THE NIGERIAN ECONOMIC SUMMIT GROUP

State of the Nigerian Economy in H1-2024:

Review and Medium-Term Outlook

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September 2024

Federal Ministry of Budget and Economic Planning

30TH ANNIVERSARY NIGERIAN ECONOMIC SUMMIT

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THE NIGERIAN ECONOMY IN H1-2024

REVIEW AND MEDIUM-TERM OUTLOOK

Executive Summary

Despite a global economic stabilisation, primarily driven by improvements in developed economies, Nigeria's economic performance in H1-2024 exhibited a mixed picture. Recent reforms have significantly disrupted economic activities, contributing to a challenging business environment. This has resulted in the exit of multinational companies and the closure of over 200 local manufacturing firms within the past year. In H1-2024, the economy experienced a 3.1 percent growth in real Gross Domestic Product (GDP), marking a slight increase compared to the previous half. While the economy benefited from improved trade positions, enhanced government revenue, and increased foreign investment, these gains have been tempered by heightened macroeconomic instability. Challenges such as exchange rate depreciation, intensified inflationary pressures, elevated interest rate environment, and deteriorated fiscal sustainability have persisted. Consequently, the positive aspects of economic growth have been overshadowed by increasing unemployment, declining per capita income, and a higher incidence of poverty, thereby undermining the social benefits of the economic expansion.

This report is structured into three distinct sections:

Section One provides a detailed but brief overview of the global economy and an analysis of the Nigerian economy for H1-2024, encompassing economic growth, inflation, fiscal and monetary policy environments, and conditions affecting investment and external trade.

Section Two addresses three pivotal issues essential for enhancing economic stabilisation in Nigeria. These issues include food security and its underlying drivers, energy challenges and factors impacting the country’s electricity supply, and the difficulties within the external trade and investment climates. Each of these areas is examined thoroughly due to their critical importance for the well-being of Nigeria’s economic stakeholders.

Section Three presents macroeconomic projections for H2-2024, covering key economic fundamentals such as growth, inflation, and trends in fiscal and monetary indicators. It also explores external sector indicators, including trade and investment positions, exchange rates, and external reserves. The section concludes with an assessment of both upside and downside risks to the macroeconomic outlook, considering economic, policy, and geopolitical factors from both global and domestic perspectives.

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PART A

THE ECONOMY IN H1-2024

Overview of the Global Economy in H1-2024

The global economy strengthened in H1-2024, reflecting an improvement in private sector activity as the Purchasing Managers' Index (PMI), rose from 51.7 points in January 2024 to 52.5 points in July 2024, albeit suppressed from May 2024 (see Figure 1). The rebound in the global economy could be attributed to the pick-up of economic activities in advanced and emerging economies. Meanwhile, the recent slowdown in PMI is attributed largely to suppressed performance in the United States, China and the Euro Area (see Figure 2).

The global inflation rate moderates partly due to easing global commodity prices. The composite, energy and non-energy price index fell by 1.3 percent, 1.7 percent and 0.5 percent (y/y), respectively, in H1-2024. Consequently, inflation is moderating in advanced economies, while it remains elevated in emerging economies largely due to currency depreciation. In the United States, inflation bucked its upward trend in Q2-2024, falling from 3.5 percent in March to 3.0 percent in June 2024. In the United Kingdom, inflation halved from 4.0 percent in January to 2.0 percent in May and June 2024. In the Euro Area, inflation fell from 2.8 percent in January to 2.5 percent in June 2024. However, in Brazil, inflationary has reignited in Q2-2024, rising from 3.7 percent in April to 4.2 percent in June 2024. Similarly, Russia's inflation rose steadily from 7.7 percent in February to 8.6 percent in June 2024.

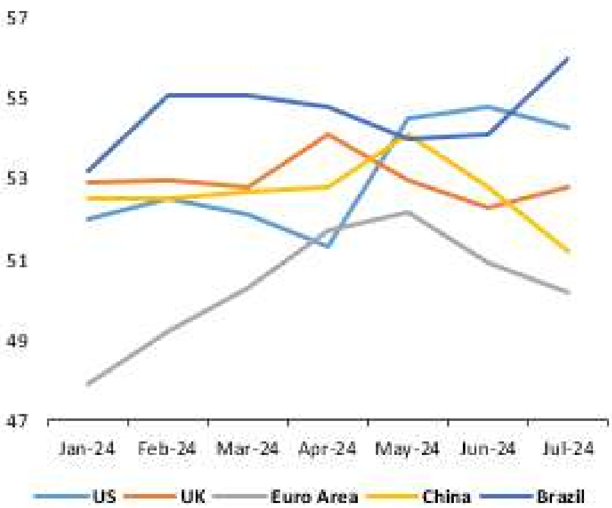
Global trade resumed growth in H1-2024. According to UNCTAD, both global trades in goods and services grew by an average of 1.4 percent in H1-2024, improving from 0.7 percent and 1.0 percent, respectively, in H1-2023. This was primarily driven by increased exports from China (9 percent), India (7 percent) and the United States (3 percent).

Global financial conditions were relatively stable in H1-2024. Central banks in most advanced economies have become more cautious about the pace of policy easing. Consequently, markets' expectations of the number of policy rate cuts to be implemented in 2024 have been revised downward. Longer-term yields have generally moved in tandem with the repricing of policy paths. Against the backdrop of currency depreciations and the resulting elevated inflationary pressures, most emerging and developing countries have remained hawkish so as to increase the real returns on investment and moderate the size and pace of capital outflows.

Figure 1: S&P Global Composite PMI (Points)

Data: S&P; Chart: NESG Research

Figure 2: S&P PMI for Selected Countries (Points)



Data: S&P; Chart: NESG Research

Overview of the Domestic Economy in H1-2024

The Nigerian economy has recorded mixed performances across different socioeconomic indicators over the past half year. As the economy continues to adjust to the impact of exchange rate depreciation and energy subsidy reforms, economic activities continue to expand, albeit at a suppressed rate. Moreover, macroeconomic instability continues to accompany economic growth, significantly suppressing economic performance, eroding the prosperity generated, restricting economic growth and diminishing the quality of life for Nigerians.

Moreover, the new government's prompt implementation of fuel subsidies, exchange rate reforms, and restrictive monetary policies has had unintended adverse effects on the economy's fabric, exacerbating existing structural issues, aggravating inflationary pressures, weakening the Naira, increasing pressures in the real sector, reducing purchasing power, and hindering economic performance. The challenging business environment also led to the exit of many multinationals and the shutdown of over 200 local manufacturing firms in the last one year. Nevertheless, the recent reforms have translated to upsides such as rising fiscal revenue, improved trade balance position, and monetary policy clarity. In light of various counteracting economic events, the following highlights the six (6) predominant themes of the performance of the Nigeria economy in H1-2024:

1 **Nigerian economy sustained growth in the first half albeit largely skewed**

2 **Enduring policies' impacts amplified inflationary pressures**

3 **Fiscal unsustainability remained elevated despite rising revenue inflows**

4 **Restrictive monetary policy amplified as inflationary pressure remained unabated**

5 **Policy directions continued to modulate the investment climate in Nigeria**

6 **External position improves on the back of higher crude oil production**

1. Nigerian economy sustained growth in the first half albeit largely skewed

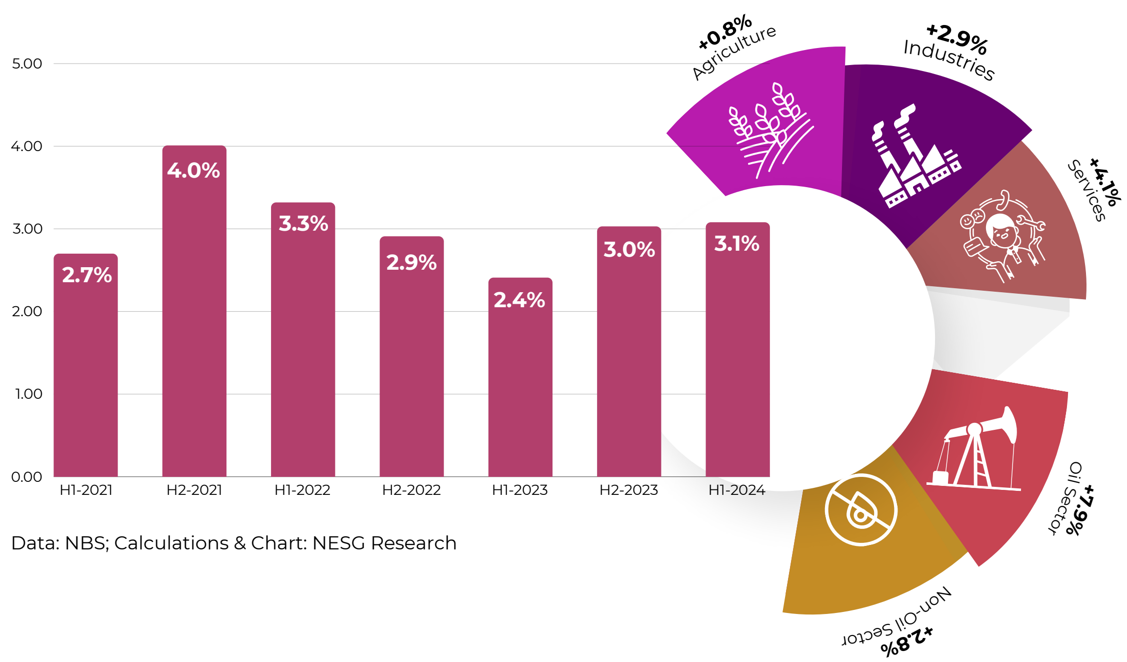
As the impact of reforms endures, economic activities continue to face restraints, and Nigeria's real Gross Domestic Product (GDP) growth drivers are skewed. As of H1-2024, the real GDP expanded by 3.1 percent, representing a fast pace compared to H1 and H2-2023 (see Figure 3). The Non-oil sector—which accounted for 94 percent of the real GDP—remained the major driver of economic activity; however, it recorded suppressed growth. It grew by 2.8 percent in H1-2024, down from 3.2 percent and 2.9 percent in H1-2023 and H2-2023, respectively.

