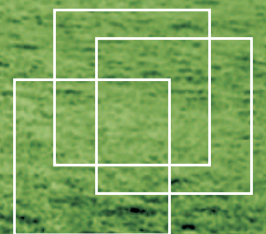




International
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BINDING CONSTRAINTS TO INCLUSIVE AND JOB-RICH GROWTH IN NIGERIA:

**A REVIEW OF MACRO AND SECTOR
POLICIES AND STRATEGIES**



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FOREWORD

Over the years, the ILO has worked in close collaboration with the Federal Ministry of Labour and Employment (FMLE), Nigeria Employers' Consultative Association (NECA), and Nigerian trade union centers represented by Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) of Nigeria and other relevant institutions to address the challenges of unemployment and underemployment in Nigeria.

In 1995, the Federal Government of Nigeria invited the International Labour Organization (ILO) to support its effort at formulating a comprehensive and an implementable National Employment Policy (NEP) whose aim was to accelerate employment generation, reduce high rates of unemployment and underemployment, and ultimately attain full productive employment. This request was sequel to a comprehensive employment mission which was undertaken in 1979 under the then ILO Jobs and Skills Programme for Africa (JASPA), which produced a report, in 1981, entitled “FIRST things FIRST: Meeting the Basic Needs of the People of Nigeria”.

In 1996, the Federal Government of Nigeria in collaboration with the United Nations Development Programme (UNDP) supported an ILO mission entitled “Employment Policy and Strategy Mission” which took place from 21st October to 22nd November 1996. The objective of the mission was to explore possibilities of supporting the Federal Government in putting in place an Employment Policy.

The emergence of the Global Financial Crisis of 2008 prompted another request from the Federal Government to the ILO for financial and technical support towards addressing the challenge of unemployment in a short and medium term with the aim of ameliorating the consequences of the Global Financial Crisis in the area of employment – unemployment and underemployment. According to the ILO report titled *Global Employment Trends* released in January 2009, the Global Financial Crisis of 2008 which was also called Jobs Crisis was “expected to lead to a dramatic increase in the number of people joining the ranks of the unemployed, working poor and those in vulnerable employment”. The outcome of this request was the convening of the first ever National Employment Summit in 2009 which culminated in the publication of National Action Plan on Employment Creation (NAPEC), 2009 - 2020.

Successful as this intervention was, it could not, however, wish away the necessity of formulating a National Employment Policy (NEP). This therefore impelled the Federal Ministry of Labour and Employment to submit another request in 2012 to the ILO to support the FGN in the formulation of a National Employment Policy that will address employment deficits and ensure inclusive growth. In its response to the request for both technical and financial support, the ILO contracted two Consultants, namely, Messrs. Chijioke Evoh and Ugochukwu Agu, to carry out two diagnostic surveys with the aim of gathering relevant information that would contribute towards the formulating of a National Employment Policy that will tackle decent work deficits, while targeting the youth and other vulnerable groups such as women and persons with disability.

The two studies that were conducted concurrently are:

1. Binding constraints to inclusive and job-rich growth in Nigeria: a review of macro and sector policies and strategies – coordinated by Ugochukwu O. Agu
2. Employment mapping, institutional assessment and coordination mechanism study- the case of Nigeria – coordinated by Chijioke J. Evoh

The survey took place in November 2013 and was coordinated by the Federal Ministry of Labour and Employment in collaboration with the Nigeria Employers' Consultative Association (NECA), the Nigeria Labour Congress (NLC) and the Trade Union Congress (TUC) of Nigeria. A review of the two reports took place in May 2015.

This report on “Binding constraints to inclusive and job-rich growth in Nigeria: a review of macro and sector policies and strategies” was coordinated by Ugochukwu O. Agu. The report examines the basic constraints to inclusive growth in the Nigerian economy. For over a decade the Nigerian economy attained sustained growth, which made it one of the fastest growing economies in the world. A good measure of this economic expansion over this period occurred in new but non-oil sectors. In the same period, a series of efforts were made by the Federal Government to address economic growth and job creation. These efforts were driven through structural adjustment program, national development plans, as well as other national programs on socio-economic empowerment and poverty reduction. The Nigerian government endeavoured to mainstream employment issues in guiding policy instruments such as the National Economic Empowerment and Development Strategy (NEEDS), the Transformation Agenda, and the Nigeria Vision 20:2020.

However, it is now evident that despite the rapid growth of the Nigerian economy in GDP terms, such growth has not benefited majority of Nigerians through the creation of decent and wage paying jobs. In contrast, the Nigerian society has experienced a relative rise in poverty in the midst of rapid economic growth in recent years. This trend pointed to a structural disequilibrium of growth, unemployment and poverty in Nigeria.

This study argues that the Nigerian economy has the potential to generate sufficient and decent jobs. However, this is dependent on the ability of the government to painstakingly address the various constraints to inclusive growth identified in the report. In this regard, the report identifies two broad categories of constraints to inclusive growth in Nigeria, namely: constraints to business environment in Nigeria; and employability challenges of Nigerian graduates. It further states that these constraints to inclusive growth in Nigeria are directly related to poor physical infrastructure, poor human capital formation, particularly, in the educational system and the inability to transform output growth to job creation. The report therefore provides a pointer to what obstacles need to be overcome if Nigeria is to achieve its objectives with respect to inclusive growth and decent work. It is our considered view that the findings of this report will contribute to evidence based policy formulation in Nigeria

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Director
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and Liaison Office for ECOWAS

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Special thanks also go to the ILO Constituents in Nigeria, namely, the Federal Ministry of Labour and Employment (FMLE) for coordinating the report writing process, identifying institutions that the consultants interviewed and for providing an effective follow-up mechanism that made the survey whose results are reported in this report a success. We are also grateful to the Nigeria Employers' Consultative Association (NECA) for strongly supporting the process by providing useful inputs and identifying some of its members who also contributed towards the final report. The two Nigerian Trade Union Centers namely the Nigeria Labour Congress (NLC) and the Trade Union Congress (TUC) also provided important comments that ultimately improved the quality of the report.

We also thank other Federal and State Ministries, Department and Agencies (MDAs) and other institutions who willingly shared their ideas in response to questions raised, identifying the challenges and proffering suggestions on what needed to be done to ensure an improved employment situation in Nigeria. It is important to acknowledge the efforts of the staff of the ILO Country Office in Nigeria towards the completion of the study.

Last but not the least we wish to acknowledge and thank the two consultants Messrs. Chijioke Evoh and Ugochukwu Agu for having painstakingly worked tirelessly in the preparation and finalization of this important report.

EXECUTIVE SUMMARY

By adopting the Inclusive Growth Analytics, this report examines the basic constraints to inclusive growth in the Nigerian economy. For over a decade the Nigerian economy has attained sustained growth, which makes it one of the fastest growing economies in the world. Impressively, a good measure of this economic expansion over this period occurred in new but non-oil sectors. Series of efforts have been made by the Nigerian government to address economic growth and job creation. These efforts are driven through structural adjustment program, national development plans, as well as other national programs on socio-economic empowerment and poverty reduction. Such programs include projects, which address economic and structural transformation strategies. To this effect, the Nigerian government has mainstreamed employment issues in guiding policy instruments such as the National Economic Empowerment and Development Strategy (NEEDS) and the Nigeria Vision 20:2020.

In effect, non-oil growth in the economy has doubled in the past decade. In all, growth in the non-oil sector is anchored by strong growth in agriculture, wholesale and retail trade and telecommunications. GDP growth rate for the full year 2013 is recorded to be 6.9 percent, which reflects strong growth in the non-oil sector to the tune of about 8.1 percent. The implication is that the country is finally beginning to diversify its output base thereby weaning itself from its mono-cultural economy centered on oil. Nigeria rebased its gross domestic product (GDP) in April 2014. This enables a proper measure of economic activities in the country. Consequently, the country's GDP in 2013 was revised from 42.4 Trillion naira to 80.2 Trillion naira (\$510 Billion), an 89 percent increase (NBS, 2014). The rebasing exercise reveals that the structure of the Nigerian economy has changed significantly between 1990 and 2010. For instance, while the agricultural sector has declined over the years, the service sector has risen significantly as a share of in the nominal GDP. Rebasing the country's GDP presents a more accurate size of the Nigerian economy, and highlights the employment generation potential of the emerging sectors in the economy.

However, despite the rapid growth of the Nigerian economy in GDP terms, it has become obvious that such growth has not benefited majority of Nigerians through the creation of decent and wage paying jobs. In contrast, the Nigerian society has experienced a relative rise in poverty in the midst of rapid economic growth in recent years. This trend points to a structural disequilibrium of growth, unemployment and poverty in Nigeria. The study argues that the Nigerian economy has the potential to generate sufficient and decent jobs. However, this is dependent on the ability of the government to painstakingly address the various constraints to inclusive growth identified in the report. This report is expected to inform and facilitate further discussion on recent macroeconomic policies and initiatives embarked upon by the Nigerian government in the quest for inclusive growth and productive employment.

The report investigates the specific circumstances in Nigeria that constrain inclusive and job-rich growth by using a growth diagnostic approach based on the Business Enabling Environment Approach (BEEA) and Employability Analysis Approach (EMPA). Against this background, the report identified two broad categories of constraints to inclusive growth in Nigeria, namely: constraints to business environment in Nigeria; and

employability challenges of Nigerian graduates. Constraints to inclusive growth in Nigeria are directly related to poor physical infrastructure, poor human capital formation, particularly, in the educational system and the inability to transform output growth to job creation.

First, the report shows that, over the years, business environment in Nigeria has not been conducive for capital investment. Consequently, the country lacks measurable amount of investment in employment-intensive industries. This has resulted in the low ranking of Nigeria in the Global Competitiveness report. The major constraints to private sector-led investment in employment-intensive industries in Nigeria are:

- . Poor physical infrastructure (roads, railway system, electricity, Internet broadband and communication technology and water management)
- . Inefficient institutional infrastructure or appropriability concerns (i.e., the system of government and law enforcement, the rule of law and insecurity in the country)
- . High cost of finance for Micro, Small and Medium Enterprises (MSMEs).

Other constraints to inclusive growth and job creation in Nigeria are factors that negatively affect employability of the Nigerian graduates in the labour market. While many Nigerians have acquired degrees from various tertiary institutions of learning, many of these graduates do not possess the right employable skills demanded by potential employers. The result is that most graduates in Nigeria lack the essential quantitative or qualitative skills, knowledge or competences that employers demand in the workplace. Besides, the lack of social safety net programs for the poor has made it difficult for most Nigerians to participate in the economic growth process in the country.

The implicated constraints to inclusive growth in Nigeria point to the fact that: the structural transformation and economic diversification of the economy are central to inclusive and job-rich growth in the country. The inclusiveness of the Nigerian economy can be guaranteed by addressing these constraints. Therefore, to ensure that economic growth in Nigeria is broad-based, inclusive and job-rich, the report made the following recommendations:

- . Monitoring and evaluating the on-going macro and microeconomic policy actions and sectoral interventions for job creation in Nigeria.
- . Maintaining sound and stable financial sector by the Central Bank of Nigeria.
- . To align monetary policy with the goals of inclusive and job-rich growth, we recommend some relaxation of monetary policy in Nigeria.
- . Bridging the gap in physical infrastructure is key to productive employment creation and inclusive growth in Nigeria
- . Job, growth and poverty reduction require thriving private sector - Support of small and medium enterprises (SMEs) by organizing training programs for them through different clusters across Nigeria under the auspice of SMEDAN.
- . Improvement of SME the productivity of SMEs by implementing the Nigeria
- . Enterprise Development Program (NEDEP).

- . Shortage of technical and vocational skills in demand can be addressed through the enrichment of technical subjects and additional funding for such institutions.
- . Tertiary institutions of learning in the Nigeria should adhere strictly to regulatory regimes and accreditation requirements to ensure uniform standard and turnout of quality graduates.
- . Transparency and governance - institutional reforms to improve processes such as starting a business, obtaining permits and license, property registration, and contract enforcement.
- . Careful implementation of the Agricultural Transformation Action (ATA) policy.

On a technical level, the Federal Ministry of Labour and productivity must assume the responsibility of coordinating the efforts of other institutions, departments and ministries for a coherent implementation, monitoring and evaluation of national employment interventions.

ACRONYMS	
AfDB	African Development Bank
AMCON	Asset Management of Nigeria
ATA	Agricultural Transformation Action
BEEA	Business Enabling Environment Approach
BOI	Bank of Industry
CBA	Central Bank of Nigeria
CTG	Cotton, Textile and Garment
EMPA	Employability Analysis Approach
FDI	Foreign Direct Investment
FMLP	Ministry of Labour and Productivity
GDP	Gross Domestic Product
HND	Higher National Diploma
HRV	Hausmann, Rodrik and Velasco
ICRC	Infrastructure Concession Regulatory Commission
ICT	Information Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
LFPR	Labour Force Participation Rate
MSMEs	Micro, Small and Medium Enterprises
MVA	Manufacturing Value-Added
NAPEP	National Program for the Eradication of Poverty
NBS	National Bureau of Statistics
NCC	Nigerian Communications Commission
NEDEP	Nigeria Enterprise Development Program
NEEDE	National Economic Empowerment and Development Strategy
NLC	Nigerian Labour Congress
NPC	National Planning Commission
SAP	Structural Adjustment Program
SEEDS	State Economic Empowerment and Development Strategy
SMEGGS	Small and Medium Scale Enterprises Guarantee Scheme
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SMEs	Small and medium enterprises
SMIEIS	Small and Medium Industry Equity Investment Scheme
SSN	Social Safety Net
VET	Vocational Education Institutions

Chapter 1

INTRODUCTION

1.1. Background to the Study

This report provides an assessment of the binding constraints to inclusive and job-rich growth in Nigeria. The Nigerian economy has experienced a robust growth in the past one decade making it one of the fastest growing economies in the world. As a result, many have classified the country as one of the front line economies of our time. However, the gains of rapid economic growth in Nigeria have not been broadly distributed across the society. Despite recent growth projector in the country, unemployment and underemployment remain high. Of particular importance is that the phenomenon of the working poor has risen, while there is no significant reduction in poverty in the country.

The quest to create decent and productive jobs, which aligns positively with the consistent growth experienced in Nigerian economy, remains elusive to policy makers. To promote job-rich inclusive growth, the Federal Republic of Nigeria has made several attempts in addressing economic growth and job creation. These efforts are driven through structural adjustment program, national development plans, as well as national program and projects to address economic and structural transformation. The Nigerian government has mainstreamed employment issues in guiding policy instruments such as the National Economic Empowerment and Development Strategy (NEEDS) and the Nigeria Vision 20:2020. These development guidelines have been used to craft the national employment policy with the goal of creating sustainable and productive employment opportunities and poverty alleviation in the society. The national employment policy in Nigeria is implemented through different job programs and projects. However, the extent to which these programs and projects can generate the quantity and quality of jobs that can reduce poverty remains unknown.

