023.

Despite Nigeria's abundant human capital and economic resources, its performance on key socioeconomic indicators is unimpressive, highlighting the urgent need for a transformative path toward a brighter future. The United Nations Development Programme ranked Nigeria 161 out of 189 countries, with a Human Capital Development Index (HCDI) of 0.54 points as of 2020 (UNDP, 2020). Low productivity, often seen in countries with low human development, indicates the

[2] 2024 NESG Macroeconomic Outlook Report. Available at https://nesgroup.org/download_resource_documents/2024%20Macro%20Outlook%20-%20Original%20Design+_1706047914.pdf

workforce's inability to support high-valued economic activities. Nigeria's dysfunctional labour outcomes are primarily attributed to this lack of capacity. Conversely, a nation's economic advancement is closely tied to education and the capacity of its workforce. Nigeria faces a high school drop-out rate of 33.7 percent, significantly exceeding the global average of 8.5 percent. Consequently, investing in human capacity development requires a comprehensive strategy spanning from early childhood to adulthood. Such investments aim to unleash citizens' potential and drive economic transformation.

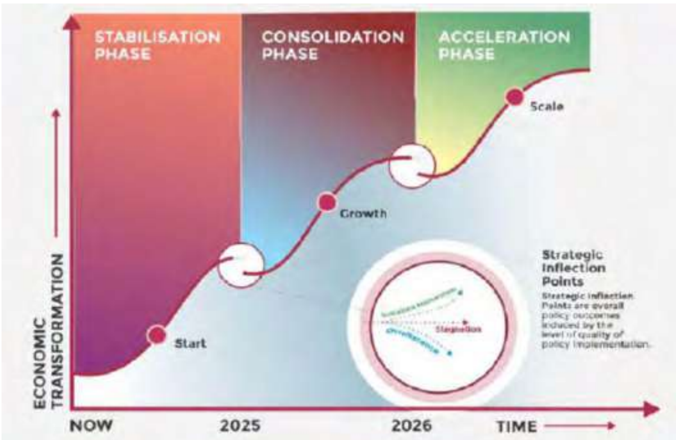
In pursuit of a transformation agenda, it is essential to implement structured reforms to redirect Nigeria's economic trajectory away from a fragile and overly precarious narrative towards one firmly rooted in the overarching objective of fostering inclusive economic growth. Accordingly, Nigeria currently finds itself at a crucial intersection, demanding bold and decisive actions to propel economic transformation. Highlighting the pivotal significance of focusing on Medium-Term Policy Priorities, this paper emphasises the Economic Transformation Roadmap, which delineates a path to confront Nigeria's current socioeconomic challenges by articulating strategic initiatives and policy directives to nurture sustainable economic development.

Economic Transformation Roadmap for Nigeria: Medium-Term Policy Priorities

In the context of development economics, economic transformation entails a dynamic reallocation of resources, strategically shifting from less productive to more lucrative sectors. This process involves intersectoral and intra-sectoral changes, fostering diversification at the macroeconomic level and compelling enterprises and households to acquire novel capabilities for competitive engagement in expanded markets. According to NESG (2024), "the economic transformation process is characterised by inclusive income distribution, resilience against market fluctuations through diversification, and a significant boost in opportunities for comprehensive socioeconomic advancement".

The NESG's proposed roadmap offers a comprehensive strategy for achieving economic transformation in Nigeria by delineating key focus areas and envisioning potential outcomes through policy implementation. Also, the roadmap is associated with distinctive but complementary phases – Stabilisation, Consolidation and Acceleration (See Figure 1). From an impact perspective, the success of policy implementation and the attainment of stabilisation phase goals will significantly influence the success of subsequent phases. While not exhaustive, the NESG's proposed roadmap offers critical success factors and policy recommendations to foster a transformed economy and enhance Nigeria's socioeconomic outcomes in the short and medium term.

Figure 1: Economic Transformation Roadmap for Nigeria



Source: Adapted from McKinsey (2021)

Examining the Phased Economic Transformation Roadmap for Nigeria

Phase 1: Stabilisation

Economic Stabilisation establishes an environment conducive to enhanced productivity and propels rapid economic growth and social improvement. Hence, a stable macroeconomic environment is a crucial starting point for attaining high investment levels, supporting infrastructure development, and improving living standards. On the policy front, economic stabilisation policies are designed to rectify consistent deviations in production, prices, and risks from their usual performance or trends. For Nigeria, the stabilisation phase entails creating a sophisticated framework for collaboration between fiscal and monetary policies aimed at reducing macroeconomic volatility, promoting economic growth, and improving the overall welfare of citizens. It focuses on five core policy areas to enhance growth and improve macroeconomic conditions.