At 7.9 percent, the Oil sector sustained growth momentum, having exited recession in Q4-2023, outpacing the non-oil sector. Due to insecurity and logistic challenges, the Agricultural sector's growth was subdued to 0.8 percent in H1-2024 from 1.7 percent in the previous half. Also, the Industrial sector grew by 2.9 percent in H1-2024 while the Services sector grew faster, by 4.1 percent in H1-2024 from 4.0 percent in H1-2023.

Meanwhile, sectors' performance remains skewed (see Figure 4). Reaping the benefits of the exchange rate reform, the Financial sector contributed the most to growth, with an accelerated growth performance. It grew by 30.0 percent in H1-2024, up from 29.1 percent in H2-2023. Other *growth drivers* in H1-2024 include the ICT and Oil & Gas sectors, which expanded by 4.9 percent and 7.9 percent, respectively.

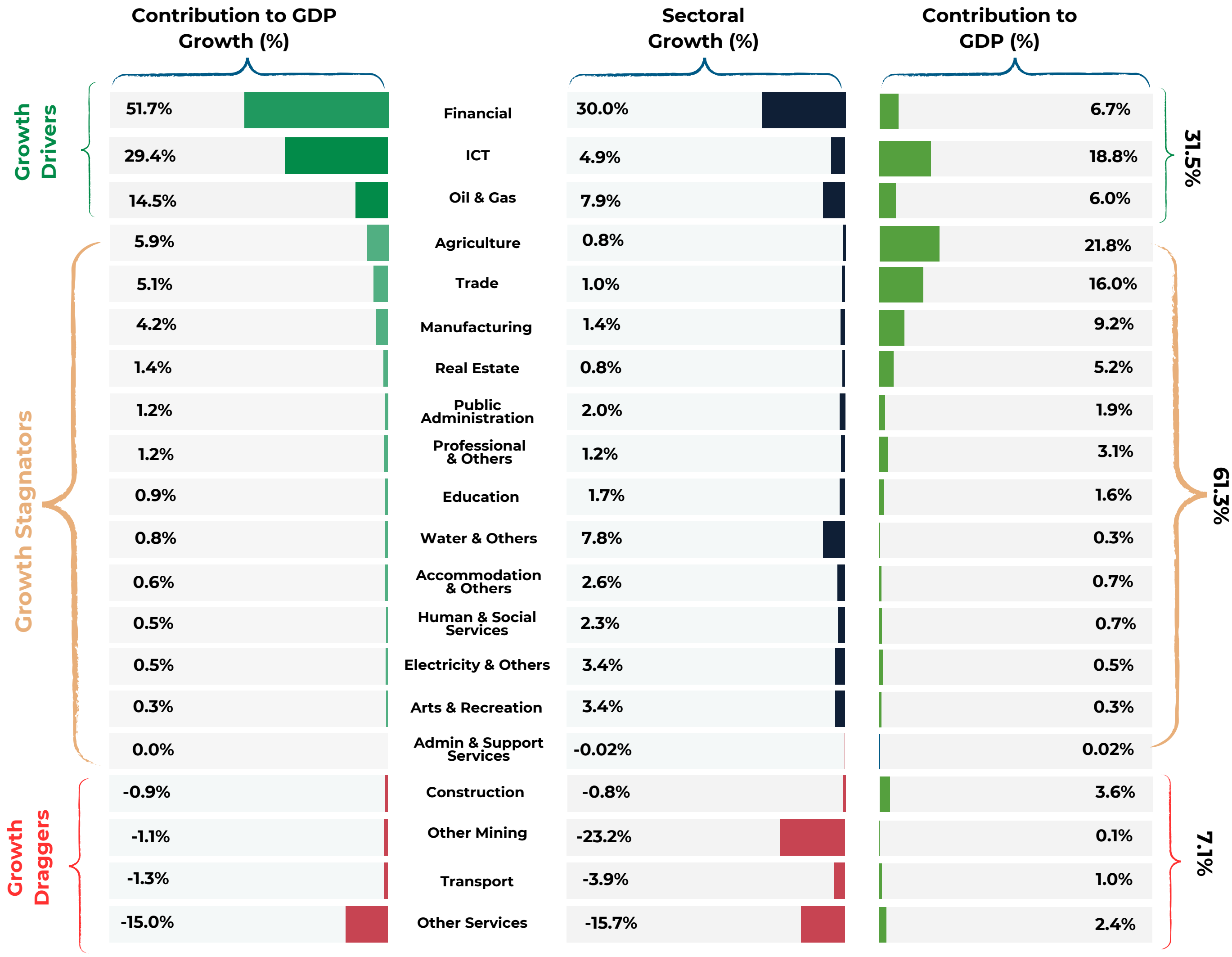
Major *growth stagnators* in the first half include Agriculture, Trade, Manufacturing and Real Estate, with 21.8 percent, 16.0 percent, 9.2 percent and 5.2 percent shares of GDP, respectively (see Figure 4), but contributing much lower to overall growth at 5.9 percent, 5.1 percent, 4.2 percent and 1.4 percent, respectively. *Growth Draggers*, however, include Construction and Transport, among others, constrained by the impact of reforms on operating costs.

Figure 3: Real GDP Growth (Percent)



Data: NBS; Calculations & Chart: NESG Research

Figure 4: Sectoral Performance in H1-2024



Data: NBS; Calculations & Chart: NESG Research

2. Enduring policies' impacts amplified inflationary pressures

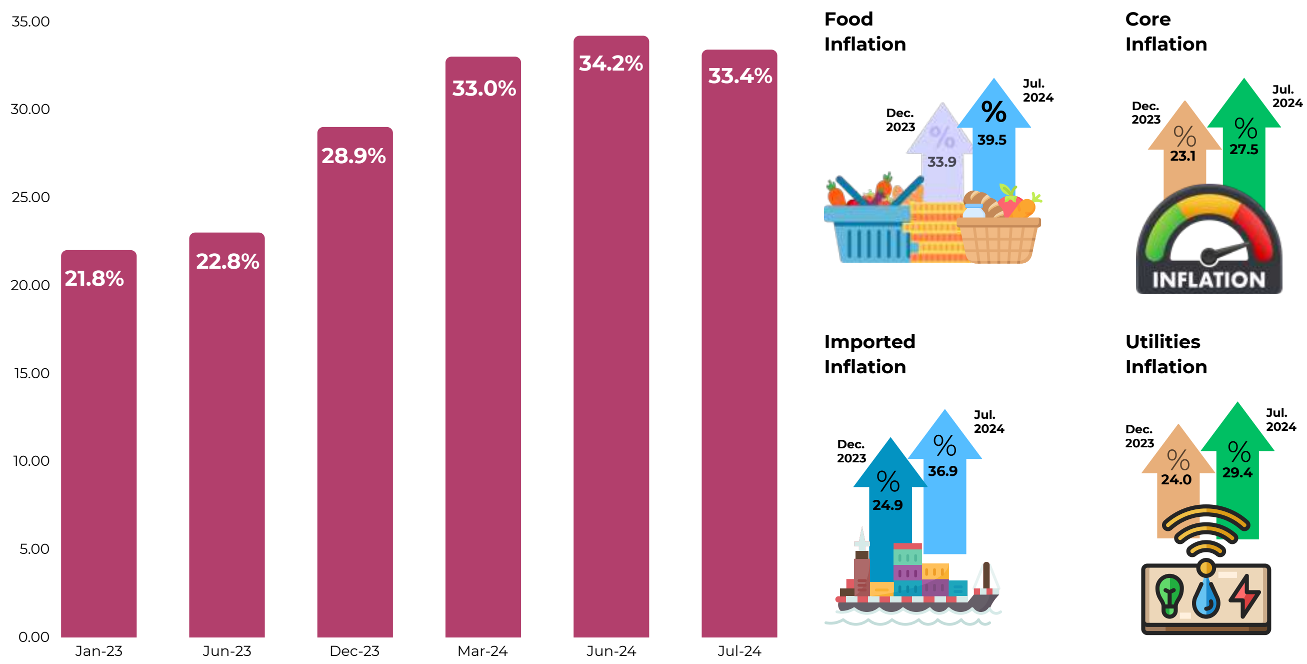
The price levels continued to rise, albeit at a slower pace, as the headline inflation rate rose to 33.4 percent in July 2024 (see Figure 5). The food inflation rate rose slightly to 39.5 percent, remains the dominant driver of inflationary pressures. Similarly, the core inflation rate rose to 27.5 percent in July 2024 from 27.4 percent in June 2024.

The aftermaths of fuel subsidy removal, exchange rate depreciation, and other major reforms continue to impact operating costs and prices of goods and services. The inflation data highlight the significant impact of currency depreciation on food items, as imported food inflation increased by an average of 2.0 percentage points monthly between December 2023 and July 2024, compared with 1.3 percentage points and 1.0 percentage points on food and headline inflation rates over a similar period.

Structural factors, including increased global commodity prices (especially fertiliser, energy, and intermediate manufacturing inputs), heightened insecurity, and an infrastructural deficit, continue to exacerbate inflationary pressures in Nigeria. While the situation appears unrelenting, the month-on-month inflation rate shows some response to policy intervention, as rates across all inflation indices contracted for three consecutive months as of May 2024.

Figure 5: Inflation Rate Movement

Headline Inflation Rate in Nigeria



Data: NBS; Calculations & Chart: NESG Research

3. Fiscal unsustainability remained concerning despite rising revenue inflows

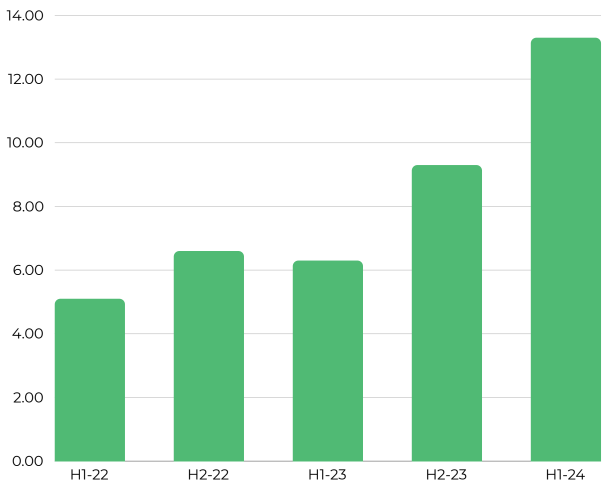
The government continues to record robust revenue following structural reforms as accruals to the Federal Account Allocation Committee (FAAC) continue to expand. As of June 2024, gross revenue stood at N2.48 trillion, representing a 118.7 percent expansion compared with N1.13 trillion reported in the corresponding period of 2023. Moreover, as of the first six months of 2024, the gross revenue from FAAC has expanded to N13.27 trillion from N6.31 trillion in the corresponding period of 2023 (see Figure 6). This is motivated by the increased windfall from oil propelled by subsidy removal, expansion in crude oil outputs, and exchange rate depreciation.