1.2. Objectives of the Study

Recently, in a bid to speed-up decent employment opportunities, which is the hallmark of the Nigerian socio-economic policy, the stakeholders have committed to ensuring that all investment projects to be executed in the public and private sectors in Nigeria should have employment outcomes of such investment fully spelt out and made public. Most unfortunately, these efforts are yet to translate to the employment numbers required to curb incessant job loss among the young people and high national unemployment rate. The binding constraints to inclusive and job-rich growth in Nigeria are yet to be ascertained. Therefore, the objective of this exploratory study is to inform the policy review process by identifying the binding constraints to inclusive and job-rich growth, address the challenges of unemployment, underemployment and poverty, and creating economic opportunities for productive and remunerative employment for Nigerians. Against this backdrop, this study identifies the constraints to inclusive growth, and examines the inclusiveness of

recent macroeconomic management in Nigeria. It is our expectation that this study will inform and facilitate further discussion on recent macroeconomic policies and initiatives embarked upon by the Nigerian government in the quest for inclusive growth and productive employment.

1.3. Research Questions

This study is guided by four basic questions namely: what are the major constraints to inclusive growth in Nigeria? What key macroeconomic reforms must be put in place to put Nigeria on the path to inclusive growth? What is the role of the Nigerian government in the enhancement of market operations towards inclusionary growth, and what are the means to accomplish such roles? And, what policy reforms are already in place to realize the objective of providing productive employment for the larger proportion of the labour force in Nigeria?

This study attempts to address these questions based on the following objectives: Analysis of the linkages or lack thereof between growth and employment potential; Policy objectives and goals of macroeconomic policies and linkages to growth and employment creation; policy objectives and goals of sector policies and linkages to growth and job creation; Analysis of labour market policies and institutions and their impact on employment outcomes; Impact of education, skills development and training on employability and labour participation and outcomes.

1.4. Propositions

The above objectives are informed by the following hypotheses. First, employment generation is key to inclusive growth in the Nigerian economy. Therefore, if policy makers are able to put in place the right macroeconomic policies, infrastructure investment, the necessary political and legal institutions, and improve productivity and an upward movement in the value chain, particularly in agricultural products, then, there will be a consistent creation of decent and stable wage-paying jobs, which is essential for poverty reduction. Second, in view of the complexities and volatility of economic growth, coupled with the potential demographic dividend in the country, the present rapid economic growth trajectory in Nigeria presents a unique opportunity for the country to attain inclusive growth objectives. Therefore, the transformation of employment landscape in Nigeria must be addressed from a holistic perspective with an integrated approach, which includes all elements of the real economy.

1.5. Method of Data Collection

Data for this study was gathered through eclectic approach. Qualitative information began with a desk review of policy documents on the past and present patterns of economic growth in Nigeria. An extensive consultation was conducted in November 2013 with many partners, policy makers and stakeholders in Nigeria. The consultation sessions were done together with the Federal Ministry of Labour and Productivity in Nigeria. We consulted with Federal Government Ministries, Departments and Agencies (MDAs) working in the field of employment creation, economic development and skill acquisition at the national (Appendix 1). Consultations were also undertaken at the state levels to cover different

regions of Nigeria. Private sector organizations such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Diamond Bank Plc and Zenith Bank Plc were also consulted. In addition, different international development agencies such as the UNIDO, the UNDP and the Fate Foundation made relevant contributions during the consultation process. Focus group discussions were also conducted at select organizations and states. As part of secondary source of data, this study also drew on outputs from the National Bureau of Statistics (NBS, Nigeria), National Planning Commission (NPC) the Central Bank of Nigeria (CBN), the World Bank, the International Labour Organization (ILO) and African Development Bank (AfDB).

Following the introduction, this study is divided into 8 chapters for analytical reasons. Chapter 2 of the study examines the theoretical framework on which the binding constraints to inclusive growth are analyzed. Chapter 3 calls attention to extant literatures, which have developed models for the analysis of inclusive growth. The pattern of economic growth in Nigeria from independence to present is examined in chapter 4. This chapter laid out decades of efforts made to achieve economic development in the country, which obviously, lacked a broad-base appeal to all economic participants in the country. The dynamics of the Nigerian labour force is present in chapter 5. This chapter demonstrates the youthful nature of the labour force in the country. The increasing trend of relative poverty in Nigeria is demonstrated in the 6th chapter, while the 7th chapter analyzes the structural disequilibrium of growth, unemployment and poverty in the country. These two chapters highlight the unequal access to economic opportunity that has characterized recent and past economic growth in Nigeria. The major findings of the study are presented in chapter 8. Based on the inclusive growth analytical framework, this section presents the binding constraints to inclusive and job-rich growth in Nigeria. Chapter 9 puts forward policy recommendations based on the factors identified as binding constraints to inclusive and equitable growth in Nigeria.

Chapter 2

BINDING CONSTRAINTS TO INCLUSIVE GROWTH ANALYTICS: A THEORETICAL FRAMEWORK

Overview

The study adopts the Inclusive Growth Analytics as operationalized by Ianchovichina and Lundstrum (2009). This framework is a variant of HRV framework as propounded by Hausmann, Rodrik and Velasco (HRV, 2005). The framework allows for the organization of policy questions in a logical order: moving down the decision tree identifying relevant questions and discarding inconsequential others as impediments to inclusive growth. The process ultimately brings us to forefront of specific constraints that might be holding back inclusive growth disproportionately.

This growth accounting framework examines the factors behind growth or lack thereof in an economy. The framework builds on the theory that rapid growth is essential for substantial and sustainable poverty reduction. Besides, it further highlights the importance of broad-based and cross-sectoral growth. Above all, the framework establishes links between the macro and micro determinants of growth. By so doing, the framework incorporates the importance of structural transformation for economic diversification and competition, including creative (Corso, 2011).

2.1. Growth Diagnostics

The process of inclusive growth diagnostics consists of the following steps. First, entails the review and analysis of the issues along the branches of the growth diagnostic tree as expounded in Hausman, Rodrik and Velasco (2005). By going through each node of the decision tree, we explore the existence of binding constraint(s) for inclusive growth. The study adopts two key features of growth diagnostics, namely: Business Enabling Environment Approach (BEEA) (Hausman, Rodrik and Velasco, 2005); and the Employability Analysis Approach (EMPA) (World Bank, 2009) (See figure 1). The BEEA looks at the potential impediments in the business environment in a given country, which contributes to limited capital investment in the economy and/or limited employment opportunities resulting from limited demand for labor in the job market (2011). On the other hand, the EMPA examines the hindrances to labor employment and issues that negatively affect productive resources and capacity of individuals (i.e., labour supply issues). As Lewarne et. al (2011) observes, the BEEA addresses constraints to physical capital investments, while the EMPA focuses on constraints to human capital accumulation.

At the center of the question about inclusive growth is the issue of productive employment. The inclusive growth analytics articulates the issue of productive employment as the main channel through which objectives of sustainable and inclusive growth can be

accomplished. Productive employment is primary to inclusive growth because it enhances the growth of income per person (McKinley, 2010). As Terry McKinley (2010) posits, income enhancement is fundamental in advancing the objectives of inclusive growth. Income enhancement, especially among the working poor, is the basis for creating and expanding economic opportunities. Thus, success in income enhancement through productive employment lays the foundation for progress in many other dimensions of sustainable and inclusive growth (ibid).

In this context, productive employment encompasses employment growth and productive growth. Employment growth creates new job opportunities to absorb unemployed labor. This engages more hands within the labour force. Productive growth, on the other hand, increases the wages and earnings of the employed group, either self- or wage employed (Ianchovichina and Lundstrom, 2009). Therefore, inclusionary approaches pursue not just employment growth but also productivity growth. Unfortunately, the former seems to gain more attention in macroeconomic policy environment than the latter. Consequently, employment policies in many developing economies, including Nigeria, have failed to increase national economic efficiencies through the enhancement of productive resources and capacity of self-employed or wage-employed individuals. This has increased the phenomenon of the 'working poor' in such economies.

The high rate of unemployment in Nigeria stems from different factors, among which is limited supply of certain labour skills (Fapohunda, 2012). However, the unemployment situation in the country can largely be attributed to lack of employment opportunities due to limited demand for labour in the economy. Against this background, it becomes necessary to conduct the analysis of the challenges of business environment in Nigeria. This underscores the need for the application of the Inclusive Growth Analytics developed by Hausman, Rodrik and Velasco (2005), which they referred to as the growth diagnostic tree. Focusing on the state of the business environment, this framework explored how to improve investment returns and raise entrepreneurial activities – the fundamental constraints to business operations in developing markets like Nigeria.

The framework conceptualized inclusive growth by looking into the various elements that makes growth inclusive. By focusing on the question of productive employment, the framework borrows from HRV Decision Tree analytical framework to explain factors that constrain different economic actors, especially, the poor and the majority of the work force from participating effectively from the economic activities. Above all, the framework emphasize that productive employment is the main instrument to reach inclusive growth in the economy. In this context, productive employment focuses not just on expanding employment opportunities, but increasing such opportunities with decent works and living wages in a functional labor market.

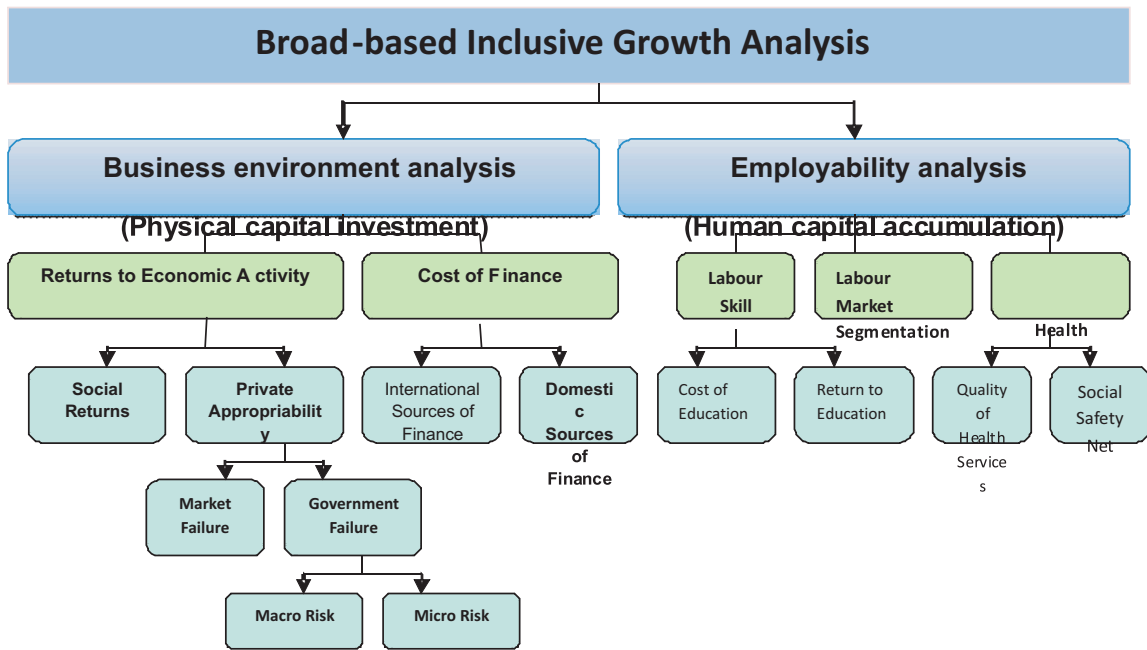
The choice of this framework is based on its analytical strength. The framework is designed to enable the researcher to diagnose which of the three factors pose as the binding constraint to broad-based economic growth. By design, the HRV framework encourages highly contextual policy reforms and interventions supported by economic analysis, particularly, in an environment like Nigeria where the economic and political structures are stills developing. Keeping in mind the need to ease the challenges to investment and the creation

of productive employment in the economy, the HRV serves as a tool that guides the growth analysis at the aggregate level. Through the process of elimination-by-iteration, the framework enables the identification and ranking of constraints to private investments through the application of the decision tree framework (See Figure 2.1). The framework allows policy-makers to identify and targets the most binding constraints to growth, which are associated with the biggest multiplier in the short-run (Ianchovichina, 2009; Ulloa, Katz, and Kekeh, 2009).

Given that these constraints are dynamic in character, they differ from one country to another. As Hausmann, Rodrik, Velasco (2005, p. 7) state, in some economies the constraint may lie in low private return to domestic investment, in others it may be poor appropriability, and in yet others, it could be high cost of finance. In line the inclusive diagnostic framework, the binding constraint to inclusive growth in Nigerian economy is low private return to domestic investment. Based on this the specific distortions behind this constraint as outlined in the framework are inefficient high-expected expropriation risk, large externalities, spillovers, coordination failures, low productivity, too little technology adoption, and weak public incentives (Hausmann, Rodrick, Velasco, 2005, p.9). Other distortions within this binding constraint include insufficient human capital, inadequate infrastructure and high transport, telecommunications or shipping costs.

The HRV is an appropriate framework for the study of the binding constraints to inclusive growth in a specific country. The adaptability of the framework at the national and sub-national levels adds its elegance. Despite, the utility of the HRV framework, it is not without limitations. First, the application of the framework is difficult because of the challenge of estimating shadow prices as well as the challenge of selecting “binding” and “non-binding” constraints. Consequently, the study did not prioritize the binding constraints identified. Besides, the focus of the HRV framework is on the short-run and to this effect; it ignores factors that are crucial to sustainable growth such as human capital accumulation.

Figure 2.1: Diagnostic Framework of Broad-based Inclusive Growth Analysis



Source: Lewarne, et al (2011).

Chapter 3

INCLUSIVE GROWTH – A LITERATURE REVIEW

3.1. Defining Inclusive Growth

The concept of inclusive growth has gained much currency in extant literature in recent times. This trend can be attributed in part, to the fact that rapid economic growth experienced in many countries in recent years has not delivered broad gain to most members of the society. In a simple term, rapid and sustained economic growth has failed to reduce poverty in the society. The concept of inclusive growth is based on the understanding that the primary objective of economic policy should not be growth alone. This is because economic growth is good but it is not sufficient enough to bring about the necessary transformation change in the society. What brings the needed change in the living standard of the people and reduce poverty across the society is structural change, which drives growth and employment. Thus, the apparent lack of social and economic transformation of lives in the midst of enormous economic growth has made many to ask: where has all the gains of recent economic growth gone? Given the rising rate of poverty and social exclusion, this trend directly applies to the Nigerian experience of economic growth, which has not benefitted all members of the society.

The topical issue of inclusive growth has been defined and conceptualized by many scholars (Commission on Growth and Development, 2008; Ianchovichina and Lundstrom, 2009; Felipe, 2009). The Commission on Growth and Development (2008) observes that the idea of inclusiveness encompasses equity, equality of opportunity, and protection in market and employment transitions. In line with this conceptual analysis, Ianchovichina and Lundstrom (2009) adds that inclusive growth refers to the pace and pattern of growth over time. They added that, given that the issues of pace and pattern of growth are interlinked, they have to be addressed simultaneously. Lledo and Garcia-Verdu (2011) add to the concept by recognizing inclusive growth as growth that is sustained over several years, a growth that is broad-based across economic sectors, and a growth that creates productive employment opportunities for the majority of the country's population. The above definitions show that there are different elements of inclusive growth. Prominent among these elements are: years of high growth rate, structural transformation, broad-based productive employment for the bigger share of the work force, propitious business environment, poverty reduction and equality of opportunity for all members of the population.

