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Roadmap to Economic Stabilisation in Nigeria

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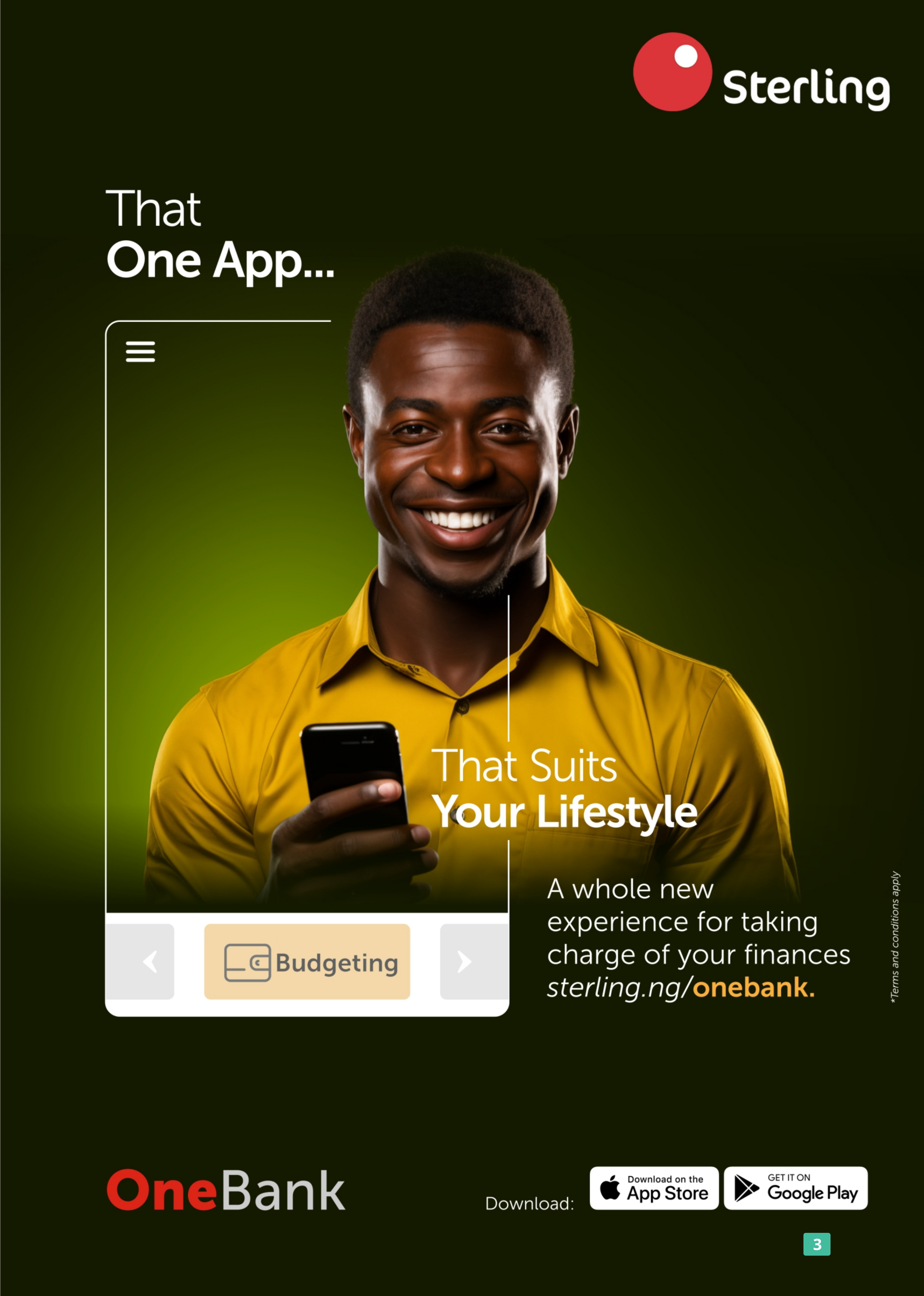
List of Articles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Nigeria's Economic Transformation Roadmap: Medium-Term Priorities

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.

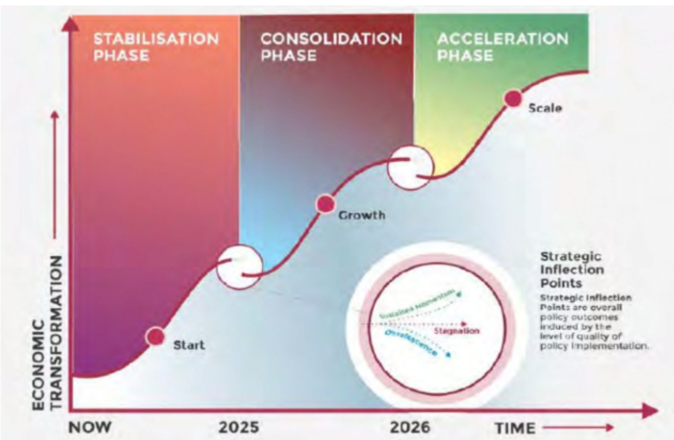
In pursuit of a transformation agenda, it is essential to implement structured reforms to redirect Nigeria's economic trajectory away from a fragile and overly precarious narrative towards one firmly rooted in the overarching objective of fostering inclusive economic growth. Accordingly, Nigeria currently 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

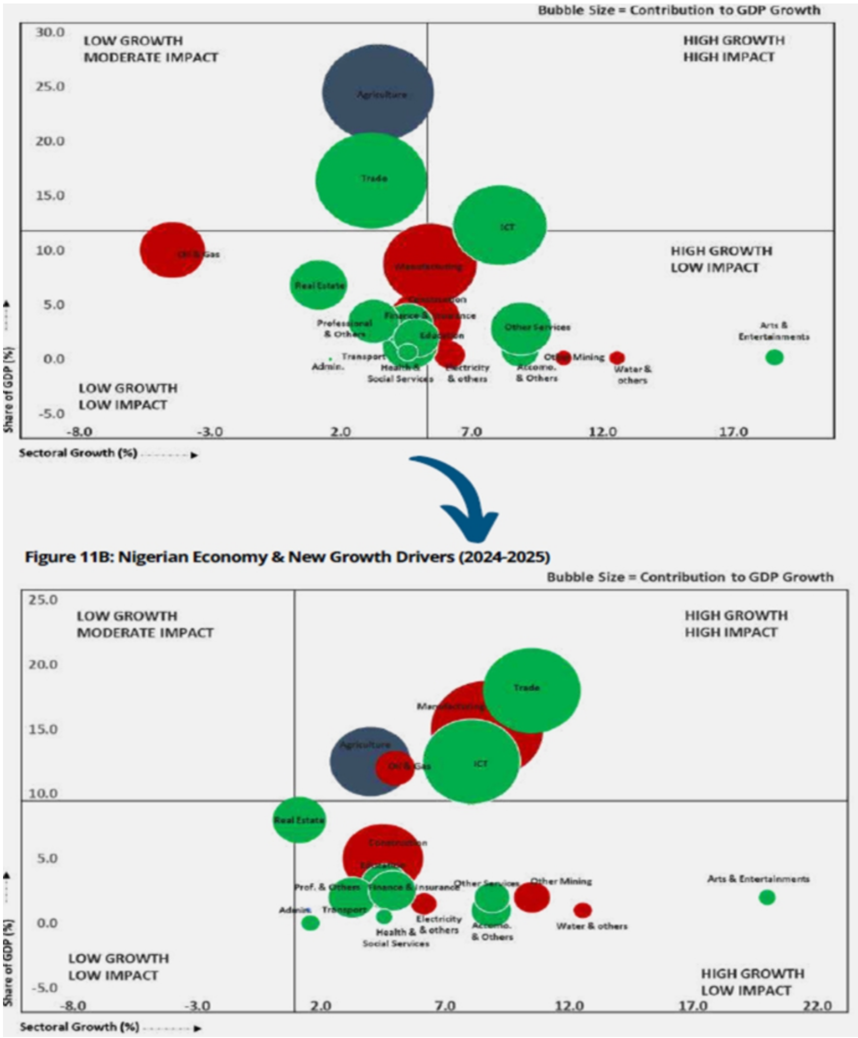
Nigeria’s economic growth has been primarily driven by a handful of sectors like Agriculture, ICT, Trade, Oil and Gas, and Manufacturing, leaving others needing help to make significant contributions. This imbalance in prosperity arises from low productivity and growth across many sectors. To address 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:	**Regulatory environment reforms:**	**Effective fiscal management:**
• 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.	• Simplify all regulatory requirements and operations. • Promote predictability, open markets, and fair competition. • Prioritise laws to combat organised crime and illicit economic activity.	• 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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Creating sustainable value for all

Managing a Liberalised Exchange Rate System in Nigeria: Lessons from Indonesia

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Abstract

This paper examines Indonesia's exchange rate management experience following the 1997/1998 Asian financial crisis to draw useful lessons for Nigeria's recent transition to a liberalised exchange rate regime. It describes one of Nigeria's historical exchange rate policy challenges, emphasising the role of rent-seeking behaviour and corruption. Drawing on Indonesia's successful adoption of a floating exchange rate regime, the paper highlights vital lessons Nigeria can learn, such as central bank independence, a managed floating exchange rate regime, and effective foreign exchange supply and demand management. The analysis also underscores the importance of private sector engagement with the central bank for sustainable exchange rates and macroeconomic stability.