However, the debt sustainability situation continues to aggravate. The Debt Management Office (DMO) reported that Nigeria's public debt stock expanded by 25 percent to N121.67 trillion in Q1-2024 from N97.34 trillion as of Q4-2023 (see Figure 7). This represents an unprecedented increase of N24.33 trillion within a quarter.

According to the DMO, the sharp rise in public debt is driven mainly by the revaluations of public debt based on exchange and interest rates obtainable in the quarter, following exchange rate depreciation and an elevated interest rate environment. As such, the DMO put the new public borrowing for the quarter at N7.71 trillion (N2.81 trillion of new domestic borrowing to finance the budget and N4.90 trillion to securitise part of the N7.3 trillion Ways & Means).

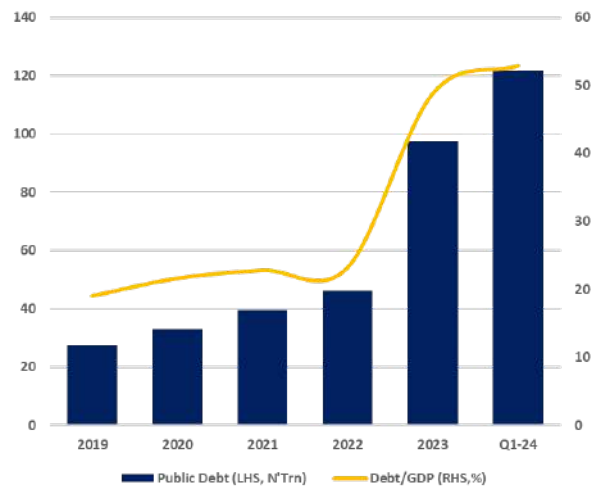
The rising public debt highlights the impact of macroeconomic instability on fiscal sustainability. Consequently, the debt/GDP ratio as of Q1-2024 expanded to 52.9 percent from 48.8 percent in Q4-2023 (see Figure 7). This amplified the debt burden as the debt service increased to N2.48 trillion in Q1-2024 compared with N1.24 trillion in the corresponding period of 2023, though lower compared with N2.85 trillion in Q4-2023.

Figure 6: Trend of FACC Allocation (N'trn)



Data: NBS; Calculations & Chart: NESG Research

Figure 7: Trend of Public Debt



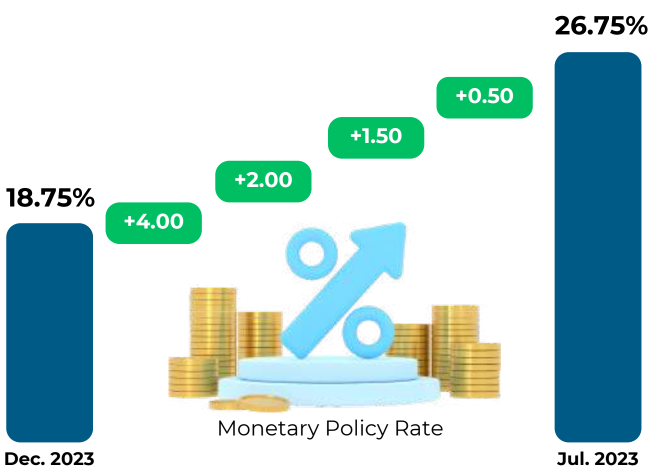
Data: DMO; Calculations & Chart: NESG Research

4. Restrictive monetary policy amplified as inflationary pressure remained unabated

With the unabating inflationary pressures, the Central Bank of Nigeria (CBN) has indicated its intention to embark on an inflation-targeting monetary policy strategy. Hence, the Monetary Policy Committee (MPC), in its four meetings so far in 2024, increased the Monetary Policy Rate (MPR) four consecutive times by 800 basis points from 18.75 percent to 26.75 percent in July 2024 (see Figure 8). Additionally, the MPC adjusted the asymmetric corridor around the MPR from +100/-300 to +100/-700 but later reversed it. The committee raised the Cash Reserve Ratio (CRR) for commercial banks from 32.5 percent to 45.0 percent and from 10 percent to 14 percent for merchant banks and retained the liquidity ratio at 30 percent. In addition, the CBN revised commercial banks' Loan-to-Deposit Ratio (LDR) downwards from 65 percent to 50 percent. This has motivated an increase in market interest rates.

Beyond taming inflationary pressures, the CBN aims to incentivise foreign investors to boost foreign exchange inflows. The exchange rate pressure has subsided following various reforms, but the price discovery process remains turbulent. Opening the year at N907.11/US$, the Naira in the official Investors & Exporters (I&E) Window weakened to N1,665.50/US$ in mid-February. It, however, appreciated to N1,072.74/US$ in mid-April. As of the end of June, the official exchange rate closed at N1505.30/US$. This represents a 65.9 percent depreciation (see Figure 9). However, based on the quarterly average, the Naira only depreciated by 3.9 percent from N1,338.21/US$ in Q1-2024 to N1,390.96/US$ in Q2-2024. Meanwhile, the parallel market premium has substantially narrowed from an excess of N500/US$ in January 2024 to N19.70/US$ at the close of H1-2024 (see Figure 9).

Figure 8: Monetary Policy Rate in H1-2024



Data: CBN; Calculations & Chart: NESG Research

Figure 9: Exchange rate movement in H1-2024

Data: FMDQ, Nairametrics; Calculations & Chart: NESG Research

5. Policy directions continued to modulate the investment climate in Nigeria

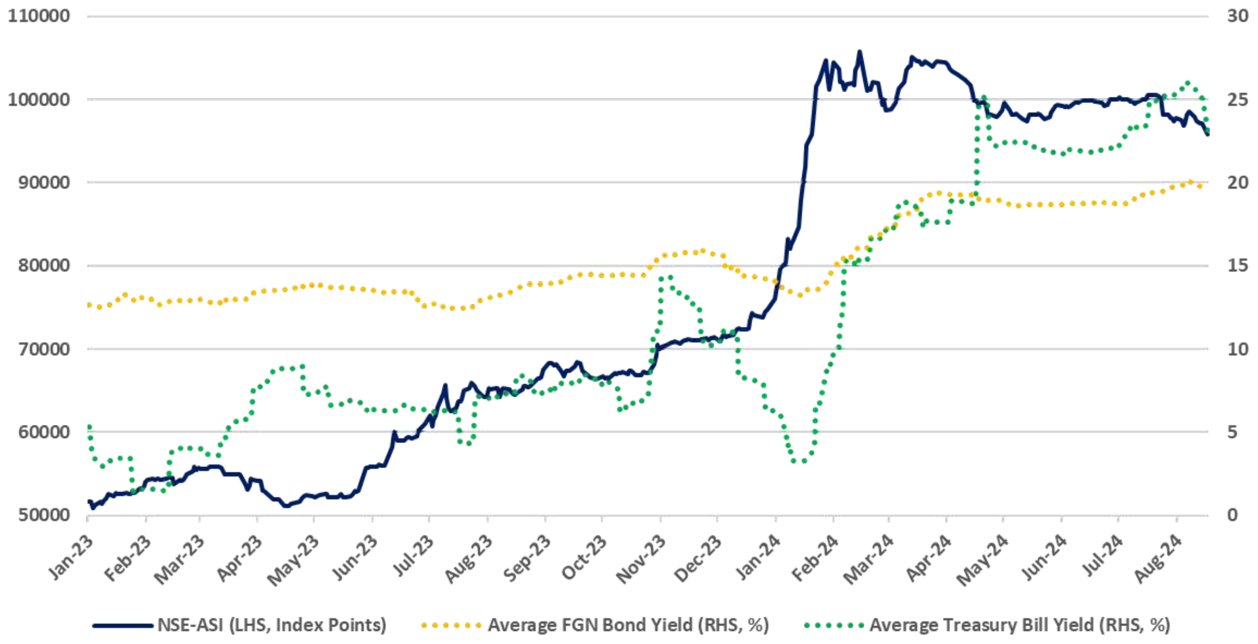
The enlivened policy space motivated mixed performances across the capital market segments. The enduring impact of the prompt removal of subsidies and foreign exchange market unification motivated the bullish equity market earlier in the year. In mid-March 2024, the Nigerian Exchange–All Share Index (NGX-ASI) reached an unprecedented level with a market capitalisation of N59.42 trillion (see Figure 10).

However, the elevated interest rate environment following increases in the MPR dampened the equity market's trajectory. The stock market has slowed down following the rise in fixed-income market yield. As of the end of June, the NGX-ASI closed at 100,057.49, a 4.8 percent loss from the peak of 105,085.25. Nevertheless, this represents a 33.8 percent gain in the year's first half compared with the corresponding period in 2023 (see Figure 10).

In the fixed-income market, yields on both private and government securities increased in H1-2024 following the hike in policy rate. The average yield on FGN Bonds increased to 18.8 percent to close H1-2024 from 14.1 percent that opened on the first trading day of the year (see Figure 10).

Likewise, the average yield on Treasury Bills increased drastically to 21.7 percent at the end of June from 6.3 percent on the first trading day of the year (see Figure 10). Similarly, yields on private securities increased – average yields on corporate bonds, commercial papers and Exchange-Traded Funds (ETF) rose to 20.9 percent, 24.3 percent and 14.3 percent to close H1-2024 from 15.4 percent, 10.3 percent and 12.8 percent that opened the year's trading, respectively.

