Mini Report
SERIES

Critical Sector Reforms in the Last Mile

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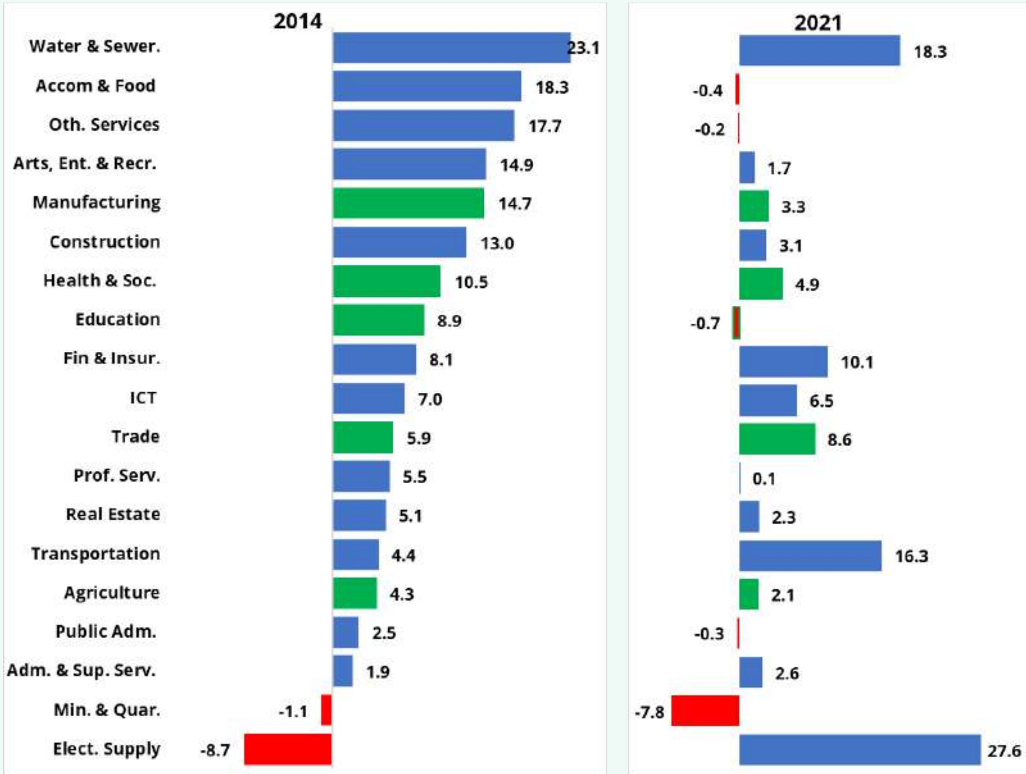
1. INTRODUCTION

Nigeria consolidated recovery in 2021 and recorded an average growth rate of 3.4 percent. However, the Nigerian economy remains plagued by a high inflation rate, high unemployment and underemployment rates as well as rising poverty head-count. Specifically, inflation rose to 17 percent in 2021 from 13.2 percent in 2020 according to the National Bureau of Statistics. The World Bank also reports that the extreme poverty headcount rose to 69.1 million from 67.6 million in 2020 . In Fig. 1, a comparison of the growth rates across sectors in 2014 and 2021 shows that the growth rate of critical sectors has declined relative to the pre-2016 recession period of strong economic growth in 2014.

Fig 1: Average Growth Rate (percent)



Data: NBS, CBN; Chart: NESG Research

Resolving socio-economic issues including low job creation, unemployment, foreign exchange instability, external trade deficit, government revenue constraints, and insecurity rest on the ability of the different sectors of the economy to expand and contribute positively across board. With the government's pledge to lift 35 million people out of poverty by creating 21 million full-time jobs by 2025, it needs to drive improved productivity across major sectors of the economy.

World Poverty Clock. Available at: https://worldpoverty.io/headline

The expansion of major sectors of the economy is primarily hampered by the persistence of structural challenges ranging from infrastructure deficit to exchange rate volatility, sectoral rigidity, and the economy's susceptibility to oil prices swings. Also, regulatory bottlenecks and corruption; 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; inadequately skilled workforce; and elevated level of insecurity have inhibited the progress of various sectors.