Introduction

The Exchange rate policy has been a crucial issue in Nigeria for about three decades. The Central Bank of Nigeria (CBN) has tried various strategies to manage the exchange rate of the Naira in line with domestic developments and international dynamics. The exchange rate system is characterised by an administratively controlled official exchange rate and a parallel market rate. As foreign exchange (Forex) shortages persisted significantly since 2016, the gap between the two rates widened significantly. This situation has led to rent extraction by politically powerful individuals with access to the attractive official exchange rate, thereby discouraging investment, fuelling corruption, and exacerbating macroeconomic instability. To address these challenges as part of the broader macroeconomic reform agenda of President Bola Tinubu's administration, on June 14, 2023, the CBN made changes to liberalise Nigeria's Forex market, including the elimination of multiple exchange rates.

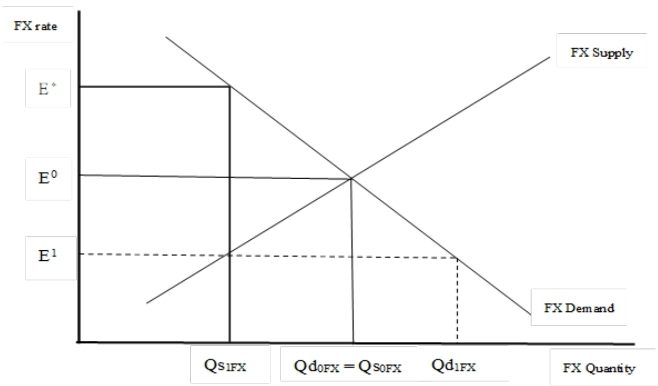
However, there is scepticism about the new policy's sustainability for political and economic reasons and concerns about the expertise to manage the new system. For example, the Economic Intelligence Unit predicted that Nigeria may revert to tighter exchange controls to stem the decline in the value of the Naira. It noted that the CBN lacks experience in conducting monetary policy under a floating exchange rate regime. As the CBN is committed to pursuing reforms towards full liberalisation of the Forex market, it is imperative to draw lessons from comparable countries with similar experiences. This paper analyses Indonesia's exchange rate management strategy following the Asian Financial Crisis (AFC hereafter), which necessitated the floating of the rupiah (Indonesian currency) and highlights what Nigeria can learn in managing a market-based exchange rate regime.

Defending the Naira and Vested Interests: The Nature and Consequences of Nigeria's Exchange Rate Dirigisme Before the Recent Forex Liberalisation

Given the dominance of petrodollars as the primary source of Forex in Nigeria, the CBN has, for several years, managed Forex supply and demand through administrative restrictions and selective allocation to specific sectors and individuals. However, access to the official exchange rate can often depend on the political clout of influential interest groups and individuals. This type of intervention and its adverse consequences epitomise how government intervention in markets to influence prices creates vested interests and opportunities for rent-seeking and corruption (Bates, 1981). It is a system of exchange control that involves the rationing of limited Forex to "preferred customers" (Todaro & Smith, 2011, p.607). Let us draw from Bates (1981, pp.97-99) and Todaro & Smith (2011, pp.607-608) to illustrate one of the challenges of Forex management in Nigeria.

Government intervention in the Forex market reduces the exchange rate (price) for foreign currency. The currency adopts a new exchange rate below the market clearing rate. This creates excess demand for the currency in question, which becomes scarce to the extent that the monetary authority resorts to rationing. Figure 1 describes the process that leads to the emergence and persistence of exchange control, which creates vested interests.

Figure 1: Central Bank forex intervention and vested interests



Source: Constructed by the Author based on Bates (1981) and Todaro & Smith (2011)

At the market-clearing exchange rate E0 in Figure 1, the demand for and supply of foreign exchange is in equilibrium (Qd0FX = Qs0FX). When the central bank intervenes in the foreign exchange market, for whatever reason, the exchange rate is lowered to E1, the official exchange rate. E1 causes the demand for foreign exchange to increase to Qd1FX. Since there is insufficient supply to meet the increased demand, this creates excess demand for Forex, making it difficult to continue trading at E1. Therefore, the Forex is selectively allocated by rationing. The scarcity of the currency at the limited supply Qs1FX gives it a higher value at E*, where most excess demand is absorbed. This is the parallel market exchange rate. E* is higher than the official exchange rate (E1) and the market clearing rate (E0). The spread between E0 and E* represents what Bates (1981, p. 99) called the “administratively generated rent”, a premium that results from the creation of the official exchange rate. The immediate implication is that the rent (E1) is allocated to those with privileged access to the government, and most, if not all, is resold at the parallel market rate (E*) in a process called round tripping. This selective allocation may initially be well-intentioned to insulate the domestic economy from external shocks or to stimulate local production and promote economic development. However, the policy can lead to unintended consequences, as the situation in Nigeria, especially between 2016 and 2023, clearly illustrates.

Bank Indonesia’s Autonomy and Exchange Rate Management Strategy Post-AFC

In response to speculative attacks in the foreign exchange market during the 1997/1998 Asian Financial Crisis (AFC), Indonesia adopted a floating exchange rate regime in August 1997. This policy was introduced due to the crisis and had to be maintained as part of the conditions of the IMF's post-AFC stabilisation program for Indonesia. With this development, the rupiah's value moves according to market demand and supply. However, Bank Indonesia (BI hereafter) intervenes in the foreign exchange market to stabilise the rupiah when there are disorderly market conditions and large fluctuations that could be transmitted to inflation or when there is a need to promote export competitiveness by preventing currency appreciation (Warjiyo & Juhro, 2019; Edwards & Sahminan, 2008).

With the enactment of Law No. 23 of 2004, BI has full autonomy as an institution to formulate and implement policies without any interference (Ascarya, 2011). Independence is determined by the extent to which the Bank can operate by setting policy goals/targets, applying appropriate policy instruments, and managing the institution's internal governance (Soekarni & Syarifuddin, 2011).

The law establishing BI provides five meanings of independence as elaborated by Ananta, Soekarni, & Arifin (2011) and Ascarya (2011), namely: institutional, objective, personal, financial, and instrumental independence. Institutional independence means that BI can independently design and implement policy goals without interference from the government or other parties. The authority to set targets (albeit in consultation with the government) to ensure the stability of the rupiah value gives the Bank objective independence. Personal independence allows BI to operate independently and has the 'right' to resist the undue influence of any organisation on its responsibilities. However, appointing the governor, deputy governors, and board members is subject to parliamentary approval. Also, the Bank's annual budget is subject to parliamentary scrutiny.

Nevertheless, the Bank has the financial independence to implement the budget without further parliamentary approval. In pursuing its monetary policy objective, the Bank can adjust interest rates as it deems fit. This is instrumental independence. Different instruments are used for various purposes. Policy instruments to support the stabilization of the rupiah include interest rates, open market operations and Forex intervention. Forex intervention is particularly useful in stabilizing market expectations and limiting the impact of temporary shocks on exchange rate fluctuations.

Bank Indonesia decides whether to use an open method to intervene directly in the foreign exchange market or a closed method through agent banks as intermediaries. The choice of either method is based on market sentiment and whether information about the intervention should be disclosed to market participants (Ferry, 2015; BIS, 2005). Another consideration is whether there is excess demand but a limited supply of US dollars. According to Warjiyo (2013, p.181), the BI's strategy of Forex intervention, which involves buying and selling foreign currencies through agent banks, is to curb excessive exchange rate volatility. These transactions often take place in the spot market. However, depending on the availability of Forex, the central bank also engages in swap and forward transactions. In addition, BI's intervention is conducted from a strategic and operational point of view. The strategic aspect includes the objective of the intervention and the policy direction. The operational element deals with the policy implementation strategy based on market conditions as determined by the relevant units of BI (Ferry, 2015).