Figure 10: Nigeria's Capital Market Performance

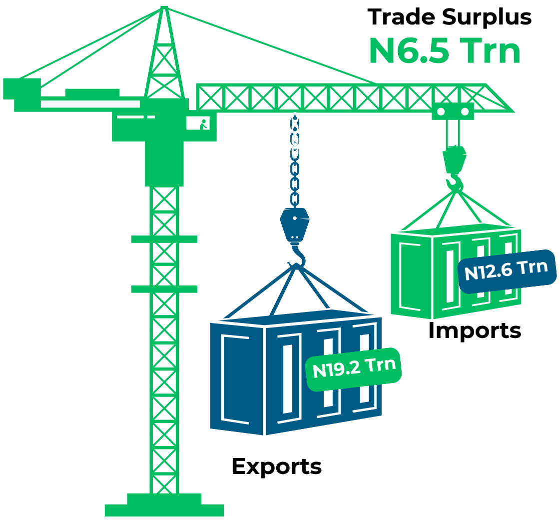


Data: Investing.com, FMDQ, Calculations; Chart: NESG Research

6. External position improved on the back of higher crude oil production

Nigeria's external trade expanded in Q1-2024 by 45.9 percent to N31.8 trillion from N21.8 trillion in Q4-2023. This followed a 51 percent and 39.6 percent rise in exports and imports at N19.2 trillion and N12.6 trillion, respectively (see Figure 11). The higher growth in exports compared with imports motivated a 79.2 percent expansion in trade surplus for the quarter to N6.5 trillion. The rise in exports resulted from consistent expansion in oil production to 1.57 million barrels per day in Q1-2024 from 1.22 million barrels per day in Q1-2023. Besides, the tremendous increase in energy, agricultural and solid mineral exports also contributed to total export growth.

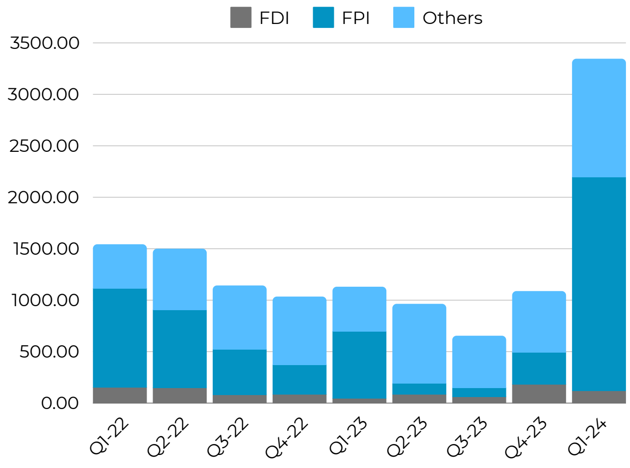
Figure 11: Nigeria's Import and Export Trade (N'trillion)



Data: NBS, Calculations; Chart: NESG Research

Similarly, following the rise in the interest rate environment, Nigeria experienced a surge in capital importation. In Q1-2024, total capital importation more than tripled (Y-o-Y) to US$3.38 billion – a 4-year high (see Figure 12). As usual, the foreign inflows were dominated by portfolio investment, accounting for 62.0 percent of total inflows, predominantly in money market instruments. However, Nigeria continues to struggle to attract Foreign Direct Investment (FDI) as it only accounted for 3.6 percent of total inflow and contracted by 35.2 percent (Q-o-Q) to US$119.18 million.

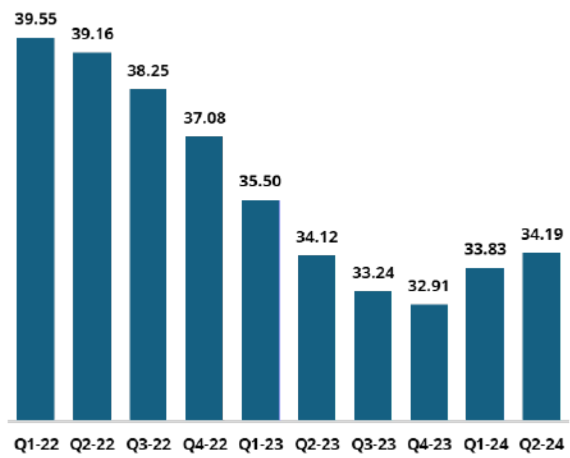
Figure 12: Capital Importation (US$'million)



Data: NBS, Calculations; Chart: NESG Research

The expansion in exports and capital inflows is pivotal for the foreign exchange market's liquidity and management. While the foreign exchange market continues its price discovery process, the impact of improved trade position is manifested in the accretion of foreign reserves. As of the end of June 2024, the foreign reserves had increased by 3.9 percent to US$34.19 billion from US$32.91 billion at the end of 2023 (see Figure 13).

Figure 13: Trend of Foreign Reserves (US$'Brillion)



Data: NBS, Calculations; Chart: NESG Research


POLICE

Overview of Regulatory Environment so far in 2024

In the first seven (7) months of 2024, a broad spectrum of policy announcements—encompassing fiscal, monetary, exchange rate, and trade measures—emerged to address macroeconomic instability. However, these policies have produced mixed outcomes. While some have contributed to economic stabilisation, others have inadvertently hindered progress towards achieving stability. Several of these policies appear to be either poorly conceived or poorly timed. For instance, the introduction of the cybersecurity levy occurred during a period of significant economic hardship for Nigerians, marked by soaring inflation and a cost-of-living crisis. Consequently, the government had to suspend the levy in response to mounting pressure. Below is a summary of key policy pronouncements made so far in 2024 and their implications for the economic stabilisation efforts, as outlined in the 2024 NESG Macroeconomic Outlook Report.

Highlight of Key Monetary Policy Interventions so far in 2024

Policy	Description and Impact points	Impact on Stabilisation
Recapitalisation and Revocation of BDC Licenses	The CBN increased the share capital of BDC operators to N2 billion and N500 million for Tier 1 and Tier 2 licenses, respectively. It also revoked the license of 4,173 BDC operators, further creating clarity and stability in the FX market	Would drive stabilisation as it promotes clarity and transparency in the FX market
Monetary Policy Tightening	The Monetary authority raised the policy rate by 800 basis points to 26.75 percent to address inflationary pressure. This increased the interest rate and strengthened FX stability	Would drive stabilisation but complementary measures are required to ensure that tight monetary policy becomes effective
Banking Sector Recapitalisation	To strengthen the financial system, the CBN authorised commercial banks to raise capital base to N500 billion and N200 billion for banks with international and national authorisation, respectively. Similarly, regional banks and non-interest banks with national and regional authorisations are required to increase their capital base to N50 billion, N20 billion and N10 billion, respectively.	Would drive stabilisation to the extent that Banks can support the real and productive sector of the Nigerian economy
Discontinuation of Price Verification System	The CBN discontinued the Price Verification System Portal used by importers, effective from July 1, 2024. This policy change is a direct outcome of the productive engagement facilitated by the NESG between the Central Bank of Nigeria (CBN) and business leaders to stabilise the financial system, the FX market and support trade	Could drive stabilization as import processes are streamlined and transaction costs are lowered

Highlight of Key Fiscal Policy Interventions so far in 2024

Policy	Description and Impact points	Impact on Stabilisation
Increase in Minimum Wage	The President recently signed the new minimum wage bill into law, increasing the minimum wage to N70,000 from N30,000 previously in place, effective from April 2024. This will increase household disposable income but may not improve the purchasing power of citizens due to the high and rising inflation	Would drag stabilisation to the extent that efforts to rein in inflationary pressures are undermined
Tax Reforms Committe Proposed a 5% reduction CIT	The tax is to improve the ease of doing business and attract more domestic and foreign direct investments	Would drive stabilisation to the extent that tax proceeds increases government non-oil revenues
Foreign Exchange Windfall Tax on Banks	A 70% one-time Windfall tax has been imposed on Nigerian banks' realised profits from all foreign exchange (FX) transactions within the 2023 financial year. The windfall tax will ease fiscal pressure and reduce banks' ability to create credit	Could drive stabilisation as it bolsters government revenue, reduce fiscal deficit, enhance fiscal sustainability and tighten the interest environment

Highlight of Key Sectoral Policy Interventions so far in 2024

Policy	Description and Impact points	Impact on Stabilisation
Crude Oil Sales to Local Refineries in Naira	The Federal Government recently directed the Nigerian National Petroleum Corporation (NNPC) to sell crude oil to Dangote Refinery and other local refineries in Naira and not in the US dollar. This would have an impact on energy supply, and reduce FX demand pressure, thereby supporting FX and price stability	Would drive stability as there will be limited pressure on FX and enhance the supply of petroleum products in Nigeria
Increase in Electricity Tariff	The Nigerian Electricity Regulatory Commission (NERC) on April 3, 2024, raised the electricity tariff for customers enjoying 20 hours of power supply daily. These Band A customers now face an electricity tariff of N225/kWh, up from N68/kWh.	Would drag stabilisation as Band A consumers face additional burden as the cost of production and living becomes elevated
Import Duties Removal on some Staple Food	Staple foods, including maize, wheat, husked brown rice, and cowpeas, will enjoy a 150-day duty-free import window effective July 2024. This will improve imports of these products and increase the local food supply	Would drive stabilisation to the extent that the current inflationary pressure is suppressed

Conclusion

The emergence of the new administration held a promise of economic reform and increased alignment towards a market-driven economy. Since its inception, the new administration has embarked on a series of reforms, including removing the petrol subsidy, harmonising the foreign exchange (FX) windows, electricity subsidy reform, and interest rate adjustments, among others. These plausible policies, which signal the readiness of the government to move the economy to the desired level, have significantly reshaped the economic landscape. While the expected outcome is awaiting, the policy actions have constrained operational efficiency and productivity across sectors.

In H1-2024, the performance of economic indicators was mixed. The economy recorded growth in real GDP, improved trade positions, bolstered government revenue, and increased foreign investment. However, growth has been accompanied by elevated macroeconomic instability emanating from further exchange rate depreciation, aggravated inflationary pressures, a heightened interest rate environment, and weakened fiscal sustainability. These eroded the social benefits of growth, amplifying unemployment, falling per capita income, high working poor, and multidimensional poverty situations.

Economic stabilisation remains a distant goal as various economic and social challenges persist in the first half of 2024. As households and businesses continue to grapple with the aftermath of the fuel subsidy removal and exchange rate depreciation, other structural factors continue to drive up price levels, posing a significant economic threat. The government has implemented various interventions to mitigate the impact of recent economic instabilities and disruptions. However, many of these interventions appear to be superficial and short-term, failing to address the underlying structural issues that contribute to economic instability. Therefore, there is an urgent need for the government to implement deeper reforms that can remove the binding constraints and prevent further disruptions that exacerbate economic instability.