Besides, these scholars brought an interesting dimension to the debate when they argued that inclusive growth is predicated on a long-term perspective, which sees growth not just as a mere direct income redistribution in the society but as a focus on productive employment for a sustained increase in the income of the excluded members of the society (ibid). Inclusive growth therefore, increases the pace and enlarges the size of the growth in

the economy. This view is not by any means against the robust economic growth taking place in many economies in sub-Saharan Africa (SSA), including Nigeria. However, the issue boils down to the narrow pattern of such current economic growth experiences, which apparently excludes most members of the society as economic actors.

Felipe sees inclusive growth as the type of growth, which equally enables all members of a society to participate in and contribute to the growth process of the economy, regardless of their individual circumstances, and also allows them to share in the gains that accrue from such growth (Felipe, 2009). The perception that there is an absence of inclusive growth in present trend of economic growth in a country like Nigeria goes to imply a certain degree of social neglect and institutionalization of inequality in modern economic system. This is not a completely new line of debate in development scholarship. As Felipe points out, the same institutions at the forefront of the current debate, spearheaded similar debate a decade ago on whether or not economic growth was pro-poor or not, and whether all segments of the society gained equally from growth or not (ibid). However, despite the similarity between pro-poor growth debate and inclusive growth debate, Ianchovichina and Lundstrom (2009) note that, the focus of current inclusive growth concerns is on ex-ante analysis of the factors of and constraints to a broad-based growth in the economy. The focus of analysis on pro-poor growth literature, they argue was on measuring the impact of growth on poverty reduction. On the other hand, inclusive growth literature focuses on how to ensure optimum utilization of the labour force, particularly those that are unemployed and those involved in low-productivity activities.

Ianchovichina and Lundstrom (2009, p. 7) drove this point home when they observed that:

Inclusive growth focuses on productive employment, rather than on employment per se or income redistribution...Employment growth generates new jobs and incomes for individuals, while productivity growth has the potential to lift the wages of those employed and promote the returns of the self-employed. Actually, in many low-income countries the problem is not unemployment, but rather underemployment.

If the inclusive growth agenda calls for a broad-based pattern in economic growth and participation, the question remains: what does it take to accomplish the objective of inclusive? There are two approaches to economic growth, namely: growth through increasing productivity, and growth through the inclusion of underutilized economic capital, particularly, human labour (Weissbourd, 2007). Given that the best way to ensure the participation of all members of the society in economic activities is to engage them in wage-based production processes, it therefore shows that full employment is at the center of inclusive growth policy. Therefore, Felipe (2009) notes that inclusive growth should involve a set of policies, which directly or indirectly leads to full employment. The expectation is that full employment will in turn provided the necessary opportunity for individuals and enterprises participate in the economy. Thus, inclusive growth strives for an egalitarian economy built on the platform of productive employment.

Terry McKinley (2010) devise a set of indicators that can be used to diagnosed or assess the realization of the inclusive growth objectives. The study it identifies suitable indicators for inclusive growth analysis. These indicators are: i) productive employment, and economic

infrastructure; ii) income poverty and equity, including gender equity; iii) human capabilities; and iv) social protection. In line with other scholars (Ianchovichina and Lundstrom, 2009), McKinley underscored the importance of productive employment as a fundamental aspect of inclusive growth by giving it the highest weight of 25 percent in the overall composite index. The study recommended the following set of sub-indicators for gauging progress in productive employment: (a) share of the employed in industry; (b) share of the employed in manufacturing; (c) share of own-account workers and formally unpaid family workers in total employment (McKinley, 2010, p. 4). The study uses these indicators to suggest a diagnostic approach by attaching weights and scores to each indicator. This approach can help policy-makers to assess their progress in achieving inclusive growth objectives.

Osita Ogbu (2012) examined inclusive growth within the context of recent high rate of economic growth in Nigeria. While acknowledging that the economy has grown at fairly decent rate in the past couple of years, he noted that poverty has risen from 52 percent in 2004 to 61 percent in 2010. In addition, income inequality has risen in the country. Quoting the National Bureau of Statistics (NBS) Osita laments that “the top 10 percent income earners were responsible for about 43 percent of total consumption expenditure” in Nigeria. Against this background, he called to question the effectiveness of the various poverty alleviation programs in Nigeria such as the National Program for the Eradication of Poverty (NAPEP), which has consumed enormous scarce resources. According to him, these policy measures have failed because the Nigerian government has not been able to address the need for a diversified production structure of the economy, which is at the center of productive employment, inclusive growth, and poverty alleviation. Ogujiuba and Alehile (2011) examined the role of policy in addressing the issue of inclusive growth and poverty reduction in Nigeria. While subscribing to the view that sustained economic growth is essential for poverty reduction in Nigeria, they stressed the imperative of enabling the poor to participate in the growth process and share in the proceeds of growth. Such an enabling environment can only be created through the improvement in human and social capital of the Nigerian poor (Ibid). Besides, the study also implicated other factors that impede inclusive growth and poverty reduction in the country. These include poor and decaying physical infrastructure, rule of law and transparency in government and fiscal discipline.

Chapter 4

THE PATTERNS OF ECONOMIC GROWTH IN NIGERIA

Overview

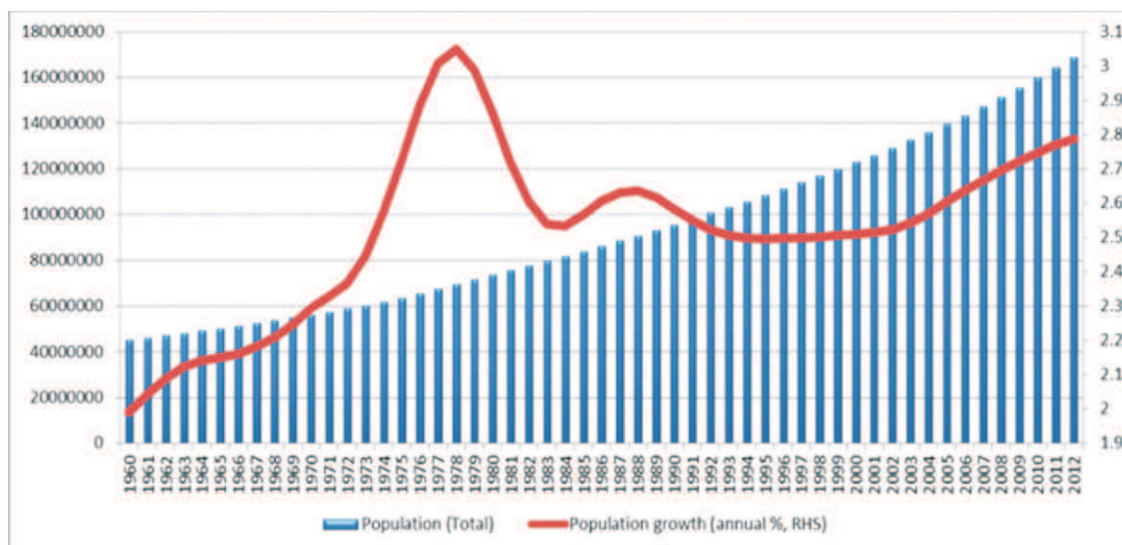
This segment of the report explores the historical character of economic growth and development pattern in Nigeria. It presents the major factors behind the country's past pattern of growth, employment, poverty and social development trends since independence. Nigeria is a country of 167 million people making it the largest country in Africa. It has the biggest economy in the continent. Generally, the Nigerian economy can be classified into three major sectors, namely: primary/agriculture and natural resources, secondary/processing and manufacturing, and tertiary/services sectors (Okezie and Amir, 2011).

4.1. Past Performance of Growth in Nigeria

At independence in 1960, Nigeria's export-driven economy depended primarily on cash crops and small-to-medium scale manufacturing. Although produced through a primitive system, groundnut was a major export product from the Northern part of the country. Despite its cash-crop driven economy at independence, the per capita income of Nigeria was higher than that of South Korea, and the country was a preferred investment destination to Japan (Sanusi, 2013). However, the discovery and exploitation of crude oil displaced agricultural products. With the discovery of oil in 1956 at Oloibiri, Nigeria began oil extraction in 1958 with the production of 5,100 barrels per day (bpd). By early 1970s, the country's crude production had risen to over 2 million barrels a day (Isabota and Odukoya, 2013). The oil boom and burst of the 1970s gave rise to economic recession in the country. This ushered in an era of weak economic growth, low oil prices at the international market and corrupt military rule.

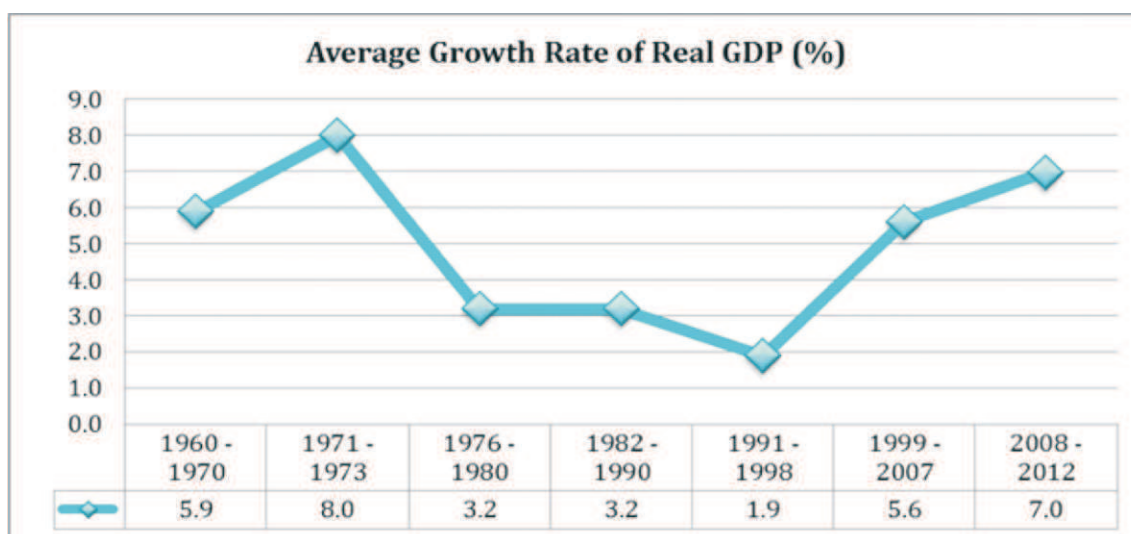
With a focus on the export of crude oil and the influx of oil money, the country became an arena for rent seeking and vested interests thereby constraining growth and diversification of the economy (Iyoha, 2008). As Iyoha (2008) would argue, as the population of the country continued on the upward trajectory, growing more than 2 percent a year, (see figure 4.1), gross mismanagement of the oil wealth, coupled with unbridled capital flight retarded broad-based economic growth in Nigeria as poverty increased. Following oil production and export in the first decade of independence, Nigeria witnessed about 8 percent rise in GDP (see Figure 4.2). As the country expanded oil production and export, economic activities in the sub-sectors lagged behind while the manufacturing sector suffered due to lack of diversification.

Figure 4.1: Nigeria Population Dynamics



Source: Authors' Compilation/ NBS

Figure 4.2: Average GDP Growth rate in Nigeria (1960-2012)



Source: Authors' Compilation/ CBN and NBS

Following the mismanagement and apparent neglect of non-oil sectors, the average GDP growth rate in Nigeria declined to 3.2 percent in the late 1970s. The Nigerian economy experienced a measurable rate of growth in GDP during the era of the IMF Structural Adjustment Program (SAP). This was not surprising given the strict “conditionalities” recipient nations of the IMF loan were required to fulfill. Focused on reducing state's role in the economy through contractionary fiscal policy, SAP paid more attention to exports, especially in the agricultural sector. However, as many scholars have pointed out (Ibhawoh, 1999; Olomola, et al, 2009), the social and economic consequences of the SAP in Nigeria outweighed the benefits. Unfortunately, the SAP gave more emphasis to the servicing of Nigeria's debt and less on value addition and processing of agricultural products. In effect, 49.31 percent of the total expenditure was devoted to debt servicing (Obansa, 2005). Consequently, the SAP policy drastically reduced government expenditure on social and economic infrastructures essential for inclusive growth and sustainable development. Other macroeconomic challenges that faced the Nigerian economy during the SAP era were the continued depreciation of the currency (Naira) exchange rate, high inflation, excess money supply and volatile interest rates (Ibid). Generally, either due to its inherent design or poor implementation, the SAP failed to actualize its set objectives for the Nigeria economy.

The absence of a broad-based growth in the economy further implicates the weak manufacturing sector, which has characterized the Nigerian economy since independence. This is because manufacturing and value-added activities are potential job creators with huge positive externalities. The economy remained mono-cultural in structure with an apparent domination of the public sector in employment generation, while the private sector played a marginal role in the overall economic system in the country. These challenges underscore the need to focus on the inclusiveness of Nigeria's economic growth strategy, especially on the equality of opportunity for individuals and enterprises as actors in the overall economic system.

4.2. Recent Economic Growth Experience in Nigeria

Although the Nigerian economy grew up to 13 percent in 1990, on average the GDP growth rate declined to 1.9 percent from 1991-1998 (Sanusi, 2010). The economy experienced resurgence in growth following the introduction of the economic policy of National Economic Empowerment and Development Strategy (NEEDS) by the federal government in 1999. Following the implementation of some NEEDS policies, the GDP growth rate averaged 8.3 percent between 1999-2007 (See Table 4.1). The NEEDS was completed at the state levels by an equivalent development strategy called the State Economic Empowerment and Development Strategy (SEEDS). The NEEDS has the goal of expanding economic opportunities for all Nigerians by focusing on four key strategies, namely: reorienting values, reducing poverty, creating wealth and generating gainful employment (IMF, 2005).