In conducting Forex interventions, BI recognizes the importance of understanding and monitoring international investors' perception of markets based on the type of investor (hedge fund or long-term) and the factors that influence their behaviour (Warjiyo, 2013). For example, hedge funds are short-term investors seeking quick profits, and their portfolio decisions are influenced by the slightest hint of a domestic or external shock. On the other hand, long-term investors tend to be more stable because they seek higher returns based on their judgment of economic fundamentals and are unlikely to be affected by short-term fluctuations.

In addition to intervention, BI also engages in Forex supply and demand management to stabilize the rupiah, especially in the face of mounting pressures that lead to currency depreciation. For example, in 2015, BI introduced a rupiah stabilization policy package in coordination with other government policies to support macroeconomic stability and inclusive economic growth (see Bank Indonesia, 2015, pp.181-185). The Forex supply and demand management pillar of the policy package includes tax breaks on fixed deposit interest rates to exporters who deposit their export earnings in domestic banks or convert their export earnings into rupiah. The policy also includes controlling the demand for Forex not directly related to the 'real economy' by reducing the limit on spot foreign exchange transactions from US$ 100,000 per customer per month to US$ 25,000. The restrictions did not apply to transactions related to the payment of school fees, the payment of imports, the cost of medicines abroad, and the servicing of foreign debt.

Conclusion and Policy Recommendation

Nigeria and Indonesia share similar characteristics regarding natural resource endowments, dependence on commodity exports, societal diversity, socio-political dynamics, and the trajectory of institutional reforms. However, Indonesia has grappled with the Asian Financial Crisis, which necessitated IMF intervention with its attendant conditionality, particularly on central bank independence and exchange rate liberalisation. Over the past two decades, Indonesia has effectively managed the exchange rate in the face of several external shocks, which holds important lessons for Nigeria as it embarks on a liberalised exchange rate regime. Based on the brief analysis of Indonesia's experience, this paper makes the following recommendations.

- **Central bank independence** – CBN's acquiescence to pressure from the executive to finance the budget deficit and take on non-traditional central bank functions (especially between 2015 and 2022) is a clear manifestation of the apex bank's lack of autonomy. While the Bank needs to be insulated from such political interference, institutional independence can grant excessive discretionary powers that are prone to abuse by the governor and management of the bank. This is the dilemma of central bank independence in Nigeria. Nevertheless, the central bank must be allowed to operate professionally to pursue its mandate, although this ultimately depends on the political elite (the president and National Assembly). There should also be a clear definition of independence, as in Indonesia.

- **Maintain a de facto managed floating exchange rate regime**– The CBN should sustain a de facto managed floating exchange rate regime like Indonesia's, which requires central bank intervention only to stabilise the currency rather than selectively allocating Forex to individuals and businesses. This will create transparency that will enhance market confidence and help maintain the harmonisation of official and parallel market exchange rates.

- **Managing foreign exchange supply and demand** – Emerging and developing economies do not have the luxury of implementing fully flexible exchange rate regimes, mainly because of their economic structures. This implies the need for the central bank to discourage frivolous demand that could distort the Forex market and stimulate forex inflows. In attempting to boost inflows by repatriating export earnings, Nigeria can take a cue from Indonesia's strategy of providing tax incentives to exporters, as highlighted earlier.

- **Private Sector Engagement** – BI's Monetary Policy Department has four to five divisions. In the macroeconomic department, there are many subdivisions, including one that focuses on private-sector monitoring. Their job is to get all the information on specific issues, such as inflation (BI interviewee). Indonesia has a national program to reduce inflation under the coordination of BI. The program has members from relevant government ministries and departments, through which BI liaises with business associations. BI invites influential associations such as the Indonesian Palm Oil Association (IPOA) every three months to discuss the development of the palm oil sector (IPOA interviewee). The CBN has also engaged groups such as the Manufacturers Association of Nigeria (MAN) and other commodity exporters. However, it should be strengthened and conducted regularly, as in Indonesia.

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Unstraining Productivity Growth in Nigeria: The Exchange Rate Perspective

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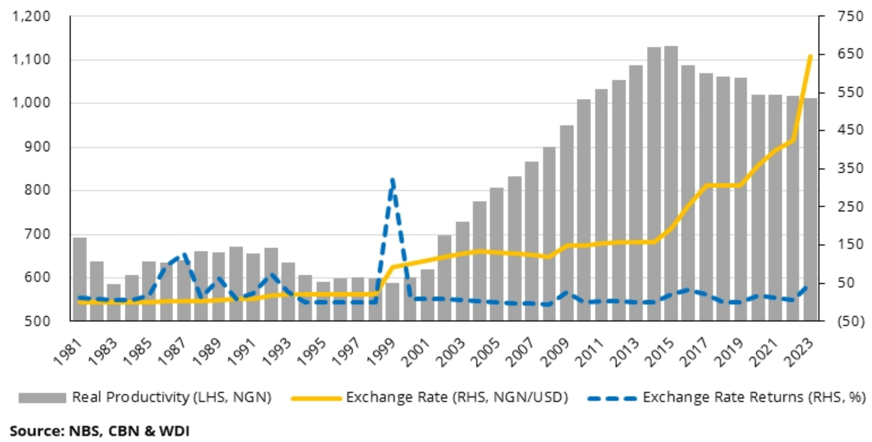
Abstract
The volatile movement in Nigeria's exchange rate constitutes a severe headwind to the economic activity in the country and the eventual performance of productivity and economic growth. This article explored the interrelationship between exchange rate volatility and productivity in Nigeria. It reviewed the literature on the linkages between productivity and exchange rate volatility and highlighted the different dimensions of relations between the two economic variables. The article highlighted the drivers of the recent turbulent movement in the Nigerian foreign exchange market, categorising them based on the demand and supply sides of the market. On both sides, the escalation of market players' speculative behaviours has amplified the pressure on Naira. Meanwhile, the dependence on imports for raw materials, intermediate inputs and finished products primarily drives exchange rate volatility. The article also strongly emphasised the need for harmonising foreign exchange management guidelines and clarity and transparency in managing the foreign exchange market.

Introduction

Nigeria's poor growth performance over the years has been due to low productivity across many sectors of the economy. The abrupt and drastic movement in the exchange rate has recently been cited as a major factor adversely impacting productivity, particularly as Nigeria depends on importation for major raw materials and intermediate inputs. Over the past decade, Nigeria has experienced immense volatility in the exchange rate, depreciating from NGN158.6/US$ in 2014 to an average of N645/US$ in 2023 (see Figure 1). As of the first quarter of 2024, the Naira exchange rate has depreciated to an average of N1338.21/US$.

The turbulent exchange rate movements in Nigeria have not only resulted in subdued economic growth, averaging 1.98 percent between 2014 and 2023, down from the average growth of 6.73 percent in the previous decade but have also significantly stifled productivity. The compound annual productivity growth rate has been a meagre 1.95 percent over the past decade (see the trend in Figure 1). The exchange rate volatility has not only curtailed access to Forex for importing raw materials and intermediate inputs but has also escalated the operating costs of businesses, thereby severely constraining their productivity potential and competitiveness.

Figure 1: Trajectory of Exchange Rate and Real Productivity in Nigeria



Source: NBS, CBN & WDI

Despite the Central Bank of Nigeria's (CBN) persistent efforts to manage the exchange rate market, adopting variants of fixed, managed float, and free float regimes, the impact on stabilising the Naira and supporting productivity remains insignificant. This underscores the urgency of exploring the link between exchange rates and productivity growth, identifying the key drivers of exchange rate volatility in Nigeria, and proposing potential policy recommendations to alleviate the pressure in the foreign exchange market.

The remaining part of this paper is structured as follows: Section 2 briefly discusses the literature on exchange rates and economic activities, Section 3 presents the dynamism of the exchange rate market, Section 4 highlights the recommendations and Section 5 concludes the paper.

Understanding the Literature

Abrupt and drastic movements in the exchange rate are major factors adversely impacting productivity and economic growth in Nigeria. Currently, Nigeria has a dysfunctional dependence on imports of raw materials, intermediate inputs, and finished goods. Nigeria still depends on importing petroleum products despite being a major oil-exporting country. Therefore, drastic movements in the exchange rate impact the core of business operations and suppress productivity growth in the economy.

The literature on the relationship between exchange rate volatility and economic activities remains diverse and inconclusive. The perspectives on understanding the relationship between exchange rates and economic activities appear numerous in the literature. One major way of understanding the movement of exchange rates includes the analysis of changes in exchange rates over time, subjecting the series to ARCH/GARCH transformation. Findings from the literature appear inconclusive, especially at the aggregate level. Studies such as Iqbal et al. (2023), Abbasi and Iqbal (2021), Ehikioya (2019), Jehan and Irshad (2020), Rashid et al. (2021), Ramoni-Perazzi and Romero (2022), emphasises the negative impact of exchange rates volatility on economic activities. Folarin (2020) and Orisadare and Olofin (2024) especially found that exchange rate volatility negatively impacts productivity. Nevertheless, Rapetti (2020) and Jayathilaka et al. (2023) reported that exchange rate volatility positively impacts the economy. Meanwhile, Omoregie and Olofin (2020, 2024) emphasised the time-varying impact of the exchange rate on the economic outcomes of businesses as it motivates immediate adverse impact but positive impact in the long run.