PART B

DEEP DIVE INTO THREE CRITICAL ISSUES TO ENHANCE STABILISATION IN NIGERIA

Introduction

In the first six months of 2024, Nigeria's economic landscape was marked by low productivity, escalating prices, rising costs of production and operations, and a deteriorating business and regulatory environment. These complex and multifaceted challenges undermine the anticipated outcomes and advantages of crucial economic reforms initiated by the government, thus stalling the much-needed economic stabilisation. From the monetary standpoint, tremendous efforts have been made to curb inflationary pressures, stabilise the financial sector and clarity in market operations. However, due to the structural nature of the drivers of macroeconomic challenges in Nigeria, monetary policy has not sufficiently guaranteed stability. As such, critical drivers of persistent economic instability in the first half of 2024 include the rising cost of a healthy diet and food insecurity, deteriorating energy shortages, and constricted trade complexity.

As policymakers continue to reiterate their commitments to fostering growth and stabilising the macroeconomic environment in the short term, stabilisation efforts need to focus on (i) Achieving Food Security, (ii) Resolving Energy Challenges, and (iii) Enhancing Trade and Investment. This section pinpoints critical problems that must be addressed to ensure the well-being of all economic stakeholders in Nigeria—households, businesses, as well as the government.

Figure 14: Critical Issues to Enhance Stabilisation

Achieving Food Security

Food shortages have been a major contributor to inflationary pressure in Nigeria. Nigeria's citizens currently have limited physical and economic access to sufficient, safe, and nutritious food to meet their dietary needs and preferences for an active and healthy life, making food insecurity a matter of urgency in Nigeria. According to the Impact Economist, Nigeria ranked 107th out of 113 countries on the Global Food Security Index (GFSI) in 2022 [1]. In the 2023 Global Hunger Index, Nigeria scored 28.3 points and ranked 109th out of 125 countries, categorising Nigeria as having a serious hunger situation. This ranking underscores the severity of the issue and the urgent need to tackle food insecurity in the country [2]. The recent surge in the cost of food has further exacerbated the situation, making it even more challenging for citizens to access adequate and nutritious food.

According to the World Food Programme [3], the number of people suffering from acute hunger in Nigeria is projected to increase to 26.5 million in the June-August 2024 lean season, staggering from 18.6 million people at the end of 2023. Consequently, the Famine Early Warning System Network (FEWS-NET) puts the number of states experiencing food stress as of June 2024 at 35 (including the Federal Capital Territory (FCT), Abuja), increasing from 22 in October 2023. Meanwhile, eight (8) states (Sokoto, Zamfara, Katsina, Kaduna, Plateau, Adamawa, Borno and Yobe) are already experiencing food crises at varying degrees, and some local governments in Borno state are already in an emergency situation (see Figures 15 and 16). Due to the prolonged conflict, the Northern region has been the most affected in the country. The FEWS-NET projected that by the July and September lean season, the food stress in the country would have spread across all the states and FCT, with nine (9) states deep in crisis mode (see Figure 17).

The pressure on the food supply, spinning the country into deep food insecurity, is on the back of skyrocketing prices of staple foods such as maize, rice, and beans, among others, in 2024. According to the National Bureau of Statistics (NBS), the average prices of selected food items such as beans, rice, garri, yam and bread, among others, have increased by 126.8 percent, 68.2 percent, 96.9 percent, 61.5 percent and 51.1 percent, respectively, within the first five months of 2024. On a year-on-year basis, the prices of these items have almost doubled (see Figure 18). Besides, the Cost of a Healthy Diet (CoHD) has increased by 32.4 percent so far in the year and 106.9 percent over the past year. Overall, the food inflation rate in the year has surged to unprecedented levels, hitting 40.9 percent in June 2024.

Hence, as the pressure on the food supply shortage continues to aggravate, food insecurity amplifies, further intensifying the economic challenges Nigerians face. While the government has recently declared a state of emergency on food insecurity in Nigeria, the urgency of the situation calls for a more proactive approach to addressing the challenges in the food supply chain.

[1] https://impact.economist.com/sustainability/project/food-security-index/explore-countries/nigeria
[2] https://www.globalhungerindex.org/ranking.html
[3] https://www.wfp.org/countries/nigeria

Figure 15: Nigeria's Food Insecurity Situation Map – October 2023

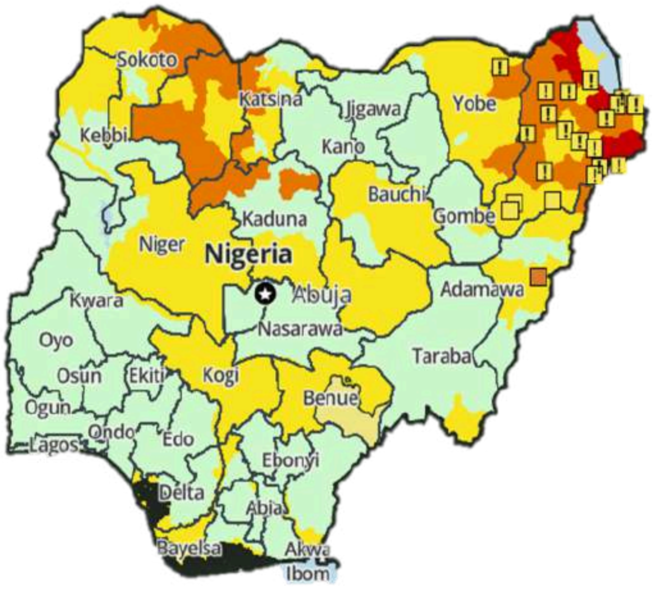


Figure 16: Nigeria's Food Insecurity Situation Map – May 2024

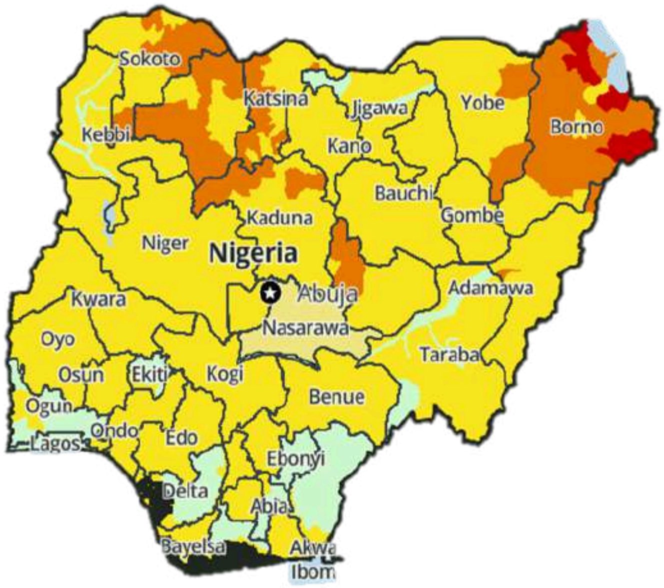


Figure 17: Nigeria's Food Insecurity Projection Map – July - September 2024

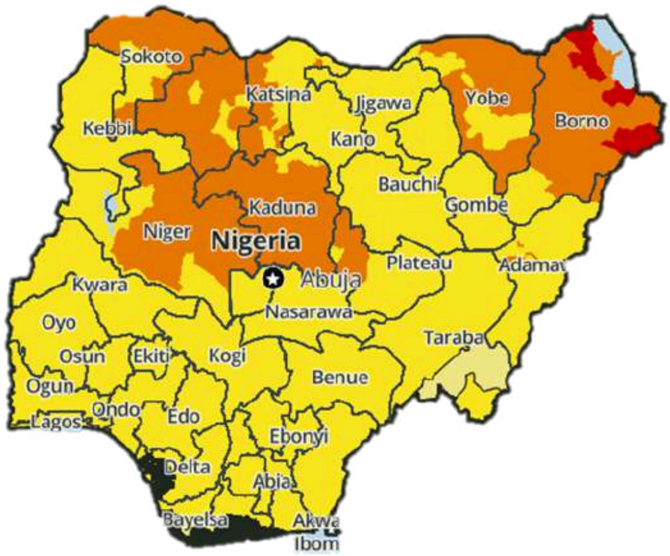
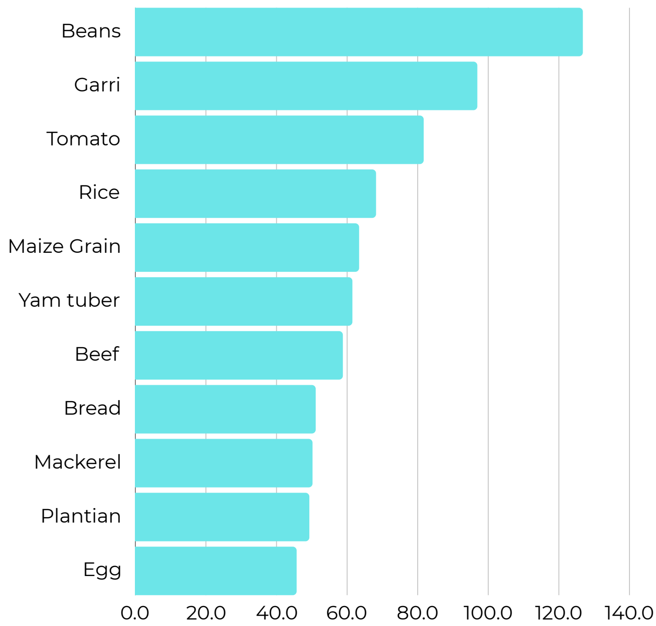


Figure 18: Food Price Changes in May 2024 (%)