2. CRITICAL SECTORS FOR SOCIO-ECONOMIC IMPROVEMENTS

Addressing many of the challenges facing the country calls for broad-based economic growth and job creation. Economic growth which creates jobs across sectors of the economy is essential for poverty reduction. However, historically, there has been weak correlation between economic growth, employment, and thereby, poverty in Nigeria. For instance, the real growth rate improved from -1.92 percent in 2020 to 3.4 percent in 2021. However, the poverty headcount rate was predicted by the World Bank to be approximately 43.3 percent and 44.6 percent in 2020 and 2021, respectively. This indicates the weak capacity of the economy to create jobs which limits the ability of economic growth to have a discernible effect on poverty reduction.

As much as Nigeria needs to scale up and expand production across all sectors of the economy, the government needs to prioritise sectors based on their linkages with economic growth, other sectors of the economy, employment and social inclusion. More specifically, the sectors highlighted in this report are sectors that:

- ***Account for a significant share of employed individuals:*** The sectors selected employed at least 17 million people in 2017 and have the capacity, in the medium term, to absorb more individuals;

- ***Have strong backward and forward linkages:*** These sectors are strongly related to the growth of other sectors of the economy through input demand and being a source of intermediate output/services;

- ***Have the potential to grow and expand their output,*** although the contribution to GDP growth and/or share of GDP remains low or below the capacity of the sector for most of these sectors. This is shown in Table 1. This state of affairs indicates the presence of untapped opportunities;

- ***Have a link to inclusive growth:*** These sectors have the capacity to contribute significantly to GDP growth; create business and employment opportunities; alleviate poverty and accelerate economic diversification.

Five (5) sectors including Agriculture, Manufacturing, Health, Education and Trade, meet these criteria. The most recent data on employment across sectors in Nigeria shows that these sectors were among the top employers in 2017. The agriculture sector led with 37.4 million people, followed by the trade sector employing 10.8 million people. At 2.1 million employed, the human health and social services sector employed the least number of people of the five sectors (see Table 1). Furthermore, these sectors accounted for 75.4 percent of total employment in 2017 and 52.4 percent of GDP in 2021.

Table 1: Employment by sector, contribution to GDP and GDP growth

Sectors	Number of people employed (2017)	Contribution to RGDP growth (2021)	Share of GDP (2021)
Agriculture	37,368,930	15.1%	25.5%
Manufacturing	5,410,641	8.2%	8.9%
Human Health and Social services	2,144,108	0.9%	0.7%
Education	2,685,257	-0.4%	1.8%
Trade	10,835,032	34.9%	15.5%
Information and Communication	424,156	26.7%	15.5%
Mining and Quarrying	129,705	-17.6%	7.3%
Transportation and Storage	2,489,857	5.2%	1.3%
Financial and Insurance	1,011,619	9.2%	0.4%
Other Services	6,121,433	-0.1%	3.1%
Construction	1,745,479	2.9%	3.4%
Electricity, Gas, Steam & Air Conditioning Supply	10,492	2.9%	0.5%
Water Supply, Sewerage, Waste Man. & Remediation	90,806	0.9%	0.2%
Arts, Entertainment and Recreation	557,158	0.1%	0.2%
Professional, Scientific and Technical Services	4,938,501	0.0%	3.2%
Administrative & Support Services	466,632	0.0%	0.0%
Accommodation and Food Services	1,052,108	-0.1%	0.7%
Real Estate	69,515	3.5%	5.5%
	77,551,429		

To this end, we outline specific reforms in these critical sectors that the government can undertake or advance in the short run to unlock opportunities across these sectors and deliver significant improvement in Nigeria's economic outcomes. These reforms would attract the private investment needed to drive significant improvement in productivity and output growth. Improved performance and value addition across these sectors will, in turn, support export diversification and the expansion of the government's tax base. We believe that implementing these reforms would significantly improve the performance of these sectors and promote inclusive economic development.