Some other studies have considered the misalignment of exchange rates from the long-run path, causing overvaluation and undervaluation. Studies such as Nwachukwu et al (2016), Mao et al. (2019), Jehan and Irshad (2020), Mahraddika (2020), Jiang et al. (2022), Amor et al. (2023), del Carmen Ramos-Herrera and Sosvilla-Rivero (2023) emphasised the role of real exchange rate undervaluation and overvaluation on domestic economic activities. Popular opinion favours currency devaluation to promote economic growth, while overvaluation stifles it. This evidence is especially true in many developing countries, but studies in wealthy nations support a floating exchange rate system reflecting the long-term real exchange rate (Guzman et al., 2018; Ramoni-Perazzi & Romero, 2022).

Findings from Nigeria do not deviate from the developing economy due to the low level of development in the financial sector and dependence on imports for finished goods. Ehikioya (2019), Folarin (2020), Moses et al. (2020), Omoregie and Olofin (2020, 2024), and Orisadare and Olofin (2024) reported that exchange rate volatility significantly negatively affects the Nigerian economy. Further evidence from Ehikioya (2019) emphasised the pass-through effects of financial development and oil price movement in the relationship between exchange rate volatility and economic activity in Nigeria.

Market Dynamics of Exchange Rate Volatility in Nigeria

Despite CBN's reforms and interventions, the persistent fall in the value of the Naira demonstrates inherent structural illiquidity in the foreign exchange market. The persistent devaluation of the Naira has had various effects on firms, depending on their sector (Rashid et al., 2021; Eklou, 2023). While stakeholders have applauded the CBN's recent unification of the exchange rate market, it has had a disastrous effect on the financial books of significant corporations in the Manufacturing and other productive sectors. Coupled with the ensuing further devaluation, the Naira's collapse has harmed these enterprises' financial position by making servicing their dollar-dominated loans more expensive and increasing the cost of importing intermediate inputs. However, the financial sector's performance improves without necessarily enhancing its function as an intermediary, benefiting solely from speculations. Therefore, this section highlights the demand and supply side drivers of exchange rate fluctuations in Nigeria.

Supply-side

The supply side of the foreign exchange market encompasses the channels of foreign exchange inflow in Nigeria. In the face of growing imports, the supply of foreign exchange has been limited, creating scarcity. The following highlights some of the issues on the supply side that drive exchange volatility in Nigeria.

- **Concentration of Forex inflows:** Nigeria relies heavily on Forex inflows from crude oil sales, which are currently under threat due to production concerns. Over the years, oil exports have been Nigeria's major foreign exchange source, accounting for the lion's share of its exports. As of 2023, oil exports accounted for 91.26 percent of Nigeria's total exports. This has often been reflected in Nigeria's external vulnerability and unfavourable movement in oil prices, adversely impacting supply, productivity and the economy at large.

- **Weak Investors' Confidence:** In recent times, Nigeria has seen a significant plummet in investment inflows. From the height of US$24.00 billion in 2019, foreign investment inflows have dipped to US$3.9 billion as of 2023. Worst still, the foreign investment inflows are often dominated by impatient portfolio investments that seek to take advantage of short-term gains. This reflects the weakening of investors' confidence in Nigeria. The use of unsustainable sources such as remittances, SDRs, forward contracts and borrowings, among others, further weaken investors' confidence.

- **Concentration of Distribution Channel:** Dollar distribution channels are also highly concentrated with the CBN, which conducts swaps instead of allowing beneficiaries direct access. Neither government institutions nor households and businesses that are beneficiaries of foreign exchange have access to it. This causes structural illiquidity that limits the turnover of foreign exchange inflows.

- **Speculative Behaviour of Market Players:** Due to the persistent fall in the value of the Operators in the foreign exchange market, the speculative attitude has become aggravated. As such, players in the market hoard foreign exchange for gains, further pressuring the value of the Naira downwards.

- **Low Accretion to the Foreign Reserves:** The foreign reserves that the government relies on to intervene in the Forex market have been on a downward trend for many years due to low accretion. Besides, the recent financial statement of the CBN has shown that Nigeria does not have as much leverage to intervene in the market due to associated guarantees and forward and swap contracts attached to the reserves. This is due to the low performance of the Oil sector, which has been in recession since 2020.

Demand-side

The supply side of the foreign exchange market encompasses the outlays of the usage and demand for foreign exchange in Nigeria. With growing dependence on imports for primary, intermediate, and finished goods, Nigeria's foreign exchange market is under tremendous pressure to source foreign exchange to cater to the growing demand for imports. Beyond import demand, there is an increasing demand for foreign exchange for other speculative uses, further pressuring the market. The following highlights major issues on the demand side that drive exchange volatility in Nigeria.

- **Heavy Dependence on Imports:** Nigeria has a dysfunctional dependence on imports. The country imports almost everything, including raw materials, intermediate inputs, food and consumer items, machinery, electronics, and transport equipment. Worse still, Nigeria depends on imports of finished petroleum products, which account for over 35 percent of its imports. Nigeria can significantly reduce the pressure on the Naira by facilitating local production of petroleum products.

- **Backlog of Forex Demand:** There has been a build-up in excess dollar demand due to a long-standing shortfall in dollar liquidity. Industry estimates put it at about US$10 billion. Clearing this backlog is critical to achieving stability in the Nigerian Forex market. The government recently announced the clearing of legitimate backlogs. However, the opacity in the process, pricing, and mode of accessing Forex continue to put the market under pressure.

- **Market Speculative Sentiments:** Due to the persistent downward trend in the value of the Naira, both institutional and retail investors, alongside citizens, have become speculative, hoarding dollars in anticipation of gain. As such, investors are confident and take positions for a depreciated Naira.

- **Dollar, a store of value and asset:** The dollar has become a store of value and has proven to be a profitable asset over the years – incentivising hoarding. Therefore, any intervention, such as the NNPC Limited loan or IMF SDR, does not yield an impact as a substantial part of the dollar inflows would have ended up as dollar savings.

Policy Recommendations

- **Facilitate uniform and appropriate pricing of Forex:** The government needs to get the pricing of Forex right in Nigeria to ensure stability in the foreign exchange market. Contrary to the harmonisation policy, the government operates various prices for different market users. This allows arbitrage and limits the government's capacity to intervene in the market effectively. Market stability does not necessarily mean low prices. Rather, it means maintaining stable and steady movement in the currency value, as such, enhancing certainty for business planning that leads to productivity growth. Therefore, even when there might be a justifiable need for market access differential, the government must ensure it closes the gap in rate differential across markets. This aids business planning a

- **Efficient Management of Access:** The effective demand for foreign exchange far outweighs the need for imports and inflows from exports, as the speculative demand from Forex trading constitutes excess demand in the market. To ensure the real sector has access to Forex to boost productivity, the government must effectively manage the level of access to foreign exchange in the economy. Access to Forex needs to be strict to facilitate international transactions. Any need for foreign exchange outside international transactions needs to be curtailed and conducted in local currency.

- **Enhance domestic productivity to boost the availability of Forex:** To boost foreign exchange availability, the monetary policy unit needs to create a functional mechanism that guarantees the availability of Forex to legitimate users. Nevertheless, the fiscal policy unit has a significant role in stabilising the exchange rate market by facilitating seamless productive activities and unlocking the structural binding constraints on the production process—such as policy and regulatory inconsistency, infrastructural deficiency, and proliferation of non-state actors.

- **Clarity and Transparency in Market Operations:** The government needs to ensure clarity in managing the foreign exchange market. The process of accessing foreign exchange must be clearly stated and transparently managed to build confidence and trust in the market. Any form of opacity allows for speculation, hoarding, and diversion of Forex away from legitimate productive needs.

- **Implement Capital Mobility Policy and Harmonisation of Guidelines:** The current management approach relies on ad hoc publication of guidelines that do not provide needed clarity in the operation of the foreign exchange market. The government needs to harmonise all the operating guidelines in the foreign exchange market. Besides, the government needs to provide clarity on the inward and outward movement of capital. Irrespective of the foreign exchange regime, the clarity in capital flows supports foreign investors' decision-making and endears the economy for potential investment. China runs a regulated capital mobility law, but because of the clarity, investors understand what needs to be done. As such, China is among the first-choice locations in the world for FDI.