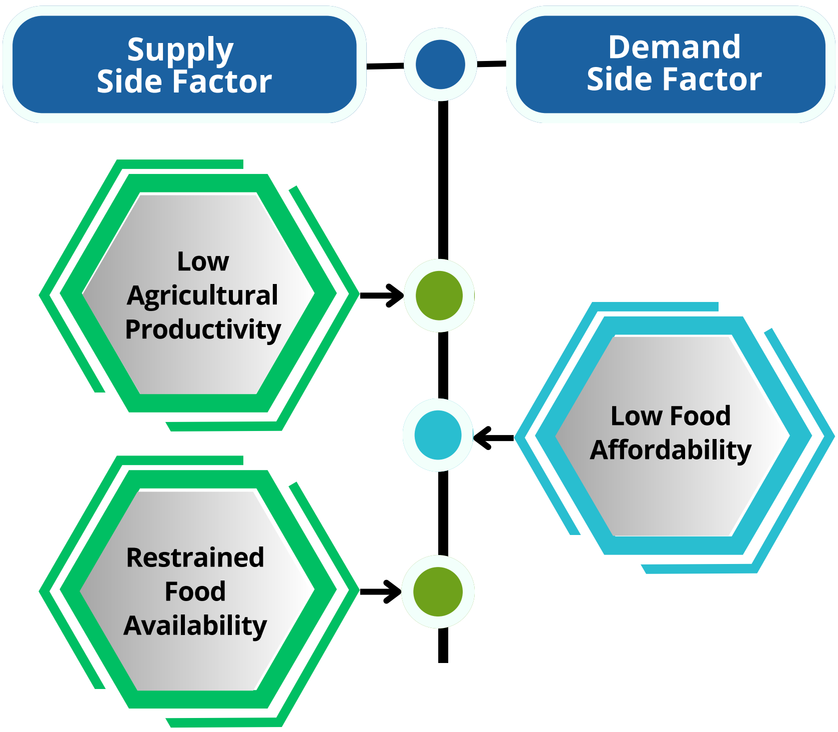
Source: Famine Early Warning System Network's (FEWS NET) classifications, 2024

Data: NBS, Calculations; Chart: NESG Research

Drivers of Food Insecurity in Nigeria

Food insecurity in Nigeria is driven by a plethora of internal and external factors that impact the food and agriculture supply chain. For the sake of policy intervention, these factors are categorised into three (3) thematic factors categorised under the demand and supply sides of the market – low agricultural productivity, restrained food availability and low food affordability – that either propel food scarcity in the country or restrain access to food among the people . Across each factor, the urgency of the situation requires prompt and effective interventions to stall Nigeria from spinning into deep food insecurity crisis.

Figure 19: Factors Driving Food Insecurity



A. Low Agricultural Productivity

The performance of the agricultural sector feeds directly into a country's food security situation. Over the past decade, the performance of Nigeria's agriculture sector has been suppressed, echoing challenges with productivity growth in the sector. Since the outbreak of COVID-19 in 2020, the average growth of the agriculture sector has stood at 1.8 percent, down from an average of 3.2 percent five years before COVID-19. The situation was amplified in the first half of 2024 as the agriculture sector advanced a meagrely 0.8 percent. With the sector being predominantly crop production, accounting for 91.3 percent of the agriculture activities, the current food security crisis appears unsurprising. Hence, there is a need to ramp up interventions across public and private sectors to rejuvenate the agriculture sector and support the food supply. The following highlights factors inhibiting agricultural productivity in Nigeria.

Poor Agricultural Inputs

Farmers face significant challenges accessing quality inputs. The biggest concern is the lack of fertiliser, as Nigeria cannot produce enough to meet its needs. Transport restrictions on urea-based fertiliser further hinder distribution due to security concerns. Seed availability is another issue, with a broken research pipeline and the market flooded with poor-quality or counterfeit seeds. In addition, low access to mechanical tools like tractors and crop sprayers limits the efficient use of labour and land, with 90 percent of farmers using crude tools, 7 percent using animal-drawn tools, and only 3 percent using engine-powered technology. Aside from the poor mechanisation rate, land access is also problematic due to insecure tenure and restrictive local policies, as a World Bank survey in 2017 rated Nigeria poorly for its land governance policies and outperformed only Haiti and Myanmar among 62 countries covered in the study.

Poor Market Access & Value Chain Development

Farmers lack access to markets in many parts of the country due to underdeveloped value chains. For instance, many farming fields in most food surplus-producing states like Niger, Benue and Katsina States lie fallow not because they cannot grow crops but because there are no nearby processing facilities. Also, Nigeria's agricultural export markets are primarily underdeveloped, partly because agricultural produce is uncompetitive and does not meet international standards.

Access to Credit

Nigerian banks are reluctant to extend loans to farmers. A survey indicated that 35 percent of farmers cited access to credit as a main barrier, with the figure rising to 59 percent in the south-south geopolitical zone. The financing gap in the agricultural sector is estimated at US$182 billion [4]. However, loans to the agriculture sector account for about 1.4 percent of total bank lending despite government efforts to promote agricultural lending through the launch of the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) in 2013. Likewise, initiatives such as the Anchor Borrower Programmes have suffered setbacks.

Poor Coordination of Food Policies

Despite numerous agricultural policies over the past five decades, including the Agriculture Promotion Policy, Anchor Borrowers' Programme, and Presidential Fertiliser Initiative, there have been no significant improvements in food availability, affordability, or accessibility. A lack of coordination between government agencies results in the overproduction of perishable produce without adequate storage or processing facilities. Additionally, agricultural funding programmes are often not aligned with other value-chain activities, making crop cultivation unsustainable.

[4] NESG and NABII (2023). Investing for Impact in Nigeria: A Deep Dive into Agriculture, Education and Health Sectors. Retrieved from https://nesgroup.org/download_resource_documents/NABII%20Final%20Report%20_1700475037.pdf

B. Restrained Food Availability

Having produced foodstuffs against all odds, the supply chain challenges further restrain the supply. Farmers and agriculture entrepreneurs face challenges moving their farm produce from farms to the table efficiently and without loss. They are either restricted from moving from one place to another or lack the capacity to move their farm produce without damaging it. These constraints crystalise in the cost of farm produce. The following highlights the factors restraining food availability in Nigeria.

Post-Harvest Losses

Nigeria experiences a measurable reduction in foodstuffs quality and quantity after harvest, which could result from deterioration from insects, moulding, rodents, theft, and physical damage during the transportation of farm produce to the consumer. According to industry estimates, around 50 percent of Nigeria's foodstuffs get lost in transit to the final consumer. According to the Agricultural Promotion Policy (APP), Nigeria's demand for tomatoes is 2.2 million tonnes per year but produces 1.5 million tonnes annually. Despite the insufficiency, almost half is lost during post-harvest activities. Transport and logistic challenges, conflicts and security, and inadequate storage facilities aggravate the loss.

Uncompetitive Environment for Agribusiness

Agribusiness continues to face significant structural challenges such as unreliable power supply, dilapidated irrigation systems, overcrowded ports, and poor roads. For instance, transporting perishable produce like tomatoes from the far north to Lagos can take several days, often resulting in high post-harvest losses. Additionally, policy missteps such as the border closure on food imports without a commensurate rise in local production inhibit food availability. Despite having a reputation as a major producer of several crops, Nigeria is still far from self-sufficiency; thus, it depends on imports for excesses. Besides, governance issues like excessive bureaucracy, corruption, overlapping governmental responsibilities, and unclear policies further hinder the Agribusiness sector.

Poor Agricultural Infrastructure

Inadequate infrastructure for year-round farming and processing hampers output and produce preservation, leading to unstable prices. Poor water and irrigation systems affect both seasonal and main-season cultivation in major farming areas. Cumulative rainfall deficits in the Northeast, North-Central, and Southeast, along with delayed rainfall and extended dry spells, severely impact crop growth and cultivation activities in key food-producing regions of Nigeria.

Prolonged Conflict and Pervasive Insecurity

Banditry, terrorism, kidnapping, inter-ethnic conflicts, and farmers-herders conflicts have forced many small-holder and commercial farmers to abandon or significantly scale down their farming activities. Even when agricultural outputs are produced, logistic challenges ensue as insecurity restricts their movement to processing centres or retail markets.

Restricted Trade and Market Access

Border closures, supply chain disruptions, and restricted trade due to insecurity between Nigeria and neighbouring countries have significantly worsened food insecurity. This has severely disrupted both formal and informal cross-border trade, particularly impacting livestock and agricultural produce imports. Grain and livestock traders can no longer use traditional routes, affecting thousands of households and small businesses in Northern and Southern Nigeria that rely on this trade for income and products, including farmers, pastoralists, and traders.

C. Low Food Affordability

Food availability does not guarantee access to food. Bad as it may appear, major food stock markets continue to supply foodstuffs. However, due to cost crystallisation, most buyers cannot afford it, which is a major bane of food insecurity in Nigeria. Food affordability explicitly addresses the demand side factors that drive food insecurity in Nigeria. The following highlights the factors that propel food unaffordability in Nigeria.

Bulging Population

At an estimated 220 million, Nigeria is the sixth largest country by population. Nigeria's population growth rate has been estimated at around 2.5 – 3.0 percent over the past two decades. Compared with an agriculture sector growing at an average of less than 2 percent, this puts pressure on the food supply in the economy. Across many food produce, Nigeria is not self-sufficient. Despite being the largest producer of crops such as cassava and yam, the country still struggles to meet local demand. Hence, demand pressure always pushes food prices beyond affordable limits.

Growing Internally Displaced Persons

Due to the ravaging conflicts and insecurity in the country, especially in the northern part, there is a growing number of internally displaced persons in the country. These people are often displaced from their source of livelihood and sustenance. Having lost the capacity to earn, food affordability eludes them, requiring humanitarian assistance. According to the FEWS-NET, an estimated 17 – 18 million people will need humanitarian assistance in the June to August 2024 lean season.

Prevalence of Informal Employment & Working Poverty

The NBS revised unemployment data estimation puts Nigeria's unemployment rate at 5.0 percent. However, just 12.7 percent of workers have wage employment, and 92.3 percent of employed people work in the informal sector, primarily in subsistent trade and agriculture activities. The working conditions of most Nigerians do not yield qualitative and quantitative income sufficient to afford adequate, safe and nutritious food to meet dietary needs for an active and healthy life.

Macroeconomic Instability

The persistent macroeconomic instability in the economy continues to erode the purchasing power of the people, especially with the currency depreciation. Due to Nigeria's exposure to foreign finished and intermediate goods, the continual depreciation of the Naira aggravates the prices of goods and services, which permeates production costs across all sectors. While household income remains sticky, macroeconomic instability erodes the value of money and people's purchasing power, making food items unaffordable.