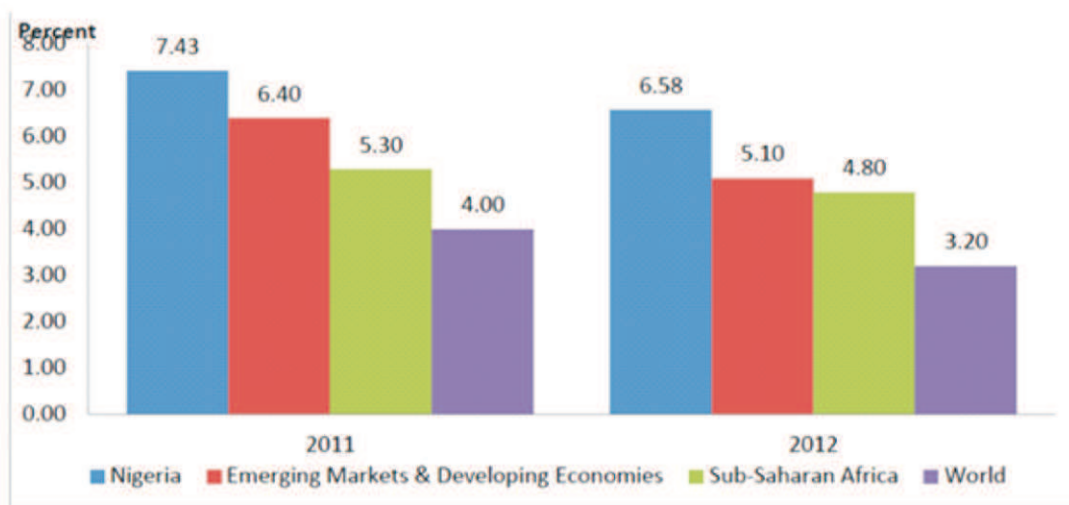
Table 4.1: Average Growth Rate of Real GDP (Percentages)

Period Real GDP	Real GDP
1960 - 1970	5.9
1971 - 1973	8.0
1976 - 1980	3.2
1982 - 1990	3.2
1991 - 1998	1.9
1999 - 2007	8.3
2008 - 2009	6.3

Sources: Sanusi, (2010)

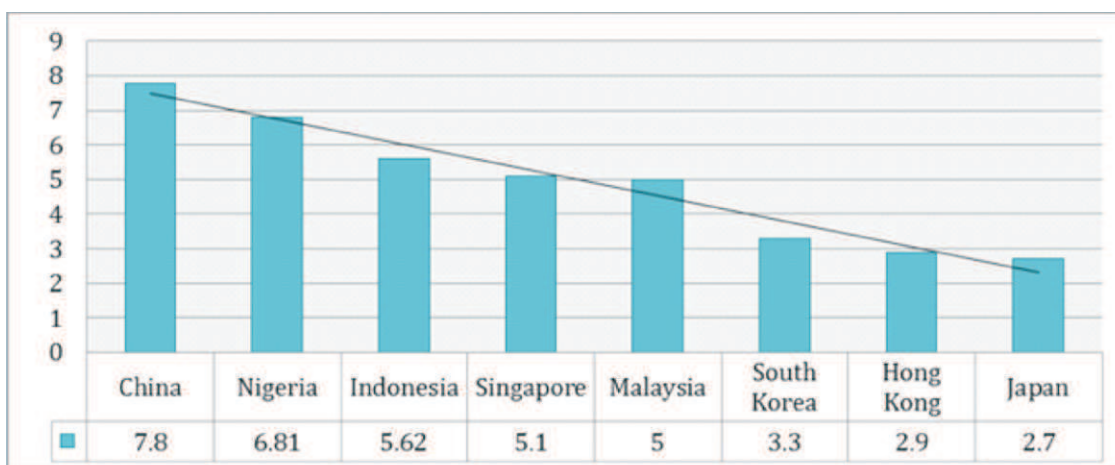
The Nigerian economy has experienced impressive growth in recent years in terms of the Gross Domestic Product (GDP). According to the National Planning Commission of Nigeria, the country's nominal GDP increased from \$166.53 Billion in 2009 to \$243.99 Billion and \$257.42 Billion in 2011 and 2012 respectively (NPC, 2013). This GDP performance has resulted in the elevation of Nigeria's ranking in the global GDP ranking from 44th in 2010 to 36th in 2012 (Ibid). In 2013 the economy grew at 6.7 percent (NBS, 2013), while it has grown at 7 percent average in the last decade. This makes it one of the fastest growing economies in the world. The growth rate in Nigeria has been quite encouraging when compared with what obtains in other emerging markets and developing economies around the world. For example, between 2011 and 2012 the emerging markets and developing countries grew at 6.4 percent and 5.1 percent respectively (see Figure 4.3). Given the rate of growth recorded in 2013, Nigeria now ranks second among the fastest growing economies behind China (see Figure 4.4).

Figure 4.3: Output Growth by Selected Economies, 2011-2012



Source: National Planning Commission (2013) May 2013)

Figure 4.4: GDP Growth Rate for Selected Countries



Source: Authors compilation / Isabota, (2013a)

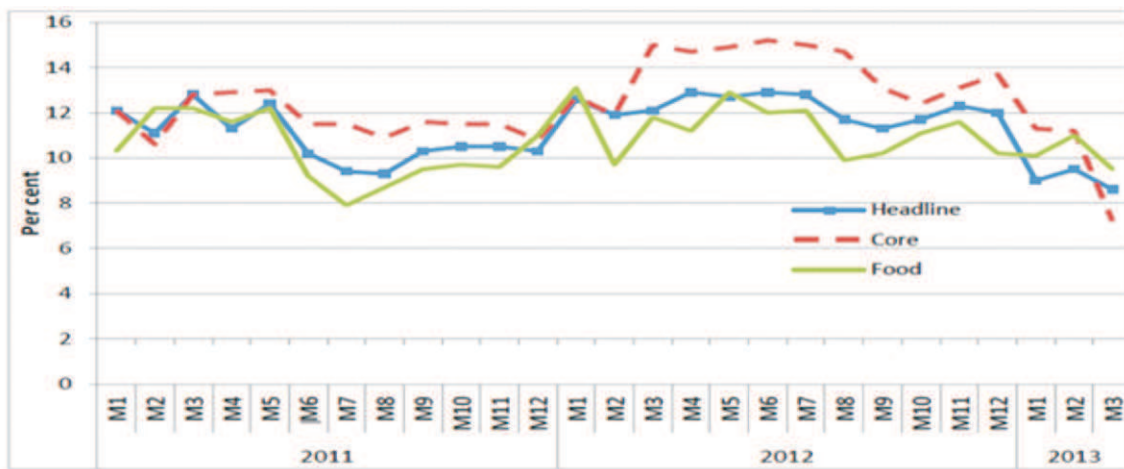
The dollar exchange rate to the Naira was stable within the study period averaging between N155 and N160. Meanwhile, the country's external reserve had risen from \$32.08 Billion in May 2011 to \$48.4 Billion in May 2013 (Okonjo-Iweala, 2013). As of December 4, 2013, foreign exchange reserves stood at US\$44.61 billion but have fallen to US\$38.2 billion as of March 19, 2014. Credit to the private sector increased by 10.3 percent in the third quarter of 2013 while credit to the government increased by 131.7 percent during the same period (NBS, Consultation).

Efforts to reduce inflation in Nigeria are anchored on the policy of single digit inflation target. Headline inflation has dropped from 12.4 percent rate of 2011 to 9.1 percent in May 2013 (ibid) (see figure 4.5). It is noteworthy to mention that the consumer price index

moderated due to tight monetary policy and moderation in food prices. Inflation declined from 8.7 percent in July 2013 and further to 7.8 percent by September 2013. This obviously remains the lowest rate of inflation recorded in Nigeria in the last 5 years. In 2014, inflation has remained in the single digits slightly above 7 percent (NBS, Consultation).

The recent impressive growth rate in the Nigerian economy has been attributed to a number of factors, particularly, the prudent fiscal management adopted by President Goodluck Jonathan's administration (NPC, 2013).

Figure 4.5: Inflation Rate

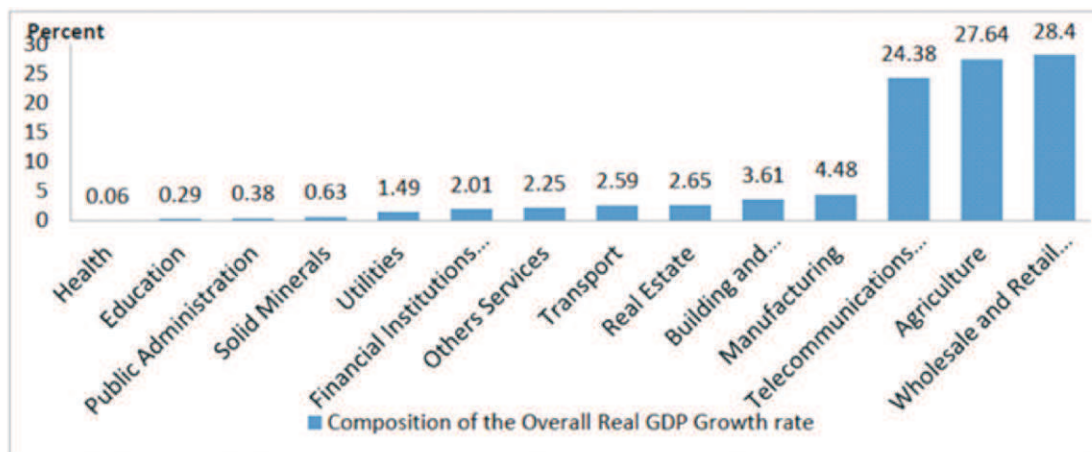


Source: National Planning Commission (2013)

For the most part, recent growth of the Nigerian economy has been driven not by the production and export of crude oil, as was the case in the past. Rather, Nigeria's recent economic growth is driven by non-oil sectors of the economy prominent among which are agriculture, telecommunications (ICT), wholesale and retail. As oil contribution to GDP slightly declined, the above sub-sectors contributed an average of 27.64, 24.38 and 28.4 percent respectively to Nigeria's GDP growth between 2011-2012 (See Figure 4.6). Other sectors that are contributing to the rapid economic growth in the economy include building and construction, hotels and restaurants and real estate. In 2013, the agricultural sector maintained a steady position with a 41.93 percent contribution and a 5.08 percent growth rate in the 3rd Quarter of 2013. This makes the sector's contributions to GDP the highest in four quarters (National Bureau of Statistics, 2013). Generally, the non-oil sector remains the key driver of growth in the economy. The sector recorded a growth rate of 7.95 percent in the 3 quarter of 2013 making it the highest when compared with previous quarters (Ibid). The rise in the growth of the non-oil sector in the Nigerian economy is a clear sign of sustainability and diversification. This puts the economy on the right path. This is because, the volatility of the global oil market coupled the insecurity surrounding

oil production in Nigeria makes an oil-driven growth prone to many shocks. As the Former Governor of the Central Bank of Nigeria (CBN) (2010) observed, the last decade has been a period of rebirth of the Nigeria's economy and almost all macroeconomic indicators affirm this.

Figure 4.6: Composition of the Overall Real GDP Growth Rate in Nigeria



Source: National Planning Commission (2013)

In 2012, the economy expanded by about 6.6 percent. This was largely driven by the non-oil sector, which grew by nearly 7.9 percent while the oil sector declined by about 0.9 percent (NBS Field Consultation). This impressive growth was maintained throughout 2013. During the fourth quarter of 2013, Nigeria's real GDP increased by 7.7 percent, reflecting an 8.8 percent contribution from the non-oil sector. Growth in the non-oil sector was anchored in strong growth in Agriculture (37.1 percent), wholesale and retail trade (21.4 percent), crude petroleum and natural gas (11.7 percent), and telecommunications and post (8.3 percent). GDP growth rate for the full year 2013 is recorded as 6.9 percent, reflecting strong growth in the non-oil sector of about 8.1 percent.

It is noteworthy that Foreign Direct Investment (FDI) inflows into Nigeria are having a downturn in since 2011. FDI inflows for 2012 amounted to US\$7.03 billion, representing a 21 percent decrease from the US\$8.9 billion recorded for 2011. The three quarters of 2013 recorded fallen FDI inflows (CBN, NBS). This, no doubt, could be attributed to the insecurity perpetrated by the Boko Haram terrorist group, which has impeded inflows of foreign investment into Nigeria.

4.3. Rebasing Nigeria's GDP – A New Outlook of the Economy

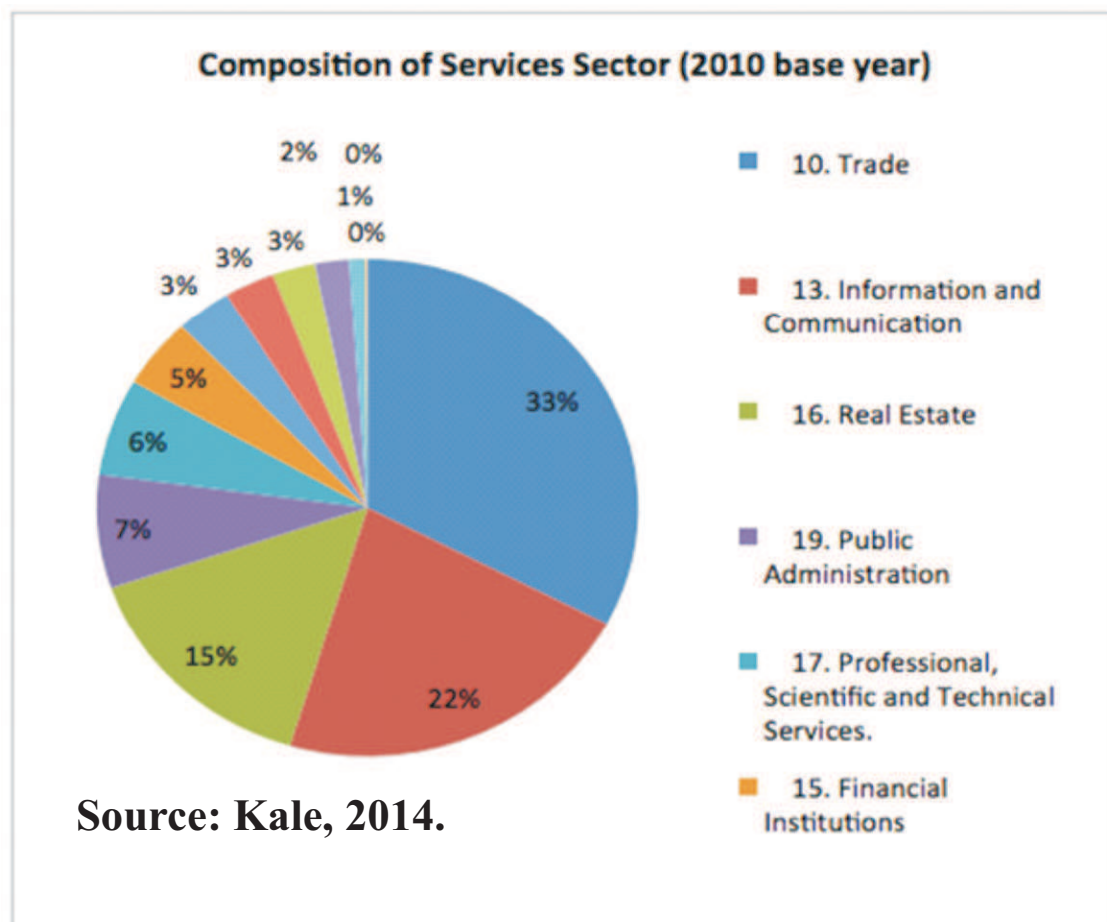
In April 2014, Nigeria successfully completed the rebasing of its gross domestic product (GDP). This was adjudged to be a successful effort that allows proper measure of economic activities in the country. This statistical exercise, which has not been done since 1990, gave

a new outlook to the Nigerian economy. Given the dynamic nature of economies, consumer taste change over time, new sectors and new products and services are added from year to year. Thus, rebasing the GDP is a cardinal principle of GDP measurement, which is used to account for these changes in the economy. The country's new GDP, which has 2010 as the base year, gives due weight to fast-growing industries in the country such as mobile telecoms, local film-production and entertainment (a.k.a, Nollywood) and increased manufacturing (NBS, 2014). As illustrated in Figure 4.7, the service sector is the fastest growing sector of the economy. This sector is comprised of nascent industries that have risen recently as sectoral drivers of the economy with great employment potential.