- **Effective consequence management in the financial system:** In recent times, many market players have acted in a way that compromised the stability of the market and violated some rules. The government needs to establish an effective consequence management system that can deter a potential violation of market rules or unfair market practices. This is important to guarantee the sanctity of the market and further ease Forex access for productive use.

Conclusion

Exchange rate volatility has been a major bane of productivity growth in Nigeria over the past decade. This is due to its impact on input costs, as Nigeria has a maladjusted dependence on imported raw materials and intermediate inputs, especially equipment. Hence, this article explored the relationship between exchange rate volatility and productivity in Nigeria descriptively, beaming light on the drivers of exchange rate volatility and potential policy imperatives to ameliorate the situation.

This article explores the literature on the relationship between exchange rate volatility and productivity, highlighting various dimensions of interrelations—volatility, misalignment, and pass-through. It further dimensions the drivers of exchange rate volatility into demand- and supply-side drivers and highlights factors that contributed to the volatile movements in the value of Naira over the past years. Alongside other recommendations, this article emphasises the importance of clarity and transparency in managing the foreign exchange market.

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The eNaira as a Tool for Financial Inclusion: Challenges and Recommendations

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Abstract

Following the COVID-19 crisis, digitalisation and using online payment systems rather than cash accelerated. With this, the relevance of Central Bank Digital Currencies (CBDC) became even more pronounced, spurring Nigeria to launch the eNaira. Yet, it remains to be seen whether there will be a broad acceptance of the eNaira in Nigeria. The Central Bank of Nigeria (CBN)'s primary goal in launching the eNaira is to increase financial inclusion in Nigeria. While millions of Nigerians have access to financial products and services, the Foreign Commonwealth and Development Office (FCDO) estimates that about 38 million adult Nigerians do not have access to essential financial products and services. The eNaira could fill this gap. The paper considers whether the e-Naira can drive financial inclusion in Nigeria. To do this, it examines the eNaira to determine whether its qualities as a CBDC can drive financial inclusion. The paper also assesses the success or lack thereof of the eNaira and the challenges of implementing it in Nigeria. Based on this assessment, the paper makes some policy recommendations to enable e-Naira to gain more acceptance in Nigeria.

Introduction

Financial inclusion entails individuals and businesses having access to essential financial services and products, such as bank accounts, loans and insurance, sustainably and affordably (Raphael Auer, 2022). Financial inclusion precipitates economic growth and poverty reduction in developing and developed countries. While there have been increments in financial inclusion, in Sub-Saharan Africa, there are still many financially excluded people. A primary goal of the Central Bank of Nigeria (CBN) is to ensure that 95 percent of Nigerians are financially included by 2024 (eNaira, 2022). Some progress has been made in this regard. As of 2023, financial inclusion increased to 74 percent, up from 68 percent in 2020. However, more is required to ensure these targets are met in 2024.

Introduced in October 2021, the eNaira is one of the tools that the CBN has employed to drive financial inclusion in Nigeria. The central bank's goal for the eNaira is to drive financial inclusion, which is evident in the infrastructure of the eNaira, which adopts distributed ledger technology (DLT). This infrastructure enhances the financial inclusion process. However, adopting the eNaira has been slow, challenging its financial goals. One reason for the low adoption of the eNaira is a lack of trust. While the eNaira was designed to build a trustworthy medium of value or exchange, the Government has not shown convincing proof of this to the citizens.

This paper assesses the eNaira's financial inclusion goals to determine whether it can accomplish them. The paper is organised as follows: following this section, Section 2 provides an overview of the eNaira, considers some of the Central Bank's motivations for issuing it, and evaluates its success. Section 3 considers how the eNaira can drive financial inclusion. Section 4 provides policy recommendations and conclusions.

Overview of the eNaira

Definition

Endeavours to define CBDC have resulted in the consensus that it must have certain key features. The Committee on Payment and Market Infrastructure (CPMI) agrees that "CBDC is not a well-defined term but can refer to several concepts. Most people see the CBDC as a new form of central bank money. That is, a central bank liability, denominated in an existing unit of account, which serves both as a medium of exchange and a store of value" (Committee on Payment and Market Infrastructure (CPMI) BIS, 2018). A CBDC can also be considered a 'digital form of central bank money that is different from balances in traditional reserve or settlement accounts" (Committee on Payment and Market Infrastructure (CPMI) BIS, 2018). The IMF defines CBDC as "a new form of money, issued digitally by the central bank and intended to serve as legal tender" (IMF Staff, 2018). The eNaira is a CBDC because it fits these designations.

Motivation for the eNaira

The CBN seeks to provide Nigerians with access to safe money as part of their responsibility. The CBN's objectives also include promoting a sound financial system in Nigeria, which could help promote Nigerians' economic and financial welfare (Central Bank of Nigeria CBN, 2021). To accomplish this, the CBN needs to support secure, reliable, and efficient payment options for the benefit of all Nigerians. Some specific ways in which the CBN sought to promote the economic and financial welfare of Nigerians include financial inclusion, reduction of costs, cashless policy and payment efficiency. By issuing the eNaira, which offers Nigerians direct access to central bank money, the CBN hoped to accomplish these aims.

Furthermore, the CBN issued eNaira as a step toward curbing the use of cryptocurrencies in Nigeria, which was considered volatile and anonymous (Nigerian Government, 2021). Given the anonymity of cryptocurrency, the eNaira, a more centralised and controlled currency regime, allows the CBN to monitor and control the eNaira by limiting access to wallets and the purchasing ability of eNaira holders. The CBN could not achieve this level of control with the fiat currency despite the denomination numbering system (Regcompass, 2020). Hence, 'The e-Naira is the Central Bank of Nigeria's attempt to stay in tandem with other global central banks as decentralised modes of storing value and payment become more mainstream' (Coindesk, 2021).

Evaluation of the eNaira

When the eNaira was first deployed, there were some initial glitches but no major risk factors like cybersecurity issues. Thus, the CBN has maintained operations without any service outage. (Coin Telegraph, 2023) However, since its release in October 2021, and despite smooth operations, there has been a slow uptake in the adoption of the eNaira. In fact, there is hardly any usage of the eNaira, with only 0.5% of Nigerians using it (Coin Telegraph, 2023), despite Nigeria's reputation as a crypto, digital money-friendly country. At least 98.5 percent of the wallets have not been used even once (Ree, 2023). The average value of eNaira transactions has been 923 million naira per week—0.0018 percent of the average amount of M3 during this period. The average value per transaction has been 60,000 naira. (Ree, 2023) The figures above show that Nigerians have not embraced the eNaira, making it seemingly unsuccessful. Some of the reasons suggested for this reluctance towards the eNaira is that it may present a 'substantial risk to financial freedom whilst providing no unique benefit' (Coindesk, 2023). Other concerns include possible financial privacy and control issues where the Nigerian Government, known for human rights violations and the central bank, could make it easier and quicker to freeze assets arbitrarily. It is also possible for a cyber-attack to result in the entire network being disabled since all transactions go through a central authority.

The eNaira and Financial Inclusion

How the eNaira can drive financial Inclusion

Amongst the many functions of the eNaira, such as a store of value, means of payment, settlement asset, and unit of account, the way that CBDCs are linked to financial inclusion has to do with the design properties of the CBDC (Bank for International Settlements (BIS), 2022). Firstly, the eNaira could be useful where PSPs do not offer a transaction account because it ensures access to a basic, trustworthy means to pay and store value. Secondly, the eNaira is designed to replicate certain cash-like attributes, which means that it can ensure that individuals and businesses have access to a simple, risk-free, and flexible means of payment. In such cases, accessing cash (which typically relies on bank infrastructure such as branches and ATMs) might be challenging or costly in remote areas (e.g., small islands and difficult-to-reach regions). Despite the cash shortage in Nigeria in 2023, the adoption of the eNaira did not increase. Thirdly, the eNaira can be used to disburse government payments, which is important for driving a critical mass of users and promoting greater inclusion. The eNaira can be used, for instance, to channel public sector salaries and social protection grants to transaction accounts. This can increase access to and usage of the eNaira.

One of the broader advantages of eNaira as a tool for financial inclusion is that it can enhance financial stability in Nigeria. This may be achieved when the eNaira helps in reducing inflation. Thus, two ways in which the eNaira can reduce inflation are firstly, where there is widespread use of the eNaira, with limited cash. This will reduce the amount of cash normally used for speculative inflationary activities. Secondly, the central bank can make the eNaira interest-bearing. An interest-bearing eNaira can help control inflation where the central bank raises the interest rate of the eNaira above that of other bank deposits. This will ultimately reduce excess liquidity, one factor contributing to inflation (Ozili, 2023).