Resolve the Country's Energy Challenges

Another major driver of elevated prices and uncompetitive operating environment of business is the inefficiency in powering the economy. In 2024, Nigeria continues to grapple with the challenge of providing reliable electricity to households and businesses. This is despite recent reforms in the power sector that moved power and electricity matters to the concurrent legislative list and provided a framework for states to establish electricity markets within the states. Besides, the government has embarked on various subsidy reforms that motivated over 200 percent increase in electricity tariff, ramping up the cost of living for households and operating costs for businesses. All of these are in efforts to build efficiency in the power sector, but expected outcomes remain sub-optimal as epileptic supply persists.

In the same vein, the alternative energy market continues to spur economic volatility as the enduring impact of the Russia-Ukraine war persists and the supply of diesel, petrol, and gas becomes erratic. Therefore, the associated scarcity of various forms of fuel and gas, which most businesses rely on for mobility, logistics and electricity, propels price volatility, straining business operations and amplifying cost pressure. The uncertainty in the supply of energy products, especially gas, also constitutes major headwinds to power generation, given that gas is used to power over 72 percent of Nigeria's power plants that are gas-fired thermal plants [5].

The challenges posed by the inefficiency in the overall energy and power sector have damning impacts on the performance of businesses and the competitiveness of the business environment. These amplify the operational costs of doing business. According to the Manufacturer CEOs Confidence Index report, energy costs constitute approximately 40 percent of total production expenses for manufacturers in Nigeria, and the erratic nature of energy slashed about 20 percent of manufacturing firms' monthly production capacity [6]. Moreover, the challenges subdue productivity, constrain operation scale-up, lower the quality of goods and services, negatively impact investment, breed operational uncertainty, and adversely affect technology adoption.

To reign in the adverse impact of the energy crisis on the economy, there is a need for proactive and collaborative responses in the implementation of reforms to guarantee favourable outcomes for the citizens. Hence, this section highlights factors inhibiting the Nigerian energy sector.

[5] https://nerc.gov.ng/wp-content/uploads/2024/04/2023_Q4_Report_Final-1.pdf
[6] https://businessday.ng/business-economy/article/textile-mills-under-strain-as-gas-to-power-cost-doubles/

Factors Constraining Energy Supply in Nigeria

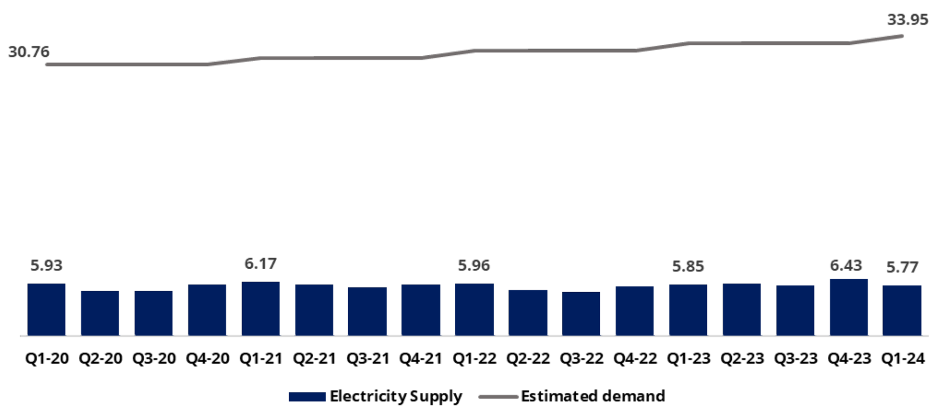
Limited Energy Generation Capacity

Access to electricity in Nigeria is estimated at 60.5 percent of the total population [7]. As such, approximately 85 million Nigerians lack access to electricity, and the electricity supply to those with access is unreliable. Nigeria's electricity need is estimated at 32,100 GWh as of 2022 [8] however, Nigeria's supply was 5,769.52 GWh as of Q1-2024, leaving over 80 percent gap in the electricity market. Notably, electricity supplied in the first quarter of 2024 represents a decline compared with 6,432.22 Gwh in Q4-2023 and 5,851.87 Gwh reported in Q1-2023. Besides, with an installed capacity of approximately 13,000 MW, the total power generation factor is just about 35 percent. This demand-supply gap results in frequent blackouts and load shedding. This is aggravated by the limited refining capacity in the oil and gas sector. Nigeria's refining capacity is limited despite being oil-rich. In 2023, Nigeria's refining capacity stood at 18000 barrels (2.8 million litres) per day, an increase from 6000 barrels per day in 2022 [9]. Despite the rise in oil refining, this currently falls short of local demand of an estimated 30 million litres per day. Therefore, Nigeria is dependent on fuel importation. The import dependence makes Nigeria susceptible to shocks from the international market.

Infrastructural Deficiencies

Nigeria's electricity infrastructure, as well as petroleum products supply and distribution logistics, are deficient and grossly inadequate. This includes outdated and inefficient power plants, a fragile transmission network, and insufficient distribution facilities. In the first half of 2024 alone, the national grid collapsed five times, leading to widespread blackouts and further eroding public confidence in the electricity supply system. More importantly, the distribution companies have not been able to improve their distribution network infrastructure across communities, causing load rejection and reducing electricity supply. In the oil and gas sector, there are inadequacies and deficiencies in storage facilities, distribution channels, pipelines, and transportation networks. This has made fuel distribution dependent on road haulage, with relatively higher risks and costs. Therefore, these deficiencies inhibit the oil and gas supply chain and create petroleum product scarcity.

Figure 20: Nigeria's Electricity Supply and Gap (thousand Gwh)



Data: NBS, Calculations & Chart: NESG Research

[7]https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=NG&most_recent_value_desc=false
[8]https://www.statista.com/statistics/1306955/electricity-demand-in-nigeria/#:~:text=Based%20on%20Statista's%20forecast%2C%20the,166%20kilowatt%20hours%20by%202025.
[9] https://www.statista.com/statistics/1292302/oil-refinery-throughput-in-nigeria/

Disruption in Gas Supply

Gas-powered thermal plants constitute about 73 percent of Nigeria's power-generating capacity. Despite Nigeria's vast natural gas reserves, the country struggles to produce, process, and distribute gas efficiently. Gas supply to power plants is often unreliable due to poor commercial arrangements and unpaid liabilities to gas producers. In 2024, power generation dropped substantially due to gas supply issues, highlighting the critical need for better gas infrastructure and policies.

High exposure to Global Crude Oil Price and Exchange Rate Volatility

High exposure to Global Crude Oil Price and Exchange Rate Volatility: Oil is an internationally priced commodity that is often determined by factors outside the control of the Nigerian government and is volatile. Besides, Nigeria relies on foreign exchange availability to supply petroleum products to domestic consumers due to its dependence on imported petroleum products. Consequently, the prices of the finished products reflect the volatile oil global oil price and exchange rate. This strains the supply and pricing of energy products, which translates to rising operating costs, transportation costs, and power generation costs.

Systemic Inefficiencies

Systemic inefficiencies in Nigeria's energy sector are pervasive. In the electricity sector, systemic inefficiencies stem from poor financial and operational management, huge metering gaps, problematic tariff structures, widespread non-payment and electricity theft, inadequate investment, and corruption. Likewise, the downstream oil and gas sector also faces pervasive system inefficiency. Despite removing fuel subsidies, the sector's operation remains opaque, with the persistence of corrupt practices, mismanagement, vulnerable infrastructure, vandalism and theft, and smuggling and sabotaging imported fuel. All these have been major hurdles to guaranteeing an adequate energy fuel supply to Nigerians.

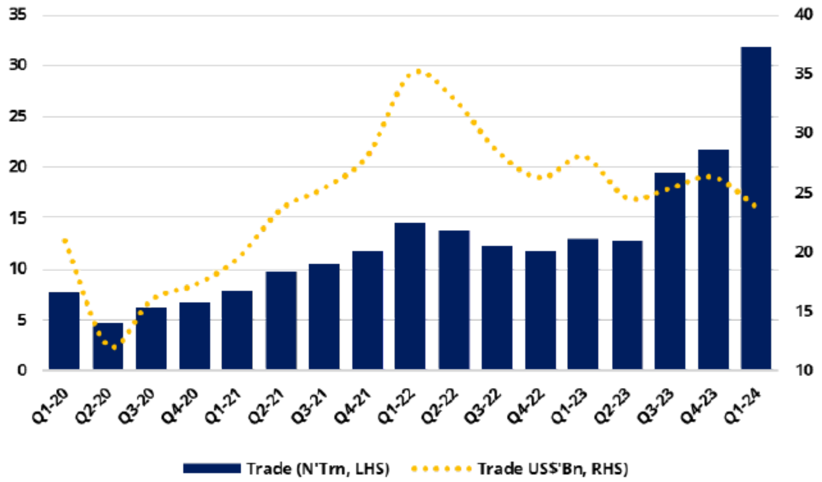
Enhancing Trade and Investment

Nigeria's macroeconomic instability constitutes a major challenge for investment climate and trade, two critical drivers of economic activities: productivity, innovation, employment, and economic development. Effective mobilisation of investment and trade facilitation is essential in navigating challenging economic times, achieving a robust economic recovery, and building economic resilience against self-insufficiency and external vulnerabilities.

While the trade position, in Naira terms, has indeed improved, the dollar value of trade outcomes shows that Nigeria's total trade dipped by 15.3 percent and 9.7 percent to US$23.77 billion in Q1-2024 from US$26.31 billion and US$28.07 billion in Q4-2023 and Q1-2023, respectively (see Figure 21). This is due to contractions in the dollar values of exports and imports, suggesting that the presumed trade surge merely reflects the devaluation of the naira. In the same vein, non-oil exports contracted by 7.6 percent as Nigeria's exports remained predominantly oil-related, accounting for 90.7 percent of total exports. This implies a lower windfall from trade to support the macroeconomy.

On the other hand, the dollar value of imports contracted significantly by 32.6 percent year-on-year (13.7 percent quarter-on-quarter), reflecting the impact of various tariff hikes, trade bans, border closures, and exchange rate depreciation on the propensity to import. However, in an economy that lacks self-sufficiency across most commodities, especially food, the culmination of import suppressors continues to disrupt the supply chain.