Core Focus 1: Moderate Inflation Rate

Maintaining a stable price level helps alleviate pressure from imbalances between aggregate demand and supply in an economy. For Nigeria, addressing factors such as rising food prices, high energy and transportation costs, and security challenges is crucial to combat inflationary pressures. In addition to targeting moderate inflation for economic stability, the NESG proposes specific key economic outcomes for this policy focus.

- **Domestic Financial Market Stability**Lower inflationary pressure will improve Nigeria's financial market's asset quality and solvency ratios, including the banking sector. In addition, the cost of funds for the private sector and government would also drastically reduce, improving the economy's overall productivity and job creation capacity.

- **Exchange rate stability:** Moderated and stable inflation rates will strengthen the country's current account and improve capital inflows. This would stem from limited and stable appreciation or depreciation of Naira against leading trade currencies.

- **Output growth stability:** Reduced volatility of the growth trend and improved productivity across critical sectors, especially Agriculture and Industry.

Core Focus 2: New Sectors as Economic Growth Drivers

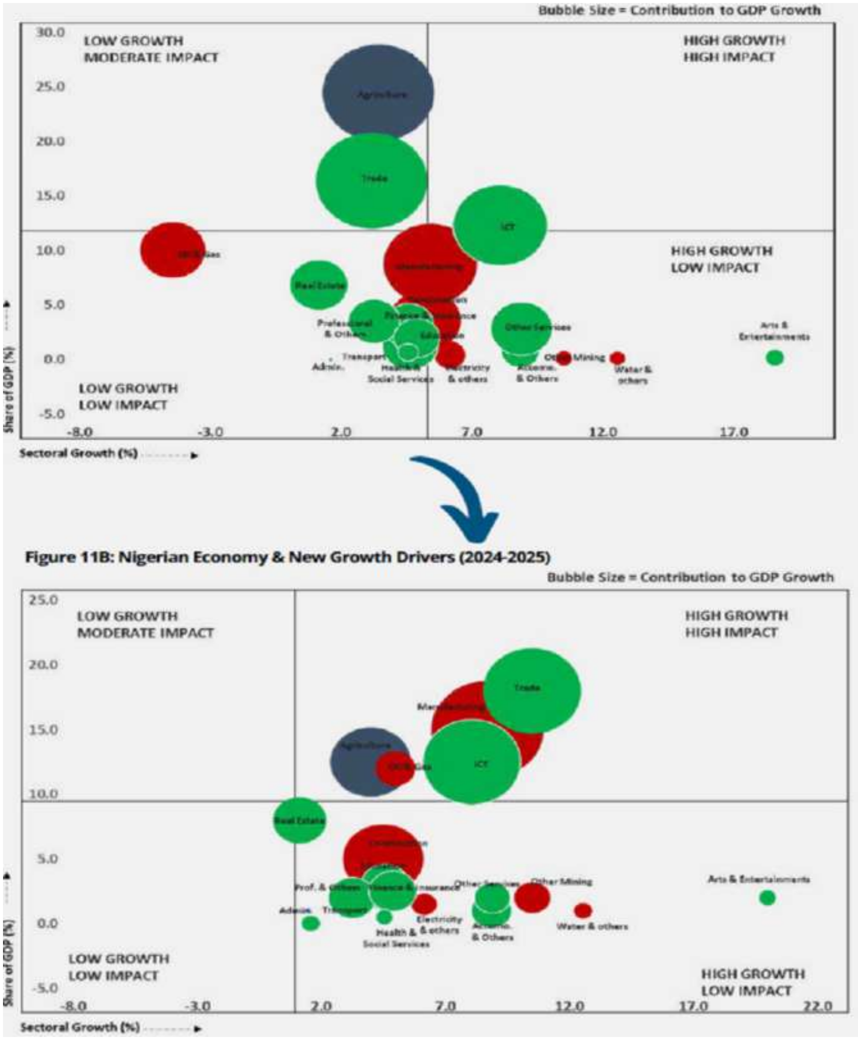
Nigeria’s economic growth has been primarily driven by a handful of sectors like Agriculture, ICT, Trade, Oil and Gas, and Manufacturing, leaving others needing help to make significant contributions. This imbalance in prosperity arises from low productivity and growth across many sectors. To address this, restructuring the economy is essential, emphasizing a transition from traditional sectors to emerging ones to propel overall economic growth (see Figure 2). This shift can stimulate stable economic activities and ensure equitable economic opportunities. Other economic outcomes include:

- **High Economic Growth:** The country needs at least a 7.5 percent annual growth rate to outpace population growth and address the prosperity backlog due to sluggish growth in recent years. Achieving robust industrial and Manufacturing sector growth at an annual growth rate of over 8 percent would help attain this high economic growth.

- **Massive Job Creation:** Emphasising the need for substantial growth in the Industrial and Manufacturing sectors to drive industrialisation and create employment opportunities to address Nigeria’s unemployment issues.

- **Broad Sectoral Growth:**All sectors, not just Industry and Manufacturing, should contribute to prosperity by achieving a minimum growth rate of 5 percent.

Figure 2: Shift from Traditional to New Growth Drivers



Source: NESG Research

Core Focus 3: Exchange Rate Stability & Appropriate Price

During stabilisation, addressing exchange rate issues and implementing proper pricing mechanisms are crucial for improving trade balance. This core focus is vital for enhancing productivity in the non-oil sector, optimising domestic resources, and achieving a stable trade balance. A stable exchange rate system in Nigeria can enhance competitiveness, attract foreign investments, improve the net trade position, and stabilise foreign exchange flows. Other key economic outcomes are as follows:

- **High Private Investments:** Everyone is better off when exchange rates are stable. Price stability supports economic growth and employment. It allows people to make more reliable plans for borrowing, saving, and expanding businesses.

- **Support Price Stability:** Decreased volatility of the exchange rate helps to support stability in inflation, which mainly affects low-income households because they have fewer resources to protect themselves. In the situation of price stability, it helps to maintain social cohesion and stability. History has shown that episodes of high inflation tend to be associated with social unrest.

- **Stronger reserves and capital inflows:** This can only happen with the stability of the exchange rate. Increased capital inflows—foreign investments, loans, and remittances—boost reserve levels, bolstering Nigeria's financial stability and economic resilience.

Core Focus 4: Strong Fiscal Position

A strong fiscal position connotes modest fiscal deficits, sustainable public debt levels and current account balance. Effective fiscal policy management entails building a transparent and accountable system for collecting revenue, spending public funds, and managing public debt. With a strong fiscal buffer, the government can implement countercyclical policies during economic downturns to stimulate growth, lowering borrowing costs for both public and private sectors. Below are indicators and performance thresholds for achieving effective fiscal policy management in Nigeria.

- **Robust revenue framework:** In addition to nominal revenue enhancements, the country's revenue-to-GDP ratio must reach a minimum threshold of 15 percent to substantiate economic growth and stabilisation processes.

- **Sustainable level of public debt:**The country must significantly decrease its current public debt service-to-revenue ratio, aiming for a reduction to less than 22 percent from the current high of 80.2 percent as of 2022. This reduction is crucial to create fiscal space, enabling the government to reallocate funds toward economic development and stability initiatives.

- **Low fiscal deficit:** A moderate fiscal deficit can help finance essential investments and stimulate economic activity. Hence, the optimal level of fiscal deficit that supports economic growth and stability in Nigeria requires a careful balance. A fiscal deficit of less than 3 percent, as stipulated in the Fiscal Responsibility Act 2007, is considered appropriate for the economy.

Core Focus 5: Fair Market Competition

Fair competition is the bedrock of a thriving economy, promoting innovation and equitable growth. Fair market competition is crucial for Nigeria's economic transformation and inclusion by mobilising private resources. Additionally, it acts as a magnet for investments and accelerates sustainable economic growth. Establishing an enabling environment that encourages investments through fair competition is imperative for Nigeria to unleash its full socioeconomic potential.