The Design of the eNaira as an Aide for Financial Inclusion

The eNaira was designed as a two-tiered/hybrid system to meet the CBN's financial inclusion goals. This design combines direct claims on the central bank, but the intermediaries handle payment. A two-tiered/hybrid system is appropriate for Nigeria because it embodies the convenience of private sector payments and the central bank's authority (Boehme, 2020). The CBN is responsible for issuing the eNaira while leveraging the existing financial system and actors; this includes financial institutions directing engagement with users to distribute the CDBC, dispute resolution, payment facilitation and other roles as may be defined by the CBN. Non-bank PSPs are important in achieving the central bank's financial inclusion objective because they can facilitate access to the eNaira for excluded and underserved segments of the population. In this regard, rural agent networks are critical to facilitate online transactions. This means that pre-existing cash-in cash-out networks are now a priority.

The CBN already has the Shared Agent Network Expansion Facility (SANEF). This initiative seeks to deepen financial inclusion through partnerships and collaborations, which can facilitate the seamless use of the eNaira. SANEF aims to drive financial literacy, onboard unbanked Nigerians into the financial system, increase financial access points and shared agents, and support financial products and services. The eNaira uses the Hyperledger Fabric as its technological backbone (IBM, n.d.). As a distributed ledger, it allows all participating nodes to keep all records of CBDC transactions throughout the entire history (as a blockchain). Because the CBN seeks inclusive access whilst retaining the financial system's integrity, the account-based CBDC was opted for. This model enables the CBN to leverage current identity infrastructure like the BVN, NIN and TIN to identify users. These existing identity frameworks allow access for the financially excluded as they can be uniquely identified, thereby enabling the provision of financial services.

Robust and low-cost public sector technological basis and novel interfaces. An important aspect of a CBDC that offers financial inclusion is that it should have a robust and low-cost public sector technological basis and novel interfaces. One of the design principles of the eNaira is innovation. Thus, the eNaira provides a 'platform that fosters continuous innovation and collaboration across different sectors of the economy' (Nigerian Government, 2021). There are still challenges and barriers to digital payments for low-income populations and those living in remote locations. Domestic retail payment services can be expensive, and cross-border payments and low-value transfers like remittances are more challenging. There has also been increasing access to payment services in recent years; however, this is far from national, especially in places like Northern Nigeria. The eNaira leverages Nigeria's existing structures and payment system roles to give users more value. As such, the eNaira serves as a payment platform where financial institutions and payment service providers can innovate and create layered payment services to enable broad use cases for eNaira. At its core, the layered model drives inclusiveness, innovation and interoperability, which are baseline requirements for payment services in Nigeria (Nigerian Government, 2021).

The online functionality of the eNaira as a critical tool to enable financial inclusion. A critical aspect of any CBDC that seeks to foster financial inclusion is enabling an online payment functionality. The online capabilities of a CBDC could reduce dependence on the quality and availability of mobile and broadband networks, as well as round-the-clock availability of electricity. Thus, this online payment functionality would allow CBDC transactions to continue in an environment with no internet, no mobile network coverage and, in some cases, no electricity. This would enable the distribution of a CBDC (e.g., by government agencies) to devices in rural areas with limited connectivity or in disaster-hit areas.

Part of the roadmap to the full implementation phases of the eNaira is providing the online eNaira payments solution (Nigerian Government, 2021). As of August 2023, the CBN enabled consumers and merchants to use their smartphones to make and receive contactless in-store and Peer-to-Peer (P2P) payments with the eNaira using Near Field Communication (NFC), even if they are online (BIS, 2022). This was part of the CBN's attempt to innovate and build more means of exchanging services (Sunnewsonline, 2023). It remains to be seen whether the online functionality of the eNaira will result in increased adoption. By enabling an online function, the CBN will have to consider that there still exists the risk of potential double-spending and the possible creation of fake tokens. There will be a need to ensure that this risk is minimised.

The eNaira was designed to drive financial inclusion. From its online functionality to the hybrid model that allows the use of pre-existing financial institutions and Payment Service Providers (PSPs). This is one of the main advantages of the eNaira. However, the eNaira can only offer this important advantage with wide adoption.

Policy Recommendations and Conclusion

Whilst a CBDC is generally not a complete solution to financial inclusion, it can further the goal. The eNaira was launched by the central bank to drive financial inclusion by complementing Nigeria's existing initiatives. As seen above, some features of the eNaira are designed to facilitate financial inclusion in Nigeria. This aligns with the CBN's goals for issuing the eNaira.

Despite meeting the design criteria as a tool for financial inclusion, the eNaira has not gained traction, falling short of expectation levels. This lack of adoption has implications for the eNaira's financial inclusion goals because, with significant adoption, the financially excluded population will be reached. Thus, the eNaira needs to be adopted and used if it is to fulfil its public policy goals that motivated its issuance.

To increase the adoption rate of the eNaira, the following is recommended:

- The Federal Government must show Nigerians that the benefits of adopting the eNaira outweigh the costs. This can be done through mass education and awareness programs. Even with mass education, it must be recognised that there are examples of products with long-term benefits that failed to become widely adopted because of short-term friction in the initial use of the products. Some of the lessons from those failed products show that apart from lack of trust, people may be deterred from adopting products like the eNaira because it may be a time-consuming process to open an account, there may be difficulty in finding places where the eNaira could be spent or, for merchants, there may be the need to invest in new hardware.

- Consumers who receive payments in CBDC would be more likely to use CBDC. The Federal Government can mandate public authorities to incentivise consumer use of the eNaira by dispersing social benefits and transfers to individuals in eNaira. For instance, allowing employees to receive their salaries in eNaira and allowing consumers to pay their taxes in eNaira may also provide a stable example for consumers to use the eNaira.

- The Federal Government and CBN can work in a broader set of enabling policies, particularly on financial literacy, digital literacy, and open and affordable access to digital infrastructure (G7, 2021). These policies can help bridge Nigeria's knowledge gap and digital divide, which can help build more knowledge in areas where digital infrastructure is not well developed.

- The Federal Government and CBN can focus their entire adoption efforts on areas in Nigeria where no convenient digital alternative exists. Given the lack of a viable alternative, the need for such infrastructure can drive adoption. One example of an initiative that was successful when this method was adopted is the M-pesa. The M-pesa is a mobile money platform launched in 2007 in Kenya and used by more than 95% of the population. The key success factor was that emphasis was offered on a service in a market where no convenient digital alternative existed and that onboarding was easy. This can be particularly useful in Nigeria.

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Policy Imperatives for Strengthening Value Addition in Nigeria's Agricultural Sector

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Abstract

This paper examines the potential for building on the existing policy framework to strengthen value addition in Nigeria's agricultural sector. In doing so, we highlight its positive impact on food security, export revenue, import substitution-driven job creation, and economic growth. Drawing on Agricultural Structural Transformation theory, we identify value addition as a key mechanism for transitioning from primary to secondary and tertiary production. The paper concludes with four actionable policy recommendations for unlocking Nigeria's agricultural potential and achieving a more stable and resilient economy. Our evidence-based recommendations, which include policy imperatives such as Public-Private Partnerships, as well as government support for technology adoption, tax and investment incentives to promote value-addition in economic clusters with crops where Nigeria has a comparative advantage and proactively deepening market linkages, are informed by a review of case study evidence from Thailand's rice production, the Netherlands dairy and egg sectors, China's Special Economic Zones (SEZs), Uganda's Cultivate Africa Future Fund's Agriculture PPP Project (CultiAf-Ag-PPP), and Kenyan tea industry.

Introduction

Despite its apparent potential, unlike the experiences of comparator countries in Asia, Africa's agro-industrial sector has not significantly contributed to economic transformation and sustainable development (FAO, 2017; AGRA, 2019). This indicates market failure (Rodrik, 2004) and thus presents the need for a policy response from governments to address the market-limiting constraints and facilitate the reallocation of resources to factors that attract the much-needed capital, technology, and agro-processing capabilities required to transform the sector and replicate the success of comparator countries (Newman et al., 2016; AGRA, 2022).

As of 2023, Nigeria's agriculture imports stood at an estimated N2.281 trillion (NBS Foreign Trade Report, 2023). The continued reliance on agricultural imports exposes Nigeria to fluctuations in global food prices, fueling inflation and destabilising the economy. This dependence on food imports creates vulnerabilities and exacerbates the balance of payments crisis, unemployment, and food insecurity. Moreover, limited domestic processing capacity and storage facilities discourage investment in local production and undermine the sector's potential, resulting in significant post-harvest losses, hindering economic growth and job creation,

Countries that add value to their natural resources and promote labour movement to productive sectors are associated with increased per capita income and technology accumulation (UNIDO & UNCTAD, 2011). Evidence from East Asia underscores the importance of commodity-based industrialisation as a viable channel for addressing poverty and unemployment (Mbate, 2016). While this is yet to be replicated in the region, rising wages and input costs in Asia could offer countries like Nigeria a renewed opportunity to industrialise, particularly in the labour-intensive, light-manufacturing sectors such as agro-processing (Newman et al., 2016).