Figure 21: Nigeria's Relative Trade Performance

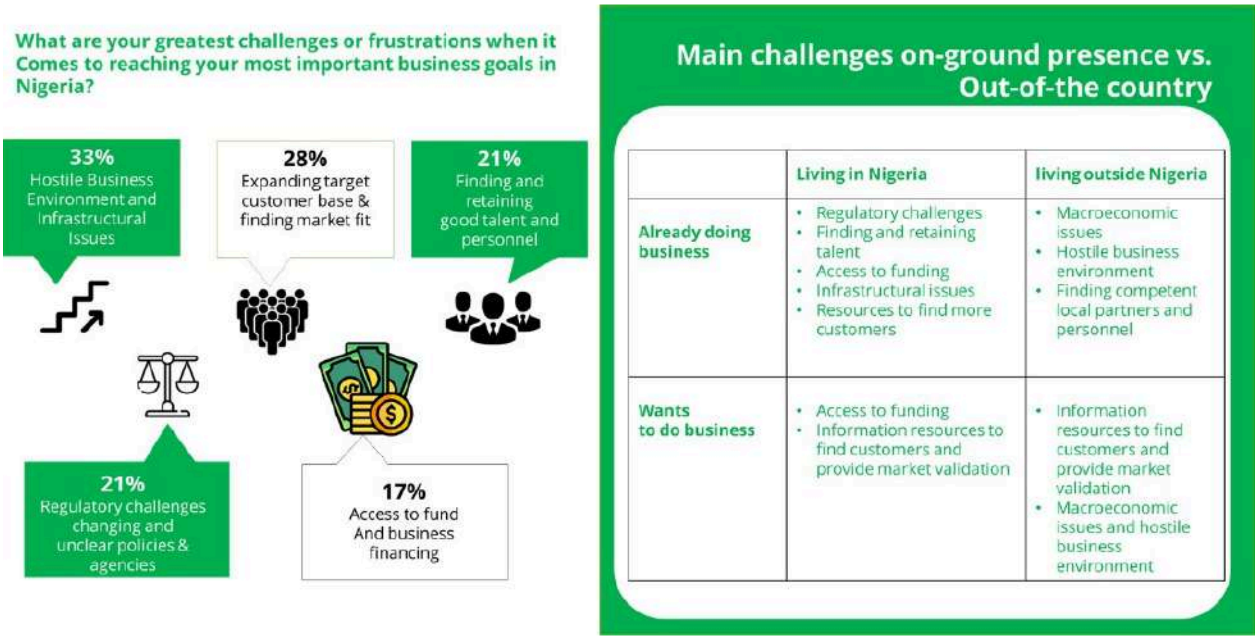


Data: NBS, Calculations & Chart: NESG Research

Nigeria's inability to grow its trade potential reflects the economy's challenges in attracting investment. Instead, the economy continues to experience corporate closures and divestments across both oil and non-oil sectors as economic uncertainties amplify. Reaping from the elevated interest rate environment, capital importation expanded significantly in Q1-2024 (see Figure 12). However, the inflows are predominantly transitory portfolio investments, while enduring FDI, though improving, remains significantly below US$1 billion.

Structural and non-structural obstacles businesses face, including regulatory bottlenecks, corruption, inefficiency in the judicial system, multiple taxes, limited financing, high borrowing costs, and increasing insecurity continue to demotivate investment. The persistent challenges of inefficient trade facilitation, poor power and energy supply, deficient transportation and logistics facilities, and overall infrastructural deficits stymie investment. Also, the persistence of FX scarcity, stringent government policies, insecurity, and an uncompetitive business environment deter investors. Figure 22 presents survey results on challenges to investing in Nigeria.

Figure 22: Challenges with Investing in Nigeria



Source: KPA

Addressing these critical issues is essential for harnessing the potential benefit of the African Continental Free Trade Area (AfCFTA) agreement to boost Nigeria's trade and investment climate. The Table below highlights critical issues for policy consideration to revitalise trade and investment in Nigeria.

Critical Issues for Consideration to Unlock Investment and Improve Trade in Nigeria

Policy Issues	Policy Priorities
Infrastructure development	Transportation & logistics
	Energy supply
Regulatory environment	Simplifying investment procedures and trade regulations
	Stable and transparent policies
	Property rights
	Anti-corruption measures
Access to finance	Credit facilities and trade financing
	Interest rate environment
	Investment incentives
Market access and trade facilitation	Customs and port efficiency
	Regional integration
	Diversification of tradeable products
Public-Private Partnerships (PPPs)	Collaboration
Security and stability	Political and economic stability
	Safety and Security

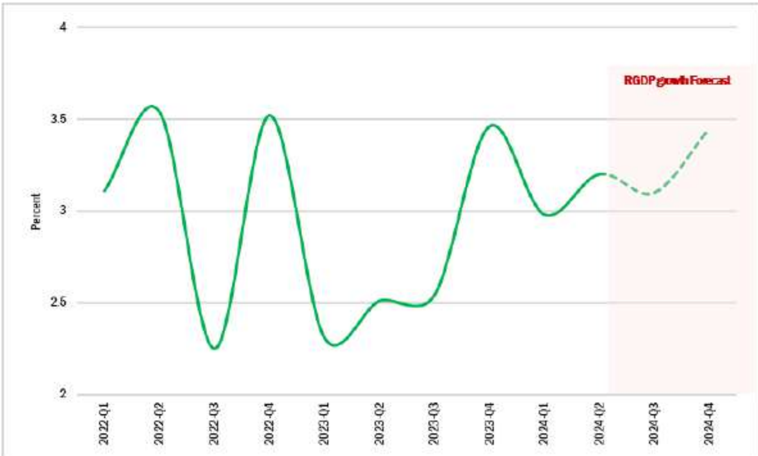
PART C

NIGERIA'S OUTLOOK FOR H2-2024

Macroeconomic Projections for H2-2024

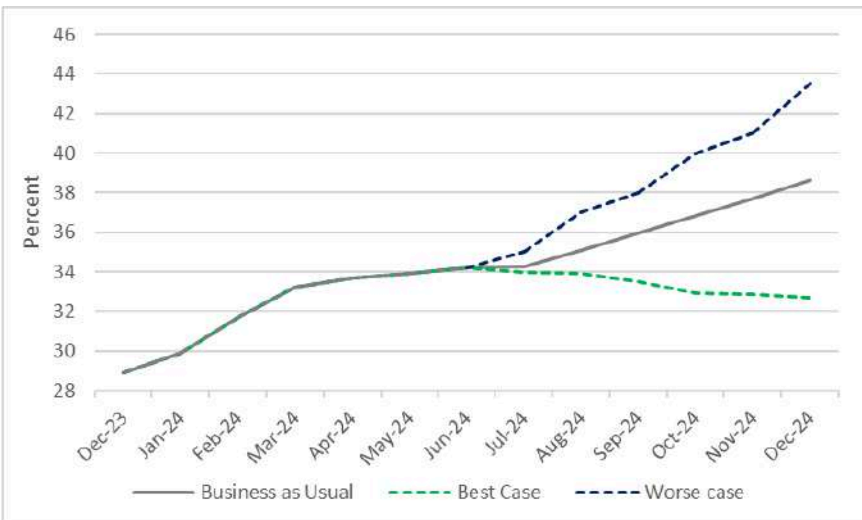
Real Gross Domestic Product (GDP) to edge higher in H2-2024. The economy is expected to expand against the backdrop of improved agricultural growth arising from crop harvests. However, insecurity in the significant food-producing regions and high interest rates pose a downside risk to this projection. Meanwhile, growth is expected to slow to 3.1 percent in Q3-2024 and improve to 3.5 percent in Q4-2024. Hence, real GDP growth is expected to average 3.3 percent in H2-2024.

Figure 23: Forecast for Real GDP Growth in H2-2024



Inflation is expected to ease moderately in H2'2024. While the monthly inflation rates are expected to ease due to the monetary policy's tightening, the momentum of decline will be at a slower pace as inflationary pressure remains elevated. The sustained inflationary pressure will be due to perennial challenges such as currency depreciation, insecurity in food-producing regions, and elevated energy and logistics costs. Nonetheless, factors to suppress inflation include crop harvest and the removal of import duties on staple foods and intermediate inputs, which would improve the domestic food supply and support local production. Proactive measures need to be taken to reverse structural dysfunctions and amplify the rate of decline in the inflation rate.

Figure 24: Forecast for Inflation Rate in H2-2024



FAAC allocation among the three tiers of government is expected to remain robust. This would be driven by sustained improvement in domestic crude oil production and elevated global oil prices. However, the increase in minimum wage from N30,000 per month to N70,000 is expected to strain public finances. Consequently, a Supplementary Budget needs to be passed for the Federal Government to provide for the increase. With many states still struggling to pay the previous minimum wage, they would find the new minimum wage difficult to accommodate unless with heavy borrowing. This will further amplify Nigeria's debt stock and burden and concern about the sustainability of Nigeria's public finance.

The monetary policy would remain restrictive unless inflation bucks its rising trend. The recent hikes in the Monetary Policy Rate (MPR) are yielding fruits, as reflected in the persistent decline in the month-on-month inflation indices. However, if inflation does not buck its rising trend in the near term, the CBN's Monetary Policy Committee (MPC) is likely to remain hawkish.

External conditions will continue to improve. Improvement in domestic crude oil production and elevated global oil prices is expected to translate to a sustained trade surplus amidst weak external reserves as CBN resume FX market intervention. However, trade would be adversely affected by insecurity along the Red Sea and geopolitical crisis. Similarly, the foreign investment inflows are expected to be constrained in H2'2024 due to unfavourable investment climate and policy uncertainty. Nonetheless, the recent clarity in CBN's FX guidelines is expected to rekindle investor confidence in the economy. In addition, external reserves are expected to remain weak and oscillate between US$33 billion and US$35 billion in H2-2024. Against the backdrop of CBN's interventions in the FX market, the exchange rate would continue to hover around N1,500/US$.

Table 2: Upsides and Downsides to Macroeconomic Projections

JURISDICTION	RISK TYPE	RISK SCENARIOS	RISK NATURE
Global	Economic and policy	Policy and market Interest rate	Upside
		Inflation rate	Downside
	Economic and policy	Election/War/insecurity	Downside
		Supply chain disruption	Upside
Domestic	Economic	High interest rate	Upside
		High inflation rate	Downside
	Policy	High policy rate	Downside
		Poor fiscal implementation	Upside
	External	Weak FX inflow/FX illiquidity	Upside
		Weaker oil production	Downside
	Geo & Political	Heighten Insecurity	Downside

About the NESG

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 to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

For a deeper conversation, collaboration and additional information with respect to this Report, please contact the following:

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