Agriculture sector

The high level of food prices which closed 2021 at 17.4 percent, albeit lower than 23.0 percent in March 2021, highlights the level of food insecurity that might erupt given the high rate of urbanisation. The Agricultural sector which account for majority of the food consumed is plagued by low productivity and high post-harvest waste. This impedes the sector's output and drives rising food insecurity in the nation. A large proportion of farmers in the country are small-holder in nature, undertaking subsistence farming and are based in the rural areas. These farmers would greatly benefit from access to critical information, leading to increased crop yields. Extension workers have a crucial role to play. However, according to The African Seed Access Index (TASAI) 2020 report, the ratio of agricultural extension workers to farmers in Nigeria is the lowest in Africa. With the high level of food inflation (averaging 20.5 percent in 2021), exacerbated by security challenges, measures to improve the sector's productivity are important. We suggest the following reforms:

- Create a plan to strengthen the activities of agriculture extension workers to scale up technical advice to farmers and enhance the adoption of higher-yielding seeds, which would improve the output of the sector;
- Implement measures to facilitate the early release of seed varieties, such as reducing the administrative requirements for registering new varieties of seeds;
- Create incentives for local production of fertilizer components to reduce dependence on imports amid rising prices of intermediate products;
- Extend training schemes for farmers in the use and maintenance of innovative technology which can lower post-harvest losses and improve productivity;
- Implement an irrigation-enhancement initiative that focuses on facilitating the adoption of irrigation and repairs to irrigation systems;
- Reduce land fragmentation and make farmlands available for genuine farmers at subsidised rates so that they can expand their production base and even adopt farm mechanisation. This will help boost agricultural productivity;
- Develop appropriate pricing for agricultural products to keep farmers' incomes stable;
- Develop a quality control system that will ensure Nigerian produce is attractive to foreign buyers; and
- Promote technology adoption in agriculture with the goal of improving quality, productivity, market access, and reducing wastage.

Manufacturing sector

The manufacturing sector has continuously faced several structural challenges which have caused many manufacturing firms to shut down, limiting growth and investment inflows into the sector as well as low sector productivity. Taking steps towards addressing structural issues and attracting investment into the sector is key to unlocking the sector's potential. Therefore, we recommend the following reforms to improve the sector's performance:

- Develop a plan for the manufacturing sector, which involves identifying priority sub-sectors followed by developing industrial policy and sectoral plans for these priority areas;

- Strengthen the Nigerian Investment Promotion Commission (NIPC), tasked with promoting and supporting investment within the country, by empowering the agency to make policy decisions that drive private investment into specific sectors, infrastructural projects, and government projects;

- Develop tailor-made finance and competitive grants to support innovative development and start-up of nascent industrial and manufacturing enterprises. The pharmaceutical sector, for instance, requires significant capital outlay for production and expansion;

- Develop a quality control system to ensure that Nigerian-made products become attractive to foreign buyers. This will help boost forex earnings from non-oil export commodities; and

- Provide adequate incentives such as affordable credit facilities to manufacturers to facilitate mass production of exportable commodities.

Education sector

Nigeria has significant strides to make in improving the quality of education provided in educational institutions and access to education across the nation. According to the Ministry of Education, Nigeria has over 6.9 million out-of-school children as at 2021. Declining budgetary allocation - 8.4 percent of projected expenditure in 2021 and 7.2 percent in 2022 -, a lack of industry-aligned curricula, and a mismatch between employer needs and the labour force skills are other major challenges facing the sector. The sector's poor performance has contributed to the scale of unemployment and underemployment in the country, which, in turn, promotes social unrest. To strengthen this sector, we suggest the following reforms:

- Strengthen social safety nets such as conditional cash transfers. This will increase the disposable income of poor households, thereby promoting school participation;

- Introduce an unemployment insurance scheme which is responsive to the state of the economy. This will support family incomes when economic conditions worsen;

- Extend financial support to parents and guardians for the purchase of digital devices for their children to aid learning;

- Use and upgrade of more non-formal educational institutions to enhance skill acquisition for those citizens outside of formal education;

- Improved funding of the education sector with investment in specialised fields such as Science, Technology, Engineering and Mathematics (STEM) to equip the Nigerian youth for jobs of the future;

- School curriculum reform to reflect the specific and dynamic needs of industry as well as development of a medium for engaging the private sector in an extensive review of education curricula;

- Partner with the private sector to roll out internship programmes across different sectors of the economy. This will improve the employment prospects of students and graduates;

- Revive technical and vocational education, as well as, teacher training colleges;

- Establish a standardised benchmark for the performance of students and educational institutions, respectively; and

- Standardise teachers' entry requirements and revise compensation packages to make them competitive. This will enhance the quality of the teaching force.