This paper addresses the need for increased value addition in Nigeria's agricultural sector and achieves two key objectives. First, it examines how value addition can contribute to economic stabilisation, increased production, job creation, reduced import reliance, and post-harvest losses. Secondly, the paper identifies value addition as a key mechanism for economic stabilisation. Our evidence-based approach to policy formulation draws on case study evidence to propose four actionable policy imperatives that support the successful structural transformation of Nigeria's agricultural sector from primary production to secondary and tertiary activities.

The rest of the paper is organised as follows. Section 2 briefly explains the theoretical framework for understanding value addition as a mechanism for structural transformation in agriculture. Drawing on case studies and critical lessons learned from comparator countries, Section 3 explores the fundamental mechanisms for transitioning from primary to secondary and tertiary agricultural production. In section 4, we provide policy imperatives for economic stabilisation. Finally, section 5 concludes with a summary of this paper's key findings and policy recommendations.

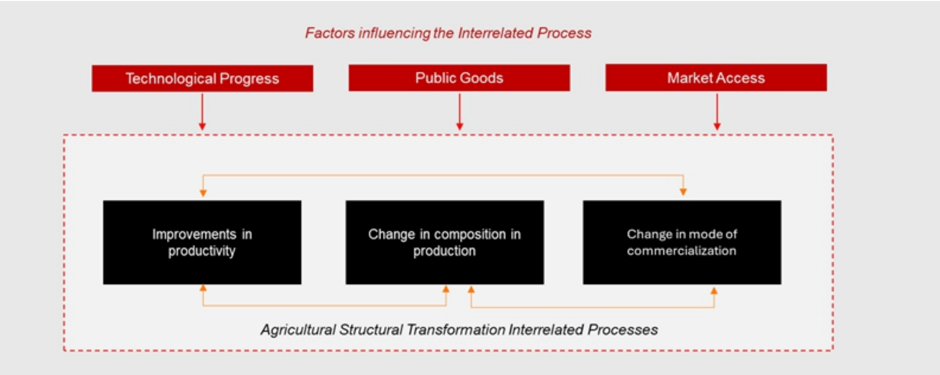
Theoretical Framework

The role of agriculture in economic growth and development remains a central topic with evolving perspectives. Early development theories, exemplified by Lewis' "dual economy" model (1954), viewed growth as a shift from a low-productivity agricultural sector to a more modern industrial sector. However, the success of the Green Revolution in Asia during the late 1960s demonstrated the potential for agriculture as a powerful engine for economic growth, actively contributing to broader development, and challenged this passive approach (Adelman, 2001).

This paper utilises the concept of structural transformation of the agriculture sector (Divanbeigi et al., 2016), which emphasises the shift from primary production towards secondary (processing) and tertiary (services) activities, to explore policy imperatives for strengthening value addition in agriculture to enhance the sector's contributions to economic stabilisation in Nigeria.

Today, a debate persists about the applicability of these models in sub-Saharan Africa. Proponents argue that agriculture's potential for large-scale inclusive economic growth and strong linkages to other sectors offers a significant pathway for economic advancement and poverty reduction (Birdsall, Ross, & Sabot, 1995). Sceptics, however, highlight the continent's history of poor agricultural performance, weak institutions, and environmental challenges (Collier & Hoffler, 2002; Ellis, 2005; Maxwell & Slater, 2003). They also point to the potential weakening of agricultural growth linkages in today's globalised market with falling food prices. Despite these concerns, research by Diao et al. (2010) suggests that Africa still requires a broad-based agricultural revolution to achieve economic transformation, even if the path may differ from Asia's Green Revolution. This revolution, however, must integrate value addition into agricultural production. Focusing on high-value commodities, food security, and export markets—while navigating international competition and complex supply chains—offers promising opportunities for African farmers (Reardon et al., 2003).

Figure 1: A Framework for Understanding Agricultural Structural Transformation



Source: World Bank Group; Authors' Concept

According to Divanbeigi et al. (2016), the agricultural sector undergoes a transformation process characterised by several fundamental changes. One defining feature is the relative decline of basic agriculture. This is accompanied by the rise of agribusiness, encompassing value addition in agro-related industries, trade, and distribution services. Furthermore, international trade increasingly features high-value agricultural products compared to traditional exports. This structural transformation has been shaped by three interrelated processes (see Figure 1), namely:

- **Improvements in Productivity:** Increased agricultural output per unit of land (hectare) is a vital indicator of this process. Since the 1960s, global agricultural output per hectare has grown by over 250 percent (Alston et al., 2010). This rise in productivity can be attributed to factors like utilising existing and new farming lands more efficiently and adopting new technologies.

- **Change in Production Composition:** The cultivated agricultural product types shift over time. This shift can involve moving from subsistence farming to producing cash crops, from staple foods to intermediate inputs for further processing. This evolution reflects changing global market demands and naturally varies across regions with different geographic and climatic conditions (Divanbeigi et al., 2016).

- **Modification in Commercialisation Mode:** Agricultural market transactions become more integrated with the broader economy, relying more heavily on financial services and international trade. This trend is fueled by agribusiness growth, including food processing industries and related services, even as agriculture's share of GDP declines (Divanbeigi et al., 2016).

The critical implication for Nigeria is that enhancing value addition through processing and improving productivity can achieve a more stable and integrated agricultural sector, reducing reliance on imports and boosting international trade.

Value Addition as a Key Mechanism for Transitioning from Primary Production to Secondary and Tertiary Agricultural Production

Value addition refers to processing raw agricultural products into higher-value food and chemical products, ultimately increasing food security (Dare et al., 2013) and the gross value of agricultural products. A robust agricultural economy prioritising food security and value-added commodities promotes societal progress by boosting production, employment, and income. The case for value addition in agriculture is particularly compelling for Nigeria, as achieving economic stability is intricately linked to strengthening yields and productivity within the sector, accounting for 38 percent of employment and 21 percent of GDP (NBS, 2023).

Value-added agricultural products have a higher market value and longer shelf life, making them more attractive for export, strengthening Nigeria's foreign exchange reserves, and fostering economic resilience (Li, Zhang & Li, 2019; Nuraini & Hariyani, 2019). Value addition thus empowers farmers by allowing them to process crops into higher-value products, increasing their income and access to nutritious food (Ngugi et al., 2020). Additionally, it opens new markets for farmers, particularly smallholder farmers (Pawlak & Kołodziejczak, 2020), strengthening their ability to exchange their produce for other necessities.

Learning from Global Success Stories

We draw critical insights from five country case studies: Thailand's rice sector, the Netherlands' dairy and egg production, China's integration of Special Economic Zones, Uganda's Public-Private Partnership, and Kenya's tea industry. These case studies were selected for their strategic alignment with Agricultural Structural Transformation Processes.

The Case of Rice Production in Thailand

By embracing value addition, Thailand transformed its rice sector from a high-volume, low-margin commodity-based industry to a significant player in the global market for high-value rice products. This shift helped boost food security and export revenue.

Traditionally a significant rice producer since the 1850s, Thailand faced major post-harvest losses due to inadequate storage facilities and processing capabilities, hindering national food security and economic potential (FAO, 2019). In response, the Government embarked on a transformative journey that involved strategic investments in technologies like drying, milling, and cold storage (Nipon & Kamphol, 2019). Thailand's rice industry advancements significantly boosted productivity and national economic contributions. Extended shelf life, steadier domestic supply, and minimised post-harvest losses all enhanced food security.

Rice production now contributes 15 percent to Thailand's agricultural GDP, creating a stable foundation for economic growth. These advancements enabled Thailand to diversify rice exports beyond bulk commodities (Pongsrihadulchai, 2018). Thailand has become a major global exporter, offering a more extensive range of higher-value products like aromatic rice mixes, ready-to-eat meals, and rice noodles (Suebpongsang et al., 2020). This diversification has resulted in a significant increase in export revenue. For instance, Thailand's rice exports from January to October 2023 totalled 6.92 million tons, valued at $3.96 billion, reflecting a substantial year-on-year increase (Nation, 2023).

By embracing value addition, Thailand transformed its rice sector from a high-volume, low-margin industry to a significant player in the global market for high-value rice products. This shift strengthened food security and generated significant foreign exchange revenue, contributing to a more stable national balance of payments.