According to the Statistician-General of Nigeria, “in 2010, the rebased nominal GDP represented an increase of 59.5 percent over the nominal GDP using the old base year, 69.10 percent in 2011, 75.58 percent in 2012, and 89.22 percent in 2013(forecast)” (Kale, 2014). As a result, Nigeria's GDP in 2013 was revised from 42.4 trillion naira to 80.2 trillion naira (\$510 billion), an 89 percent increase (Kale, 2014). This sudden increase in country's nominal GDP does not imply that Nigerians are richer than before. The fact remains that majority of its citizens live on less than \$1.25 a day. With the oil and gas industry at 14 percent of GDP, the rebased GDP presents Nigeria as more than an oil-dependent economy. By giving the most accurate reflection of the economy, the new revised figures show that the country has more diversified economy with more service industry and factories (Kale, 2014). Such a proper evaluation of the economy points to key sectors where policies and scarce resources should be directed to ensure sufficient job creation, improved infrastructure and inclusive growth in the economy.

Besides, rebasing the GDP elevated the country's GDP ranking in the world. Consequently, Nigeria is now ranked as the 26th largest economy in the world, and the largest economy in Africa. The country's GDP per capita increased from US\$1555 to US\$2,688 after rebasing (NBS Consultation). However, and given its large population, the country's per capita GDP remains significantly low when compared with its peers. On this per capita basis, Nigeria is now ranked as 121st in the world, rising from a previous 135th position.

Figure 4.7: Composition of Services Sector after Rebasing



Chapter 5

DYNAMICS OF THE NIGERIAN LABOUR FORCE

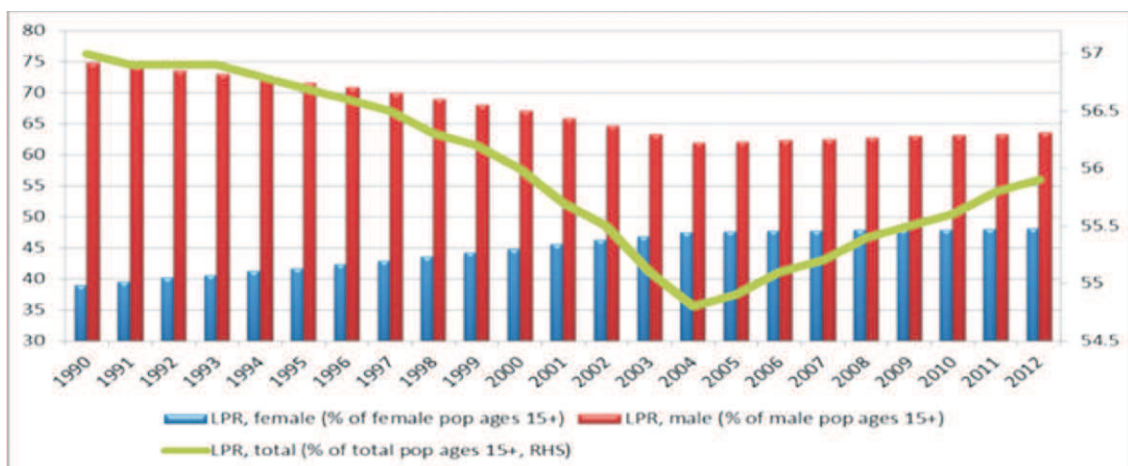
Overview

Despite the recent growth in its GDP, Nigeria remains a developing country characterized with low per capita income, a high rate of unemployment and extreme poverty. Unemployment and underemployment are major social and economic challenges in Nigeria. And as Bolarinwa (2012) argues, "... the rising incidence of "educated unemployed and underemployed" has generated considerable social policy concerns in Nigeria in recent time." One unique character of the Nigerian labour market is that the generation of productive employment in the economy has not matched the growth rate of the labour force. In other words, labour supply is greater than labour demand. This supply-side challenged in the labour market has been exacerbated by high rate of population growth, which is vibrant and youthful. Besides, the Nigerian labour force is characterized by the capacity underutilization and low productivity (Ibid).

5.1 Labour Force Participation (LFPR) in Nigeria

Gender wise, men have dominated the labour force in Nigeria. This trend is partly due to the Nigerian culture and society, which is biased against women. With the labour Force Participation rate (LFPR) of 77 percent in 1990, Nigeria experienced a male-dominated labour force in the first decade of its independence. With more exposure and investment in the education for girls, women are beginning to improve their participation in the country's labour force. Consequently, as figure 5.1 demonstrates, male participation rate has declined from 75 percent in 1990 to 62 in 2012, while female participation rate has increased from 37 percent in 1990 to 47 in the same time period (NBS, 2009). Evidence from our consultation shows that the participation of women in the Nigerian labour force has continued to improve as more attention is given to women affairs.

Figure 5.1: Labour Force Participation Rate in Nigeria (1990-2012)

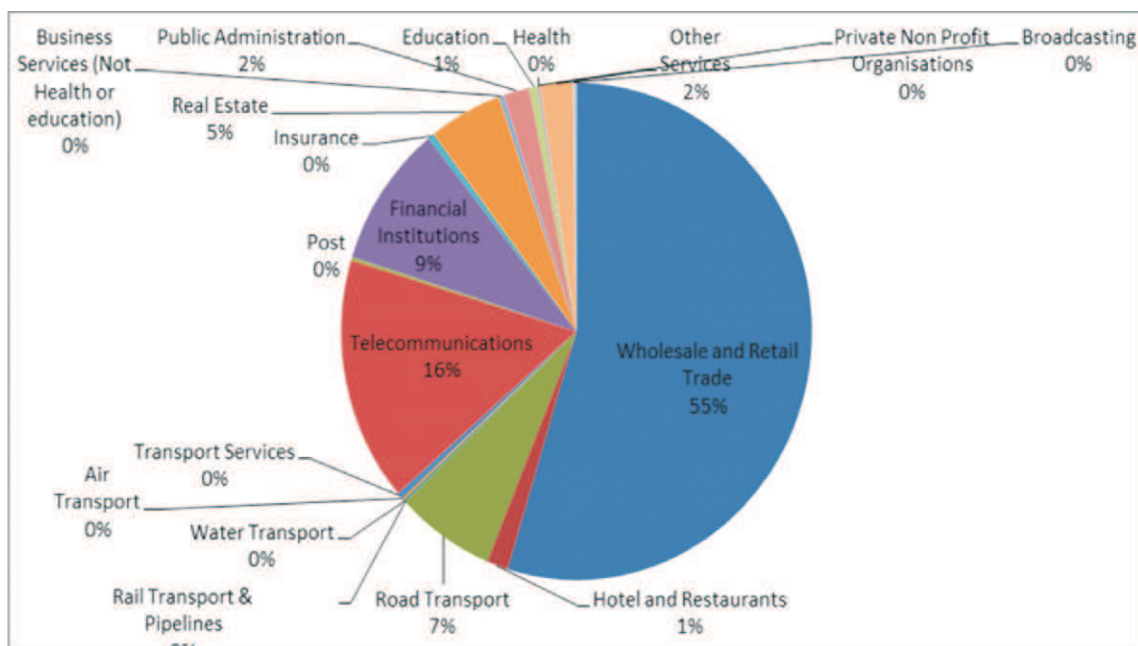


Source: Source: Authors' Compilation and World Bank Data

5.2. Labour Force Distribution in Nigeria

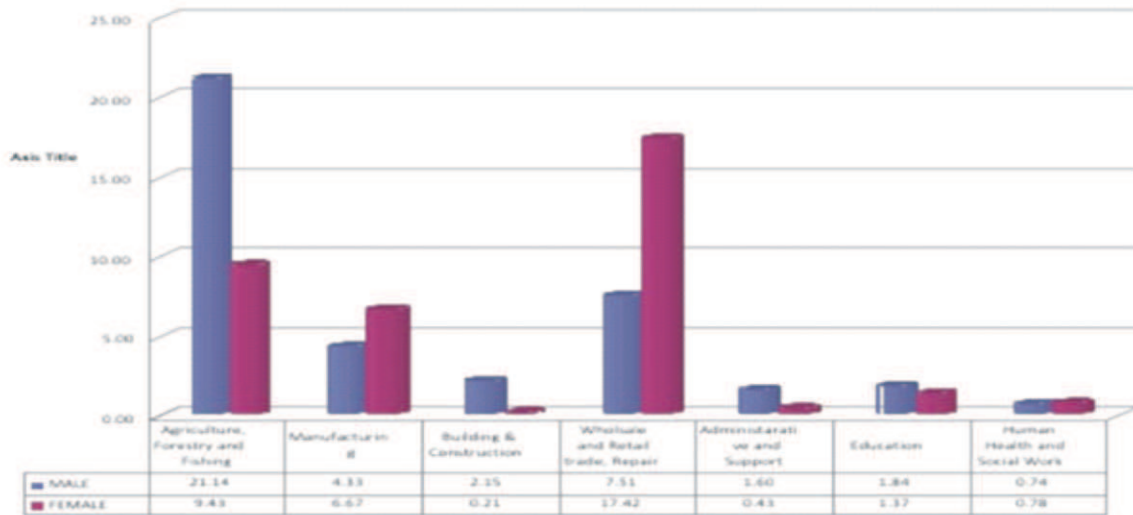
At the national level, the NBS estimates that about 48,533,319 individuals are engaged in productive economic activities across Nigeria. The sectoral distribution shows that agriculture, forestry and fishing sectors employ the highest number of workers with 14,837,693, followed by wholesale and retail trade sector with 12,097,189; manufacturing with 5,337,000 and other service activities with 3,471,702 (NBS, 2010). The structure of output in the services sector in 2011 is illustrated in figure 5.2, while figure 5.3 presents the distribution of employed persons in Nigeria by economic activities and sex. When distributed across states, Lagos state has the highest number of employed people in Nigeria with 3,800,531 people (NBS, 2010). In the same vein, Benue State recorded the highest number of employed people (1,036,739) in the agriculture sector, while River State and Katsina were the highest employers in mining and quarrying and manufacturing sectors with 28,946 and 629,594 respectively (Ibid).

Figure 5.2: Structure of output in the services sector in 2011



Source: National Planning Commission (2011)

Figure 5.3: Distribution of Employed Persons by Economic Activity and Sex



Source: NBS (2010)

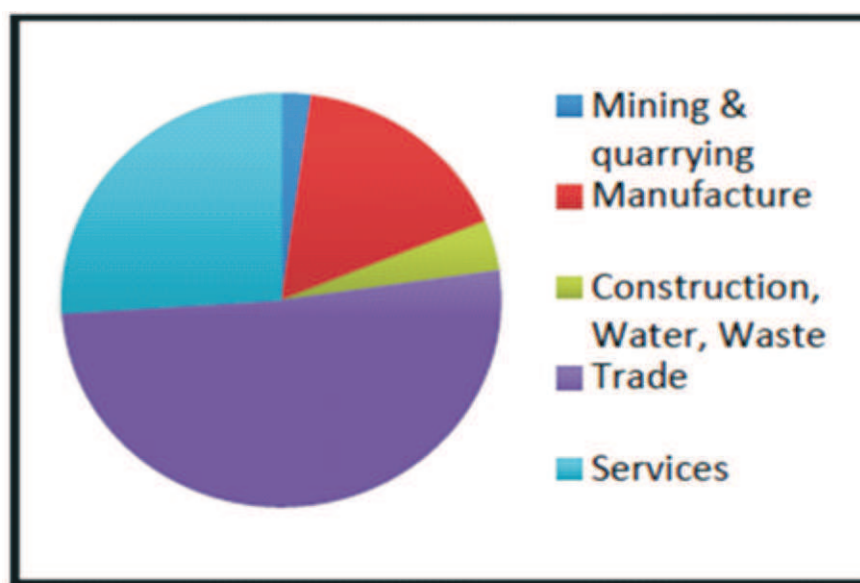
5.3. Self-Employment in Nigeria – Income and Productivity

Self-employment contributes heavily to the employment rate in Nigeria and the majority of them are in the agriculture and small enterprises. Although the rate of unemployment is high in the country, the fact remains that most Nigerians are engaged in one economic activity or the other. Income generation capacity and the level of productivity of these economic activities are no doubt, very low. National Bureau of Statistics survey (n.d) shows that there are about 34 million of such enterprises and they generate about 49 million jobs in the economy. Understandably, the employment capacity of these enterprises is limited. Generally, about 8 out of 10 of these enterprises have one person managing the business, and less than 3 percent of these enterprises have up to 5 employees or more (ibid). At the same time, only 8 percent of the businesses are registered with the government (ibid).

The dominant mode of self-employment in the country is small-scale agriculture, where households cultivate small acreage of land using crude farm implements. This sector is also characterized by low productivity both in rural and urban Nigeria. This implies that farming is still practiced at the subsistent level in most part of Nigeria. This, perhaps, explains the reason why productivity in the sector is very low. In addition, this trend explains why a huge percentage of farmers in Nigeria are living in poverty with about 56 per cent of farmers in urban areas poor, while about 63 per cent of famers in the rural areas live in poverty (Olomola, et al, 2009). The implication is that most households that are self-employed in agriculture do not earn sufficient income from agricultural activities to pull themselves out of poverty. This explains the gap in poverty levels between farm households and non-farming households in Nigeria (ibid).

The NBS survey shows that 77 percent of urban and 62 percent of rural households in Nigeria have someone in the household engaged in at least one income generating enterprise (NBS, n.d). According to the survey, there are about 34 million non-agricultural household enterprises, with about 46 percent of them operating in the urban areas. Households in the country operate small enterprises in all sectors of the economy. However, as illustrated in Figure 5.4, the highest of concentration of household enterprises is on trade and service sector that have limited entry barriers with regards to technical skills and capital/equipment (ibid).

Figure 5.4: Enterprises by Sector of Activity



Source: NBS (n.d).

The capacity of household enterprises in Nigeria to generate income is limited. A typical household enterprise in Nigeria generates an annual value added of \$1.42 million Naira and a net annual income of N1.35 million (ibid). The NBS survey (n.d) shows that the median net income for each household is N92, 000 or an equivalent of US\$585. This indicates that household enterprises, which is a major labour absorber in Nigeria pays less \$2 a day for the self-employed. This is not sustainable hence it does not constitute a decent income for the employed.