Health sector

Although Nigeria has seen improvement in its health services in recent times, it is still poorly ranked at 163rd out of 191 countries in the World Health Organisation (WHO) health system ranking in 2021, explaining why it also has some of the poorest health outcomes globally. Low funding and investment in the sector have been major contributors to the sector's observed performance. The need to improve funding for primary health care prompted the creation of the Basic Health Care Provision Fund (BHCPF). However, the fund's purpose has not been fully realised due to challenges with its management. Moreover, poor data management systems have made it difficult for the sector to manage resources and implement health intervention programmes effectively. Reforms which address these challenges are essential to strengthening the performance of the health sector. We propose the following reforms:

- Develop incentives for the banking sector to provide financial support for the health sector's development, such as by providing guarantees for the money borrowed by health institutions;

- Develop guidelines and structures for effective health data management. This will facilitate the collation of important health-related statistics for adequate planning;

- Higher tax incentives for investment in health care compared with other sectors;

- Introduce processes, such as clear guidelines for implementation and the roles of parties involved in the disbursement of funds. This will reduce bottlenecks in the management of the Basic Healthcare Provision Fund (BHCPF);

- Health authorities should introduce transparency and accountability structures for the effective management of the BHCPF;

- Implement a supportive and unified regulatory framework to support private investors in healthcare delivery; and

- Improve working conditions of healthcare professionals to avert brain drain.

Trade sector

As the second-largest employer of labour in Nigeria and with high absorptive capacity, the trade sector is integral to job creation. Impediments to growth in the trade sector arise from international activities, including currency devaluation, which has increased the prices of imported goods and services. Other external factors include the multiplicity of the exchange rate that makes foreign trade complex and foreign direct investment constrained. The ever-growing presence of non-state actors, underdeveloped credit system, lack of finance and high-interest environment also constitute major drawbacks to growth in the trade sector.

Given its distributive and market creating roles in the economy, the deficient performance of the trade sector will affect Nigeria's competitiveness among other African countries in the face of the African Continental Free Trade Area (AfCFTA) agreement. The following reforms would improve the performance of the trade sector:

- Urgently address the porous nature of land borders and poor capturing of trade across land borders;
- Strengthen border security and establish border structures across the six regions to facilitate export to other ECOWAS countries;
- Strengthen the reforms on the operations of the ports and provide clarity on the conditions and requirements for import and export to further ease the import and export process;
- Increase access to trade financing and ensure a more friendly interest environment;
- Ensure macroeconomic stability, mainly as it affects inflation and exchange rate;
- Improve the business environment by advancing on the ease of doing business components; and
- Reduce the grip of non-state actors on trade business as the various charges emanating from their activities constrain players in the sector.

3. CONCLUSION

Amidst 3.4 average percent economic growth in 2021, Nigeria faces a myriad of socio-economic challenges including high inflation, rising poverty head-count, high unemployment rate, insecurity, among others. These challenges are inextricably linked to skewed growth performance in favour of a few sectors which do not have the capacity to create jobs with decent incomes. In contrast, growth in sectors that are major drivers of inclusive economic growth and job creation is generally weak and benign when the pre-2016 recession period is considered.

To generate significant improvement in economic outcomes, critical reforms are necessary for these sectors. In this report, we highlight crucial reforms in 5 key sectors of the economy including Agriculture, Manufacturing, Health, Education and Trade. By undertaking and strengthening these reforms in the short run, the government can significantly enhance the performance of these sectors and place the economy on the path to improved socio-economic outcomes.

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ABOUT NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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