Policy Recommendations: Stabilisation Phase		
Monetary stability: • Build public confidence by stabilising the domestic currency. • Stabilise the exchange rate through a functional and transparent foreign exchange market. • Set realistic targets for the inflation rate.	**Regulatory environment reforms:** • Simplify all regulatory requirements and operations. • Promote predictability, open markets, and fair competition. • Prioritise laws to combat organised crime and illicit economic activity.	**Effective fiscal management:** • Prioritise effectiveness and transparency in public financial management. • Simplify the tax systems and policies. • Reflect national interests in budgeting and national spending.

Phase 2: Consolidation

According to the proposed economic transformation roadmap, the Consolidation Phase represents a medium-to-long-term trajectory wherein advocates of reforms can slow their pace but cannot reverse the direction of economic reforms. During this phase, there is a slowdown rather than a halt or reversal of reforms, allowing the ongoing reform initiatives to impact various sectors of the economy gradually. Reforms begin to take root during this stage, giving rise to new support programs aimed at specific economic sectors.

The Consolidation Phase focuses on four core areas, as highlighted below:

- **Improving productivity in the Agriculture sector:** Restructuring Nigeria's Agricultural sector within the more extensive agri-food system necessitates addressing systemic issues by embracing a comprehensive value-chain approach that intricately connects production with post-harvest activities. During the Consolidation Phase, the primary objective is reinforcing achieved price stability, as food imports significantly contribute to inflationary pressures. Enhancing agricultural productivity becomes imperative, serving as a food security target and a cornerstone of macroeconomic stability. Here, critical success factors would include a reduction in import dependence, expansion of trade sophistication and the trade to GDP, reduction in post-harvest losses to N1.5 trillion in 3 years, and an increase in post-harvest storage capacity to 50 percent.

- **Transformation of production sectors for job creation and global competitiveness:** In recent years, vital job-elastic sectors in Nigeria, such as Agriculture, Manufacturing, Construction, Trade, and Education, have faced constraints and witnessed declining productivity. Although most of these sectors contribute 5 percent and above to GDP, their growth rates fall below 2 percent. The government's consolidation of reform processes, including subsidy removal and Naira devaluation, is crucial to ensuring sustainable and higher productivity in these vital sectors. Here, a remarkable pointer to success would be an enhanced human capital development outcome, creating new and decent jobs and significantly reducing the poverty rate.

- **Reinvigoration of the Services sector:** Technological innovation and cross-border mobility of persons have supported international service trade. Since service is less dependent on physical infrastructure, Nigeria could leverage the Services sector to diversify and boost exports, especially on the African Continental Free Trade Area (AfCFTA) platform. However, the country needs to enhance the skills and capacity of the Nigerian labour force to contribute significantly to service exports, including construction, recreational, and professional services.

- **Attracting private investment to specific sectors:** Given the persistent fiscal challenges in Nigeria, there is an enormous need for long-term private capital to support the government's ambitious development initiatives. Foreign capital inflows, however, have remained subdued below US$10 billion since 2019, facing challenges such as capital reversals and concentration in money market instruments and loans. Potential long-term private sector financing sources encompass domestic and international capital markets, Development Financial Institutions (DFIs), institutional investors (pension funds), venture capitalists, and angels. At the end of the Consolidation Phase, economic growth will be Private sector-led with a visible improvement in the share of real sector foreign investment inflow to 60 percent of investment flows. The actual domestic investment to GDP ratio should increase to 40 percent.

Key Recommendations: Consolidation Phase	
Boost domestic productivity and optimize local content: • Invest in production-supporting infrastructure. • Support Small and Medium Enterprises (SMEs) to grow. • Implement local content policies to support the economy. • Improve international market access for Nigerian goods.	**Incentivise the inflow of private sector investments:** • Implement transparent and consistent policies, especially those relating to investments and economic activities. • Introduce dedicated policies on market access and trade.

Phase 3: Acceleration

The Stabilisation and Consolidation Phases addressed conventional growth factors, but achieving economic transformation necessitates enhanced and accelerated growth. The emphasis now lies on laying the groundwork for long-term economic transformation, including activating and utilising transformative capital. Subsequently, during the Acceleration Phase, the government's attention should be directed towards activating various forms of capital, namely natural, built, human, and social capital.

- **Natural Capital:** Natural capital, stemming from abundant mineral resources, forms the foundation of economic activities. It serves as a source of wealth for investment and a crucial input for various industries and services. Additionally, this dual role positions natural capital as instrumental in driving economic transformation, serving as an endowment for wealth creation and as essential inputs for secondary and tertiary sectors.