The Netherlands: Dairy and Eggs

Faced with competition in the global dairy market, the Netherlands actively restructured its milk and egg production by focusing on high-value processed food. This has made the Netherlands a significant player in the global market, accounting for 5 percent of total dairy trade volume (ZuivelNL, 2020). This strategic shift has transformed the Netherlands into the world's largest exporter of dairy goods, including renowned cheeses like Gouda and Edam. For instance, in 2022, Dutch dairy exports surged by 32 percent to over €10.8 billion. This growth was driven significantly by increased volumes across several dairy product categories (ZuivelNL, 2022). Their approach was not just about variety. They also prioritised quality, exporting powdered milk for further processing and high-quality eggs, contributing to global food security by providing a stable source of protein (Rabobank, 2023).

Today, the Dutch dairy sector contributes to their national economy. In 2021, Agro & Food contributed € 57.7 billion (6.9 percent) to the Dutch economy, including € 7.2 billion (0.8 percent) from dairy (Zuivelnl, 2022). It is expected to generate US$8,655.00 million in revenue by the end of 2024. The industry employs a significant direct workforce and supports multiples more in indirect employment by fostering a strong network of supporting businesses like barn builders, animal feed companies, and wholesalers (ZuivelNL, 2020). The Dairy Products and eggs market is expected to generate US$8,655.00 million in revenue by the end of 2024.

China’s Special Economic Zones

Drawing upon successful case studies, particularly from China, many economists believe Special Economic Zones (SEZs) can achieve industrial development efficiently and effectively (Zhou, 2022). In particular, investing in SEZs can provide a bundling of public services in a geographically concentrated area;

increase the effectiveness of government-limited budget allocations for infrastructure, facilitate cluster development or accumulation of certain industries; and facilitate urban growth by offering facilities that deliver improved living circumstances for both basic wage and highly skilled technical workers, leveraging economies of scale in the provision of critical services, such as electricity, water and solid waste treatment plants (Olusina Daniel, 2024).

SEZs typically target four goals: attracting foreign investment and exports, reducing unemployment, supporting economic reforms, and testing new policies. SEZs accounted for 22 percent of China's GDP in 2021, 45 percent of total foreign direct investment, and 60 percent of exports. SEZs have generated over 30 million jobs, boosted farmers' income by 30 percent, and spurred industrialisation, agricultural modernisation, and urbanisation (Zhou, 2022). This proves that SEZs are particularly effective in creating jobs, income, and environmental improvements when nationwide reforms are difficult due to limited resources or political opposition (Zeng, 2015). In essence, SEZs act as pilot areas with better regulations, infrastructure, and public services to attract investment and create a more favourable business environment (Aggarwal, 2019).

Uganda's Public-Private Partnership

In Uganda, the CultiAf-Ag-PPP project is a testament to the transformative power of partnerships in bolstering smallholder farmers. This initiative represents a collaborative effort between the Government and corporate agribusinesses to provide extensive support to bean producers. Through a coordinated effort between the Ugandan authorities, private agribusinesses, and international development agencies provided certified and quality-declared foundation bean seed to promote seed production and distribution, guaranteed market by the processor eliminating demand uncertainty for bean growers while also securing supply for the processor and provided new varieties coupled with information on excellent agricultural practices, and building an enabling environment with seed credit, market incentives, and risk management to increase utilisation (Aseete et al., 2022).

This effort distributed 1,000 tons of bean seeds to 13,503 farmers during CultiAf's initial phase, demonstrating that CultiAf dramatically enhanced productivity, sales volume, and market share. Farmers who participated in the program had 29 percent higher yields than those who did not. This economic empowerment was not an isolated gain. Increased output improved Uganda's food security by assuring a steadier domestic food supply, while a higher market share boosted the country's overall market competitiveness in the bean industry (Aseete et al., 2022).

Kenyan Tea Industry

Kenya's tea sector is the largest in sub-Saharan Africa, accounting for 5 percent of the country's GDP. However, the industry has not reached its full potential due to several challenges, including low levels of value addition, fluctuating global tea prices, and high production costs. To address these issues, the Government initiated the Strategy for Revitalizing Agriculture (SRA), the search for new emerging markets with strong potential, and a few others. These policies aimed to enhance value addition within the sector by promoting the establishment of more processing facilities, encouraging the production of speciality teas, and improving quality standards. Additionally, the policy focused on better marketing strategies. As a result, there has been increased investment in the sector, leading to improved product quality, greater market diversification, and enhanced growth and profitability for Kenya's tea industry.

Kenya's proactive approach to value addition in its tea industry has stimulated the economy. The sector directly supports the livelihood of over 600,000 Kenyans, with employment growth of over 1,300 jobs between 2017 and 2018 alone. These initiatives have created over 2,000 new jobs and attracted innovative enterprises, resulting in an additional 24,000 tons of exports (Kamer, 2022). A World Bank study on the competitiveness of purple tea highlights its potential to attract further investments and significantly boost Kenya's overall economic performance.

Critical Lessons Learned: A Pathway for Nigeria

The case studies underscore the transformative potential of value addition in agriculture. Through a focus on premium products, diversification, and strategic investments, countries as diverse as the Netherlands, Thailand, China, and Kenya have transformed their agriculture sectors into engines for economic growth and global food security. This offers valuable takeaways for Nigeria, notably:

- Value Addition creates a ripple effect, boosting food security, export revenue, and economic growth (Thailand's rice, Netherlands' dairy).

- Strategic Investments in infrastructure and technology are critical, as storage, processing, automation, and irrigation investments maximise value addition (Thailand, Netherlands).

- Public-Private Partnerships (PPPs) combine public support with private sector execution capacity and e ciency to address market access and technology adoption (e.g., Ugandan smallholder farmers).

- Innovation Drives Sustainability: R&D investment fosters growth and sustainability

- SEZs as Potential Accelerators: China's SEZs offer a model for concentrated services, infrastructure, and improved living conditions to pilot reforms that could attract investment and create the conditions precedents for private sector investments.

Nigeria can incentivise increased domestic production by focusing on processing and value-added products, reducing reliance on imports, and fostering self-sufficiency. Investments in processing infrastructure and storage facilities can significantly minimise post-harvest losses, ensuring food security and maximising returns from agricultural production. A robust value-added agriculture sector can also insulate Nigeria from external price shocks, contributing to price stability and economic resilience.

Policy Recommendation to Support the Development of a Roadmap to Economic Stabilization

The lessons from the case study evidence presented in this paper provide a roadmap for Nigeria to leverage value addition and achieve economic stabilisation. Drawing on these insights, Nigeria can potentially increase value addition in its agriculture production, paving the path for long-term economic stability. To achieve this, Federal and sub-national governments can take the following steps.

- **Public-Private Partnerships:** Governments can partner with the private sector to address infrastructure challenges and increase access to finance. By utilising Public-Private Partnerships (PPPs), they can leverage private sector expertise and investment to improve infrastructure and provide better financial access for agro-food value chain actors.

- **Technology Adoption:** Governments can promote the adoption of modern technologies and know-how by smallholder farmers and SMEs in the agro-food value chain. They can offer subsidies or alternative financial assistance to incentivise smallholder farmers and SMEs to adopt modern technologies and best practices. At the same time, establishing extension services that offer training and technical assistance to farmers can play a pivotal role in fostering technology adoption. Facilitating foreign direct investment (FDI) and promoting local content within the agro-food value chain could contribute significantly to technological advancements and overall sectoral development.

- **Value Addition:** Governments can encourage value addition in the agro-food value chain by supporting the establishment of processing and packaging facilities. This can be done by providing incentives, such as tax breaks or investment subsidies, and by creating an enabling environment for establishing and operating these facilities.

- **Market Linkages and Extension Services:** Governments. should take proactive measures to enhance market linkages between farmers, processors, and retailers. This can be achieved through direct intervention, PPPs, or by attracting increased participation from donors, multilateral organisations, and the private sector. Establishing comprehensive market information systems and providing essential support services like logistics and transportation will streamline the agro-food value chain, minimise food waste, and enhance overall efficiency.

Conclusion

This paper has explored the potential of value addition in agriculture to contribute to economic stabilisation in Nigeria. Drawing on case studies from five comparator countries, we illustrate how value addition through commodity-based industrialisation can lead to increased production, reduced import reliance, reduced post-harvest losses, and economic stabilisation. Key takeaways or policy imperatives derived from this study include the need for federal and sub-national governments to focus on high-value products, strategic investments in infrastructure and technology, public-private partnerships where possible to embrace innovation and access to capital, market linkages and effective extension services

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The NESG is an independent, non-partisan, non-sectarian organisation, 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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