5.4. Unemployment Challenge in Nigeria

The unemployment rate in Nigeria has been on the rise in the last couple of years. Unemployment in the country increased continually from 21.1 percent in 2010 to 23.9 percent in 2013. This implies that about 38.24 million Nigerian are out of work. As figure 11 shows, the unemployment pattern in the country rises as the labour force and the economy grow. The latest survey on national unemployment in Nigeria by the NBS (2010) shows that there were more unemployed females (24.9 percent) than males (17.7 percent) in 2010. When distributed among the different educational qualifications, NBS survey shows that unemployment rate is highest (24.6 percent) among young Nigerians with Bachelor's degrees or the Higher National Diploma (HND) (See Figure 5.5).

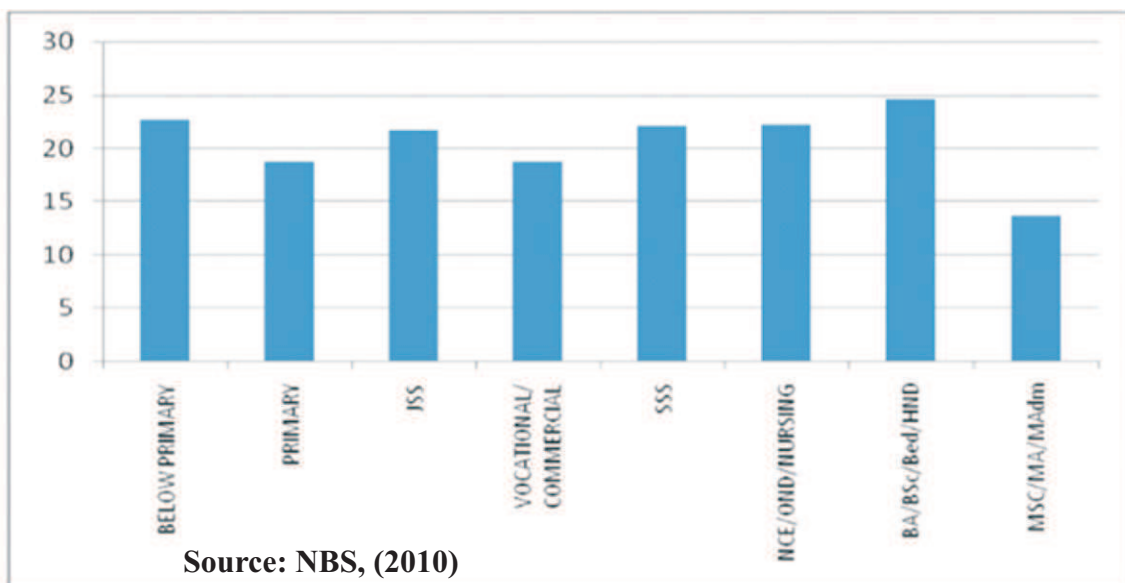
Figure 5.5: National Unemployment Rates (2000-2012)



Source: NBS, (2013)

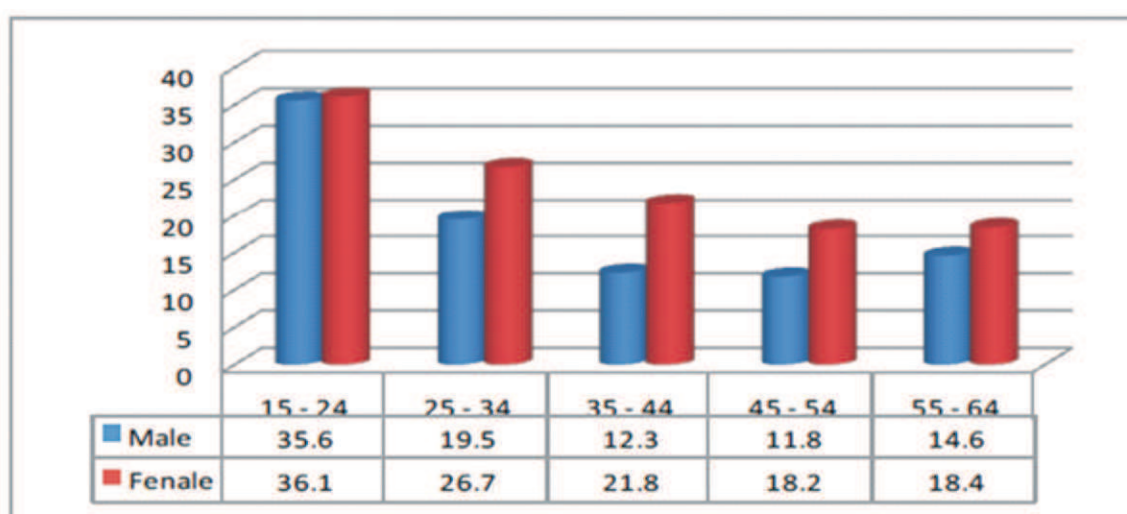
In line with labour market trends across the world, unemployment rate is highest among the youths. In 2010 youths between the age groups of 15-24 years experienced unemployment rate of 39.9 percent. It was 23.3 percent for youths in the age group of 25-34 years of age, and 16.8 percent for youths of 35-44 years (ibid). In 2011 there was a dramatic increase in the unemployment rate of Nigerian youths. For instance, 37.7 percent of youth age 15-24 and 22.4 percent of those between ages 25-44 were unemployed. On the average, Nigeria's youth unemployment rate in 2011 was 46.5 percent (BGL Research Intelligence, 2012). Figures 5.6 shows that the rate of graduate unemployment has risen significantly, while figure 5.7 indicate that women experience unemployment than men in Nigeria. The rising case of graduate unemployment is detailed in Appendix 3.

Figure 5.6: Unemployment Rate by Educational Level



Source: NBS, (2010)

Figure 5.7: Unemployment rate by sex and age group



Source: NBS, (2010)

On a lighter note, government's efforts on job creation are beginning to yield fruit especially in key sectors like agriculture where over 2.7 million jobs were created under various government job-creating initiatives. In addition, the Youth Enterprise with Innovation in Nigeria (YouWiN) Programme has created about 19,000 jobs so far in its first phase. Now entering its third year, the NBS projects that YouWiN will create up to 80,000 more jobs by 2015 (NBS Consultation). Over 2,014 graduates have been deployed under the Graduate Internship Scheme (GIS) and the Community Services program has engaged 120,000 unskilled youths. Of the 370,000 jobs expected under the Community Services Scheme, 178,000 youths are already employed, while the Graduate Internship Scheme is expected to place about 50,000 graduates across the country. Results from the latest job creation survey by the National Bureau of Statistics indicates that the private sector had a significant share of the 1.6 million jobs created in the country from the start of the third quarter of 2012 (July 2012) to the end of the second quarter of 2013 (June 2013). In clearer terms, a total of 2,784,228 new jobs were created in Nigeria from the 3rd Quarter of 2012 to the 4th Quarter 2013 (NBS, consultation).

Chapter 6

RISE IN RELATIVE POVERTY AND ECONOMIC GROWTH IN NIGERIA

Overview

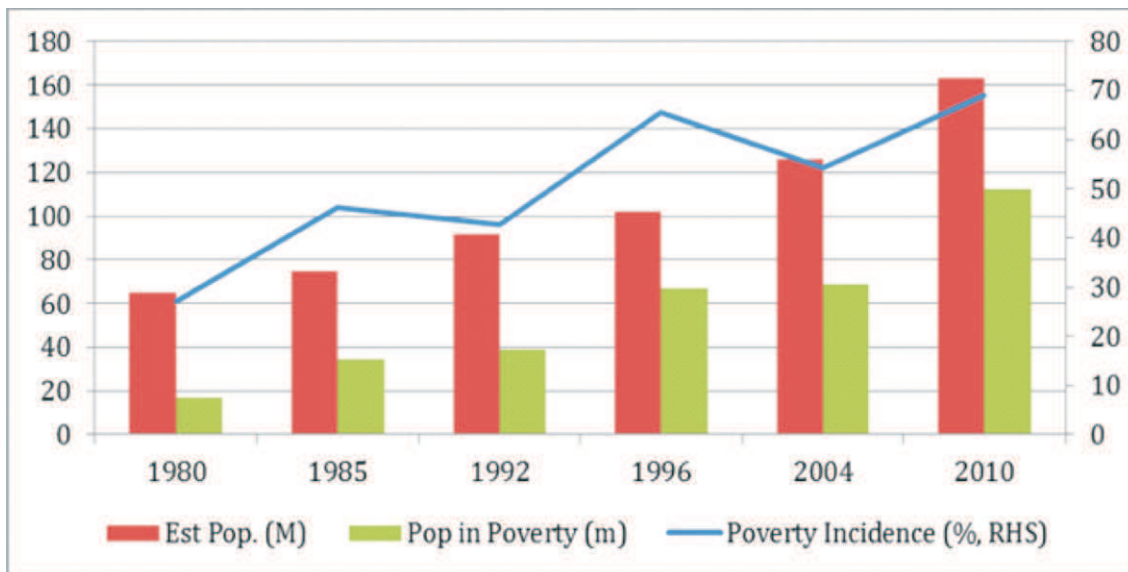
Job-rich economic growth is the single best solution for rising poverty. Economists of different theoretical persuasions believe in the phrase coined by John F. Kennedy that, “the rising tide lifts all boats.” In essence, they subscribe to the view that growth and opportunity for all is the answer to poverty. For this reason, many have argued for rapid economic growth for one particularly reason: poverty reduction. As Jack Kemp once argued, “...the ultimate imperative for growth and opportunity is to advance human dignity” (Kudlow, 2009). However, recent rapid economic growth in Nigeria has failed to reduce poverty and improve human dignity in the country. Rather, the reverse has been the case. This chapter explores the dynamics of rapid economic growth and rising poverty in Nigeria.

6.1. Rising Poverty in Nigeria

Despite high economic growth rate in Nigeria, poverty profile in the country has not gone down. Figures from the National Bureau of Statistics demonstrate that relative poverty increased from 54.4 percent in 2004 to 69 percent in 2010, which represents about 112.58 million Nigerians (NPC, 2013). This trend is further illustrated in Figures 6.1 below. As the NISER observes, robust economic growth has not impacted positively on poverty reduction and inequality in Nigeria. Rather, a 2012 study conducted by the institute in 18 of the 36 states in Nigeria shows that there is an increase in poverty and inequality. The highest poverty rate of 77.7 and 76.3 percent, were recorded in the Northwest and Northeast geo-political zones respectively, while the Southwest geo-political zone recorded the lowest at 59.1 per cent (Taiwan, 2013). Foster and Pushak (2011) observe that the incidence of poverty in Nigeria rises with distance from the coast in the South. Generally, poverty rates in the coastal states in the country are under 40 percent, and it rises above 70 percent in many parts of central zones of the country, particularly, in the far northern zones.

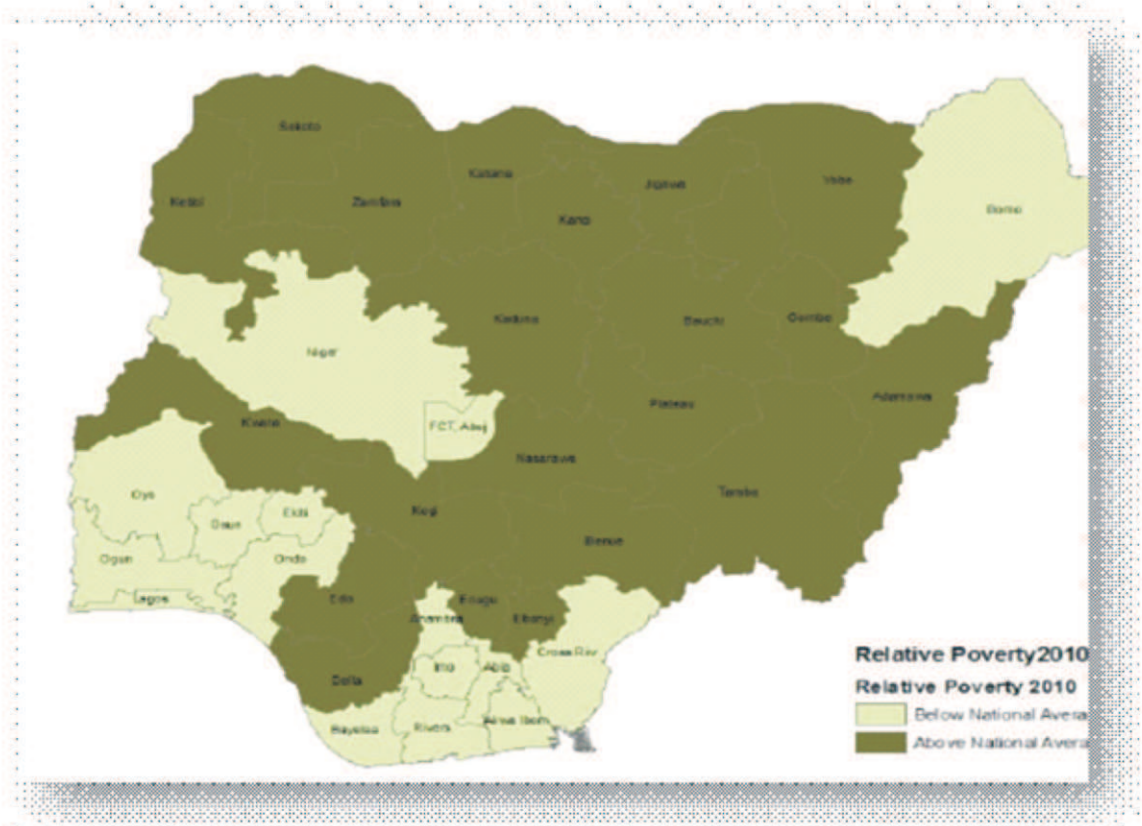
According to the NBS report, the percentage of people living in “absolute poverty” in Nigeria increased from 54 percent in 2004 to 60.9 percent (61 percent) in 2010. Poverty rate varies in different parts and regions of the country. The report shows that the Northwestern and the Northeastern geo-political zones of the country experienced the highest rates of poverty of 77.7 percent and 76.3 percent respectively, while the Southwestern geo-political zone had the lowest rate of poverty rate (NBS, 2010) (See Box 6.1). The Nigerian experience shows that growth does not automatically translate into benefits for the poor through job creation. Many policies and programs have been created by the Federal Government of Nigeria to ensure employment-intensive growth, and poverty reduction.

Figure 6.1: National Poverty Incidence (1980-2010)



Source: NBS (2013)

Box 6.1: Relative Poverty Measure 2010: States Above and Below National Average



Source: Taiwan (2013)

In response to poverty indexes and to enhance inclusive growth, the present administration has focused on critical reforms in all key sectors of the economy. For example, the reforms in the agricultural sector have created much more transparency in the distribution of fertilizers to farmers, and established an E-Wallet system of input delivery to farmers. The consistent growth in the agricultural sector in Nigeria is expected to have the effect of reducing poverty in the country. Besides, the Federal Ministry of Health has also outlined a Vision to Save One Million Lives, and improves the quality of care in health facilities by 2015. Over 433,000 lives were saved in 2011 and 2012 by scaling up 6 cost-effective interventions in maternal and child health, nutrition, prevention of Mother to Child transmission of HIV, provision of essential commodities, malaria control, and routine immunization. From another dimension, the MDGs, SURE-P, and the private sector, have also supported the health sector. Under SURE-P, over 9,000 frontline health workers have been recruited, trained, and deployed (SURE – P fact sheets). About 1,500 primary health care facilities have been refurbished and supplied with essential materials. In Education, about 13 States have benefited from the construction of special girls schools and 124 Almajiri Schools are being constructed to reduce the number of out-of-school children in the northern part of Nigeria.