- **Built Capital** results from investment in physical assets and infrastructure, which form the foundation for economic activities and productivity growth. The current state of Nigeria's infrastructure inhibits competitiveness and productivity and constrains business growth. Thus, unleashing the economy's potential requires drastically expanding Nigeria's infrastructure stock. The government must consistently maintain and modernise built infrastructure to sustain productivity.

- **Human Capital:** Human capital is crucial in transforming an economy. It includes investment in education, skills and capacity development, health care, housing, and nutrition. With Nigeria's Human Capital Development Index at 0.54 points, investment in human capital development, specifically education and health, is a top priority to advance towards economic transformation.

- **Social Capital:** Cultivating social capital means aligning citizens' ambitions with national optimism and patriotism to propel economic transformation. It involves building strong institutions, maintaining political stability, upholding moral integrity and ethical behaviour, adhering to the rule of law and promoting equity and fairness.

Defining Success in the Acceleration Phase: Key Performance Indicators

Table 1 presents key performance indicators on outcomes of economic transformation for Nigeria. The path to economic transformation rests on the sustained high growth rate of the economy, both in nominal and real terms and should propel expansion in per capita income. This is achievable considering the historical experience of Nigeria's aspirational peers, such as China, Japan, and Germany, during the initial stage of their transformation. China maintained an average real GDP growth rate of 10.3 percent (from 1982 to 2011). Similarly, Japan and Germany maintained average growths of 10.5 percent (1956 to 1973) and 9.2 percent (1951 to 1960), respectively.

In addition, fundamental changes in the economy's structure and composition of exports will have to be made in favour of Manufacturing and other industrial activities. On the social front, the percentage of Nigerians working in the informal economy and agriculture sectors must be reduced, and labour productivity must be amplified. As proof of efficient economic transformation, Nigeria's poverty and inequality levels must begin to contract. Therefore, to mitigate previous experiences of immiserating growth, reforms must be orchestrated to deliver these outcomes.

Table 1: Key success factors across socioeconomic indicators

	Economic Outcomes	Current	Expected
GDP Size	Nominal US$GDP Growth (%)	5.2	25
	Real GDP Growth (%)	1.1	7.5 – 10
	Per Capita Income (US$)	< 2,000	> 10,000
Economic Structure	Agriculture (% of GDP)	25.6	< 10
	Industrial (% of GDP)	21.1	> 35
	Manufacturing (% of GDP)	9	>20
	Mining (% of GDP)	5.8	>15
	Oil and Gas (% of Mining)	97.6	< 65
	Other Mining (% of Mining)	2.4	> 35
	Services (% of GDP)	52.6	50
Export Structure	Agriculture (% of Exports)	3.4	> 5
	Manufacturing (% of Export)	2.3	35
	Mining (% of Export)	94.3	50
	Oil and Gas (% of Mining)	96.8	< 65
	Other Mining (% of Mining)	3.2	> 35
	Other Exports (% of GDP)	-	5
Employment	Informal employment (%)	92.6	30
	Labour Productivity (US$/hr)	9.2	> 40
	Labour Force (% in Agriculture)	34.9	< 10
Poverty & Inequality	Poverty (% of the population)	42.8	< 5
	Inequality Reduction (Index points)	35.1	< 20

Key Recommendations: Acceleration Phase		
Type of Capital	**Policy Type**	**Monetary Policy**
Natural Capital	Fiscal Policy	• Embark on comprehensive and economy-wide market reforms. • Develop growth strategies for employment elastic sectors.
	Monetary Policy	• Harmonise financial system management guidelines. • Develop a capital mobility framework/guideline.
Built Capital	Fiscal Policy	• Target infrastructure development at industrialisation and sectoral growth. • Strengthen the PPP regulatory framework.
Human Capital	Fiscal Policy	• Recalibrate the education and capacity-building system. • Promote innovation in healthcare services and institutionalise a social safety net and welfare services framework.
Social Capital	Fiscal Policy	• Garner socio-political consensus and propagate a national reorientation to facilitate economic transformation in Nigeria. • Collaborate with the legislative arm to remove all legislative encumbrances to activate growth acceleration across sectors of the economy.

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