The expectation is that the above programs will help to improve the conditions of living and reduce poverty across the country. However, such outcomes will depend on the proper implementation, monitoring and continuous evaluation of these programs. Despite these interventions, it is fair to observe that poverty remains high in Nigeria.

6.2. The Structural Disequilibrium of Growth, Unemployment and Poverty in Nigeria

This section of the report looks at the conflicting trends of sustained economic growth, increasing unemployment rate and increasing rate of poverty in Nigeria. One productive and effective way to reduce poverty is to create decent jobs for the poor, and one way to create jobs is to grow the economy. This perspective stems from the conventional economic paradigm, which tells us that increased economic growth has the tendency to multiply and benefit the poorest segment of the population through increased economic activities and job creation. In logical terms, economic growth should have the effect of creating more jobs, increasing wages and increasing aggregate demand through the increase of household consumption. All of these activities will have the end goal of reducing poverty. This shows that there is a synergistic relationship among economic growth, employment and poverty reduction in the society. However, the recent growth of the Nigerian economy does not follow this sequence.

Table 6.1: Relative Poverty Headcount from 1980-2010

Year	Poverty Incidence (%)	Estimated Population (Million)	Population in Poverty (million)
1980	27.2	65	17.1
1985	46.3	75	34.7
1992	42.7	91.5	39.2
1996	65.6	102.3	67.1
2004	54.4	126.3	68.7
2010	69	163	112.58

Source: NBS (2013)

Since the Nigerian began to grow in recent times, relative poverty in the country has equally risen. As suggested on Figure 6.1 and Table 6.1 above, the number of Nigerians that live in 'absolute poverty' increased from 68.7 million in 2004 to 112.58 million in 2010, an increase of 63.7 percent (NBS, 2010). This implies that Nigerians became poorer between 2004 and 2010. This is corroborated by the fact that the rate of unemployment in the country during the same time period increased from 12.3 percent in 2006 to 23.9 percent in 2011. Thus, there is a direct relationship between an increase in unemployment rate on the one hand, and a rise in poverty incidence on the other. Paradoxically, this is also the time period when the country experienced a robust growth of 6.6 percent GDP on average, making it the 5th fastest growing economies in the world (BGL Research Intelligence, 2012). These are seemingly opposed trends that run contrary to modern economic theory. It is a valid and rational expectation that an increase in economic growth in a country would generate employment for the masses and reduce poverty.

As the World Bank (2009, p.1) observed, "Nigeria's growth performance has not responded to the aspirations of its population as a whole, especially, the young generation." This stems from the fact that recent job creation in the economy occurs mainly in household agriculture and household enterprises. The more value addition in the production process, the more employment creation in the economy. These are sectors that generate less income in the economy. Besides, the proportion of the Nigerian workforce in wage employment has been declining for decades. This is partly due to the employment freeze by the federal government in an effort to restructure civil service and curtail and streamline recurrent expenditure. Hence, it is not surprising that Nigeria's capita income of \$757 or N71, 674 in 2010 has been growing at a slower rate of 3.85 percent per annum (BGL Research Intelligence, 2012). Based on the purchasing power parity, the implication of the per capita income above is that Nigerians, on average lived on \$2 per day, while 60.77 percent lived on less than \$1 a day in 2010 (Ibid). Thus, given that sustained economic growth in the country has been less impactful in reducing poverty, it has contributed to high level of inequality as demonstrated by the Gina Coefficient of 0.45 (Ibid). Obviously, this has not been the case for Nigeria, and this is where and why the question of inclusive growth comes in.

The fact that many years of economic growth in Nigeria has not been able to produce a broad-based socio-economic benefit for all in terms of poverty reduction highlights the structural disequilibrium that characterize the country's economy. Ofoegbu (2013, p. 205) explains that this structural imbalance has in effect, “sustained the key productive and high employment sectors below potential while supporting consumerism and rent-seeking.” Therefore, the rising rate of unemployment in Nigeria explains the increasing rate of poverty. Nigeria's population growth rates of 2.6 percent, labour force entrance rate of 1.8 percent coupled with a demographic structure dominated by youths suggest that unemployment and poverty will continue to increase notwithstanding the growth in the economy. These trends, which is equally in figure 6.2 point to the fact that the Nigerian economy operates substantially below its potential primarily due to under-utilization of labour.

This implicates the productive base of the Nigerian economy, which has remained weak, narrow and externally-oriented in nature (National Bureau of Statistics, 2010). After many years of economic planning, the Nigerian economy is still dominated by primary production activities, which include agriculture, mining and quarrying (including extractive active activities of oil and gas production). These primary activities account for about 65 percent of real gross output, over 80 percent of government revenue and over 75 percent of employment generation in the country (Ibid). On the other hand, secondary economic activities including manufacturing, building and construction contribute only 6.14 percent, while the tertiary sector or services account for 30 percent of the gross output in the economy (ibid).

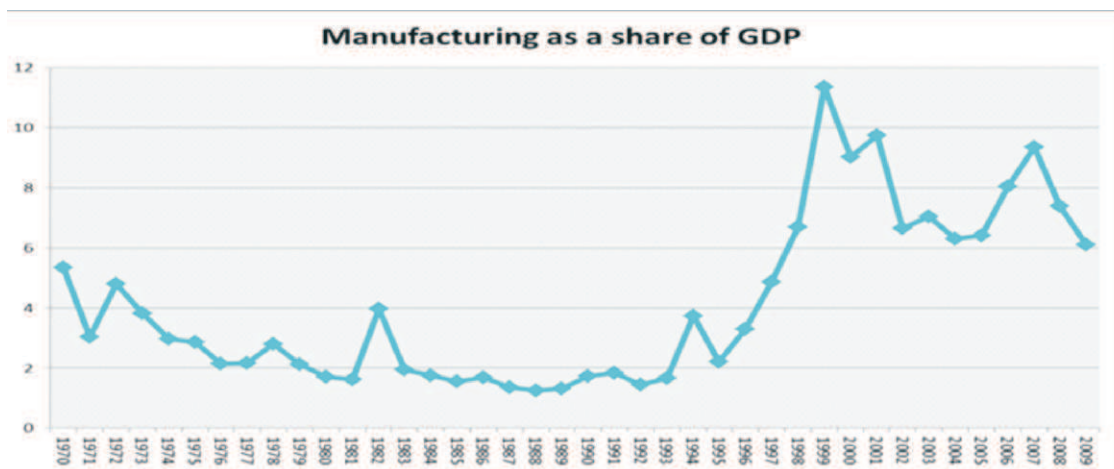
Figure 6.2: New Entrants into Active Labour Force, Projected to 2015



Source: NBS (2012)

The manufacturing share of GDP in the Nigeria economy is declining (See Figure 6.3). The poor performance of the manufacturing sector accounts for the inability of labour to move out of low-productive sectors to high-productive ones such as industrial and service sectors in the Nigerian economy. This contrast sharply with structure of labour force in other countries in sub-Saharan Africa, where the proportion of the labour force in household agriculture is declining, while there is a measurable increase in non-agriculture self-employment relative to wage employment (World Bank, 2009). The implication of having an economy that is dominated by the primary industries, particularly agriculture, is that manufacturing value-added (MVA) in Nigeria is very low, especially when compared to other less industrialized countries (Ibid). Besides, there is a steady decline in wage employment in the country. As demonstrated above, the growth pattern in Nigeria presents a situation where non-oil sectors such as agriculture and retail are growing. However, jobs created in these sectors have not helped in poverty reduction as anticipated. Invariably, these are the same sectors that employ most of the working poor in Nigeria. As economic actors, the poor have not benefited from the recent economic growth in Nigeria. It is also noticeable that the manufacturing sector lags behind in job creation and overall economic growth in Nigeria.

Figure 6.3: Manufacturing as share of GDP



Source: Authors' Compilation and CBN Data

Chapter 7

BINDING CONSTRAINTS TO INCLUSIVE AND JOB-RICH GROWTH IN NIGERIA

Overview

This chapter of the report investigates the country-specific circumstances that constrain inclusive and job-rich growth in Nigeria by using a growth diagnostic approach based on the Business Enabling Environment Approach (BEEA) and Employability Analysis Approach (EMPA). The diagnostic exercise looks at the business environment and employability constraints in Nigeria. In the first place, we examined potential bottlenecks facing the business environment in the country, which limits capital investment and/or lack of employment opportunities due to limited demand for labour. The second aspect looks at different elements of labour employability in Nigeria as well as the constraints holding back productive resources and individual capacity in the country. Collectively, we analyzed the constraints from the perspectives of labour demand and supply.

7.1. Binding Constraints to Business Environment in Nigeria

Though the government has the responsibility of basic infrastructure and rule of law, however, economic growth is driven by the performance of private investment and entrepreneurship. Over the years, business environment in Nigeria has not been conducive for capital investment. Despite recent inflow of investments in capital-intensive industries, Nigeria still lacks measurable amount of investment in employment-intensive industries. What are the major constraints to private sector-led investment in employment-intensive industries in Nigeria? Our consultations with different stakeholders in Nigeria reveal that there are various factors that inhibit capital investment and the overall performance of the private entrepreneurs in the country. Prominent among these binding constraints is poor infrastructure and high cost of finance for Micro, Small and Medium Enterprises (MSMEs) in the country. The Global Competitiveness report produced by the World Economic Forum ranks Nigeria's infrastructure 130 out 144 in its 2012-2013 competitive index (World Economic Forum, 2012).

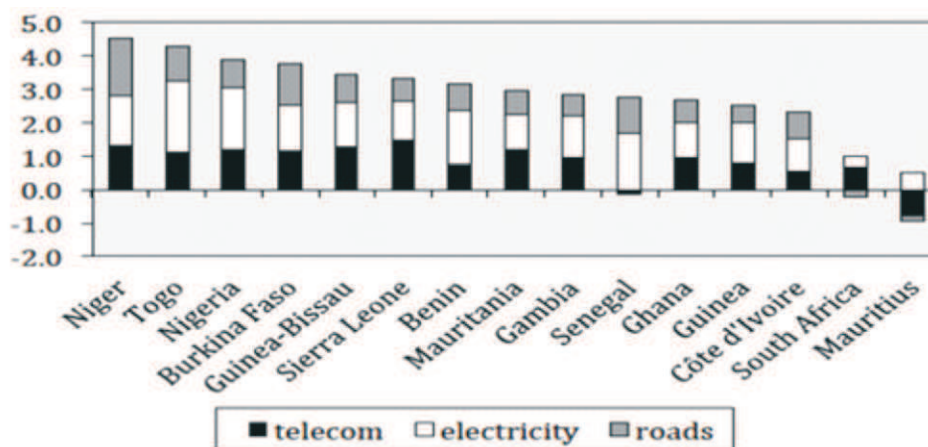
Infrastructure can be grouped into two categories, namely: physical infrastructure and institutional infrastructure (i.e., appropriability concerns). The former refers to the large network of physical artifacts and capital assets necessary for the function of modern economic system and society at large. Examples of such infrastructure include roads, railway system, electricity, Internet broadband and communication technology and water management. On the other hand, appropriability concerns or institutional infrastructure refers to the basic institutional structures that are required to deliver specialized services (World Economic Forum, 2012; Adegbeni, et al, 2012; Bello and Bello, 2012). Appropriability issues determine the effectiveness and/ or failure of governments in

creating conducive atmosphere for business operations. Among the examples of institutional infrastructure or appropriability concerns are the system of government and law enforcement, and the rule of law inter alia. First, we analyze binding constraints imposed by the poor performance of three key physical infrastructures (energy, transportation and telecommunication) to business environment in Nigeria.

7.1.1. Deficient Physical Infrastructure

The first binding constraint is the poor state of physical infrastructure in Nigeria. Physical infrastructure across Nigeria is quantitatively and qualitatively deficient. Suffice it to say that the importance of physical infrastructure cannot be overemphasized when it comes to economic growth and employment generation. To sum it up, the Asian Development Bank posits that: “Infrastructure development promotes inclusive growth and reduces poverty by creating additional jobs and economic activities; reducing production and transport costs improving connectivity ... connecting markets and other economic facilities that may extend beyond the country” (2012, p.9). In the same vein, Ali and Yao (2004) stressed the importance of quality infrastructure as an enabling factor for inclusive growth and poverty reduction. Empirical research suggests that infrastructure constraints are responsible for about 40 percent of the productivity gap faced by enterprises in Africa (Sanusi, 2012; Foster and Pushak, 2011). This trend is mostly prominent in Nigeria where physical infrastructure is in a state of disrepair. In this context, physical or hard infrastructure refers to the technical structures that support the functioning of a society or services and facilities that are essential for the smooth functioning of business operations and the economy as a whole (Catalan, 2003 cited in Bello and Bello, 2012). There is a direct correlation between the availability of basic physical infrastructure, sustainable economic growth and development in any given society. Different scholars have noted that the improvements in physical infrastructure added 1 percentage point to Nigeria's per capita growth rate for the period 2003 to 2007. In the same vein, the undeveloped nature of the country's power sector reduced the per capita growth rate in the same period by 0.13 percentage point (Sanusi, 2012; Adegbemi, et al., 2012; Foster and Pushak, 2011, p. 3) (see Figure 7.1).

Figure 7.1: Potential contribution of infrastructure to annual per capita economic growth in select countries in SSA, in percentage points

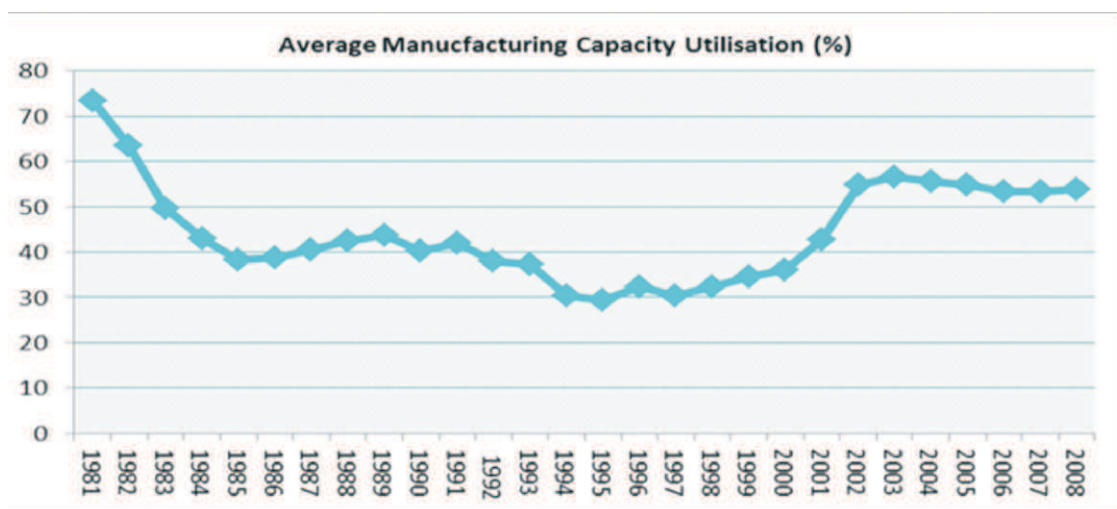


Source: Calderón, 2009 cited in Foster and Pushak, 2011.

One physical infrastructure that has remained undeveloped in Nigeria is energy system that facilitates the generation of electric power to drive both domestic and industrial activities in the country. Nigeria has achieved a relatively high rate of electrification (84 percent and 34 percent coverage in urban and rural areas respectively (Foster and Pushak, 2011), when compared with other countries in sub-Saharan Africa. However, the country has a limited supply of electrical power network, which includes generation plants, electrical grid substation and local distribution capacity. This has led to a constant power outage and power rationing in the country. The country is affected by power outages more than 320 days a year (Ibid). The implication is a constant disruption of industrial production in Nigeria. Business enterprises are forced to operate below capacity thereby cutting back on the employment of all production inputs including human labour.

In the course of our consultations, institutions and stakeholders such as the UNIDO and Bank of Industry (UNIDO, 2013; BOI, 2013) emphasized the critical effect of the poor state of electric power supply on the productivity and output in Nigeria. According to them, inadequate power supply has made it extremely difficult for the small and medium enterprises to reach their output potential. The poor state of electricity has direct and indirect effect on economic growth and employment generation in Nigeria. First, it reduces the ability of small-scale enterprises to produce at full capacity. As shown in figure 7.2, this has negatively affected the manufacturing capacity utilization in the economy, which has dwindled over the years. Such businesses are forced to either reduce output, or procure a power generating set for production purposes, which adds to the cost of production. It is estimated that about 60 percent of Nigerian businesses owe an electric power generating sets.

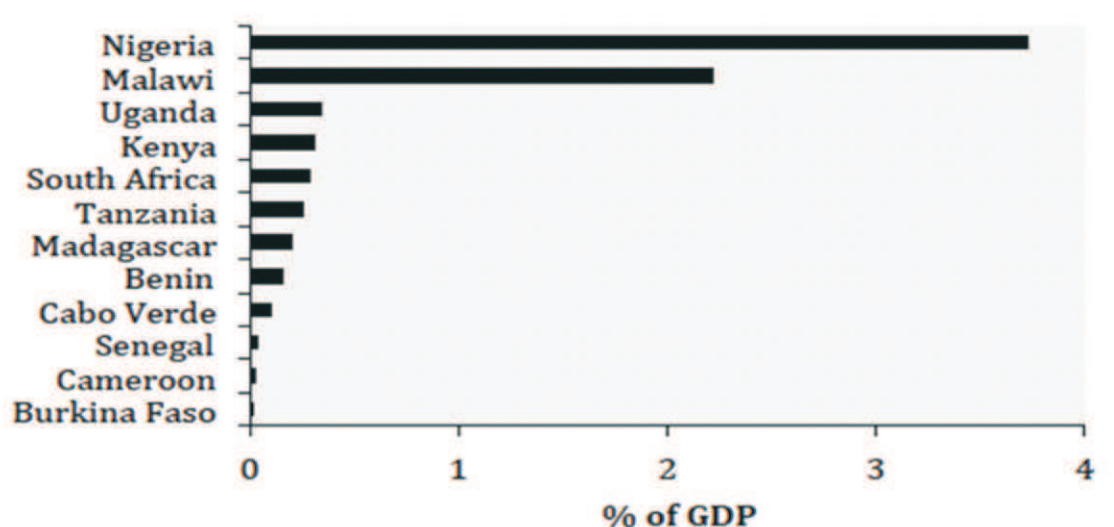
Figure 7.2: Average manufacturing Capacity Utilization (%)



Source: Authors' Compilation and CBN/NBS data

According to the Infrastructure Concession Regulatory Commission (ICRC), while more than \$13 billion is used annually to purchase fuel for generators in Nigeria, over 60 percent of Nigerians have no access (cited by Immigration and Refugee Board of Canada, 2014). Besides, such businesses are compelled to reduce their workforce or lay off workers in the interim. In addition, poor power supply in Nigeria has made very difficult for small and medium enterprises to meet their debt obligations. As demonstrated in figure 7.3, the poor supply of electric power exerts huge toll of economic productivity in Nigeria more than other countries in the region.

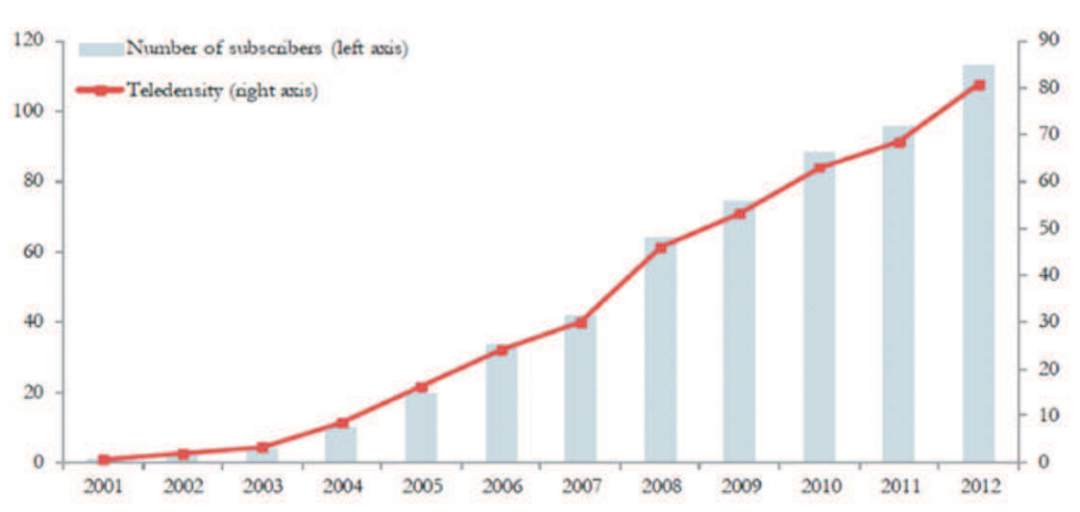
Figure 7.3: Economic cost of power outages in select countries in Africa



Source: Foster and Pushak (2011).

Weak Transportation Infrastructure: In addition to poor electric power supply, Nigeria also has a huge deficit in transportation infrastructure. The dilapidated state of road and highway network, waterways, bridges, railway systems and airports have impeded easy flow of people, goods and services in the country. Nigeria has a good network of roads. The Governor of the Central Bank of Nigeria (CBN) expressed that only 20 percent of the roads in Nigeria are paved, while approximately 70 percent of the 193,000 km of roads in the country are in poor conditions (2012). The Federal Ministry of Works confirmed this statistics on the state of Nigerian roads during our consultation with them. The ministry attributed this to insufficient allocation of resource for road maintenance. As Foster and Pushak (2011) noted, the country has allocated only \$50 million per year for preventive maintenance of roads in the country, whereas, the benchmark requirement is \$240 million (ibid). At independence, Nigeria has one of the best railway networks in SSA. However, up until recently, the Nigerian Railway Corporation operated on archaic and neglected railway system, the foundation of which was laid by the British colonial administration. In spite the large population, which creates a huge demand for intercity passenger traffic and freight haulage, the potential of the rail system in production and distribution of goods across the country has remained undeveloped. Due to the gross neglect and inefficient operation of the rail system in Nigeria the rail traffic volume has decline d enormously over the years. Foster and Pushak (2011) reveal that traffic volume on the railway system in Nigeria has decline from 3 million tons in 1960 to 15,000 in 2005, while passenger traffic has declined from 3 million to 500,000 passengers within the same period. The implication is that Nigeria could not even maintain the rail system at the same operation capacity establish by the British colonial administration.

Another area of infrastructure deficit is in telecommunication sector. Telecommunication has improved remarkably in Nigeria, especially, with the advent of new information and communication technologies (ICTs). The Nigerian Communications Commission (NCC) reports that there were 2.4 million connected landlines in August 2012, out of which only 488,088 were active (Consultation with the Federal Ministry of Information and Communication Technology, 2013). The rapid growth of telecommunication subscription and teledensity in Nigeria is corroborated by the African Development Bank (2013), which estimates that the number of Internet users and mobile and fixed line phones in the country has increased from about 660,000 in 2000 to almost 143 million in 2011 (See Figure 7.4). This is an indication that the country still falls short of the required international communication capabilities. In addition, the quality of telecommunication service in Nigeria is very poor when compared with other countries. Despite the booming cellular phone business in the country, basic mobile phone services in the country remains problematic as subscribers experience constant service problems such as dropped calls, crossed lines, and poor coverage. The result is that Nigeria ranked 13th among the 29 Sub-Saharan African countries in a recent survey of communication capabilities (AfDB, 2013). This is primarily due to the poor quality of ICT-related infrastructure in the country. For instance, in 2012, there were only 20,000 base transceiver stations supporting cellular communications in Nigeria. The country was short of 50, 0000 transceiver stations because about 70,000 are required to ensure adequate quality of telecommunication services (Immigration and Refugee Board of Canada, 2014).

Figure 7.4: Nigeria Telecommunication: Number of subscribers and Teledensity (Millions)


Source: Isabota (2013b)

Poor Port System: Another aspect of physical infrastructural constraints in Nigeria is poor port system. The port system in Nigeria is inefficient; hence, it operates below global benchmark. The poor performance of the Nigerian Ports Authority can be attributed to corrupt and inefficient practices among government officials. These practices cause unnecessary delays in the movement of cargo passing through the Nigerian port system for export of import purposes. Comparatively, cargo containers dwell 30-40 days in major Nigerian ports as opposed to 7 days global average (ibid). For instance, it took about 117 days for ShopRite, a new retail outlet in the country, to move its merchandise to Nigerian market. A good part of this delay was caused by the congestion in Lagos ports system (The Economist Magazine cited by Buisson, 2013). The implication is that inefficient port operations in Nigeria add to the cost of doing business in the country. This also reduces the capacity of the private enterprises to engage human labour at full capacity.

7.1.2. Low Private Appropriability in Nigeria

This section of the report looks at the various reasons that private returns to economic activities in Nigeria may be low due to appropriability issues or deficiency in soft infrastructure. As the Asian Development Bank (2012) stressed, the development impact of physical infrastructures depends to a large extent on the soft infrastructure or the enabling environment, which is denoted in our framework as appropriability factors. In spite of the recent increase in foreign direct investment (FDI) in Nigeria, FDI inflow and private investment remain below its potential in the country. The low rate of investment in the country can be explained in part by the government failures or institutional weaknesses, which have made business operations in the country difficult, and rendered returns to private investment in low. As noted above, inclusive job-rich growth in Nigeria is constrained not only by poor physical infrastructure, but also by low private appropriability or poor institutional infrastructure, which are essential for the delivery of basic service and the implementation of laws and policies. Also included is the issue of pervasive rent-seeking and corruption among government officials in Nigeria. The legal and

administrative framework within which individuals, firms, and governments interact to generate wealth determines the institutional environment (World Economic Forum, 2012). The qualities of institutions in each country influence the choice of investment by potential investors. As the World Economic Forum (2012) rightly observed, the role of institutions goes beyond the process of putting in place and enforcement of the legal framework. In addition, the efficiency of government operations, in terms of less bureaucracy, transparency and less red tape, count towards the effectiveness of institutions.

The Global Competitiveness report ranks Nigeria's institutions 117 out of 144 in its 2012-2013 competitive indexes (World Economic Forum, 2012). The World Bank's Doing Business (2013) data for Nigeria ranks the country low among other countries in the same category. There are many bureaucratic and legal huddles that face existing and potential business operations in the country. Our consultations with stakeholders in the country reveal that the time, procedures and cost of launching a new enterprise in Nigeria is among the highest in Africa. In comparative terms, the World Bank's Doing Business Project (2013) shows that it takes 32 days to register a new business in Nigeria while it takes 14 days to do so in Ghana.

Another aspect of institutional weakness, which repels investment capital and job-rich growth in the country, is the security situation in Nigeria. Recently, the country has witnessed a rising specter of violence and attacks perpetrated by religious and ethnic groups. Such groups include the Boko Haram among the Hausa ethnic group, the Oodua People's Congress among the Yoruba's ethnic extraction, Bakassi Boys and Movement for Actualization of Sovereign State of Biafra (MASSOB) among Igbos, and Niger-Delta Militant groups (Aro, 2013). The activities of these insurgent groups have crippled economic activities in different parts of Nigeria. They have recently targeted business and non-business interests including the Nigeria Police Force Headquarters and the office of the United Nations in Abuja, Nigeria. Recently, a state of emergency was declared by the Nigerian president in the three Northern states of Adamawa, Borno and Yobe due to the terrorist activities of the Boko Haram sect. The Boko Haram sect has waged a continuous violent campaign against Nigerians in other Northern states such as Kano, Bauchi and Gombe. While these attacks have caused huge loss of lives and properties, it has equally polluted business environment by discouraging capital investment in the country. A weak business environment repels private sector participation. The implication is that it is discouraging to start a new business or operate an existing one in Nigeria. This, not only depresses economic growth, it also stifles the job creation ability of the economy and increases the rate of poverty.

7.1.3. High Cost of Finance for Micro, Small and Medium Enterprises

Another binding constraint to inclusive and job-rich growth in Nigeria is lack of access to credit for Micro, Small and Medium Enterprises (MSMEs). As demonstrated in Figure 7.5, bank credit to MSMEs in Nigeria has continued to decline over years. This is primarily due to institutional deficiencies and high cost of finance, which have added to the difficulty of obtaining bank loans by MSMEs to start new businesses or expand existing ones. The Bank of Industry (2013) also explains that many owners of SMEs do not have the required

collateral demanded by banks. Hence, the IMF (2013) explains that Nigeria lags behind comparator countries in terms of access to credit for SMEs. Hence, this has been described as the biggest challenge obstacle to development after lack reliable energy supply. Consequently, MSMEs are unable to invest in profitable ventures to grow their businesses, employ more people and contribute to poverty reduction in Nigeria. MSMEs play catalytic in the transformation of the Nigerian economy given that they possess great potential for employment generation, improvement of local technology, output diversification, increase in local value addition and the development of indigenous entrepreneurship (CBN, 2006; NBS and SMEDAN, 2012). Our consultation with MSMEs through SMEDAN shows that one of their major challenges is the reluctance of commercial banks in the country to extend credit facilities to them. This claim is corroborated in figure 22, which highlights the steady decline of loans to MSMEs from the commercial banks over the years. SMEs in Nigeria face many challenges, which limit their contributions towards employment generation and poverty reduction. Prominent among such limitation is poor funding. MSMEs definition adopts a classification based on dual criteria, namely: the number of employees, and assets (excluding land and buildings) as shown on Table 7.1.

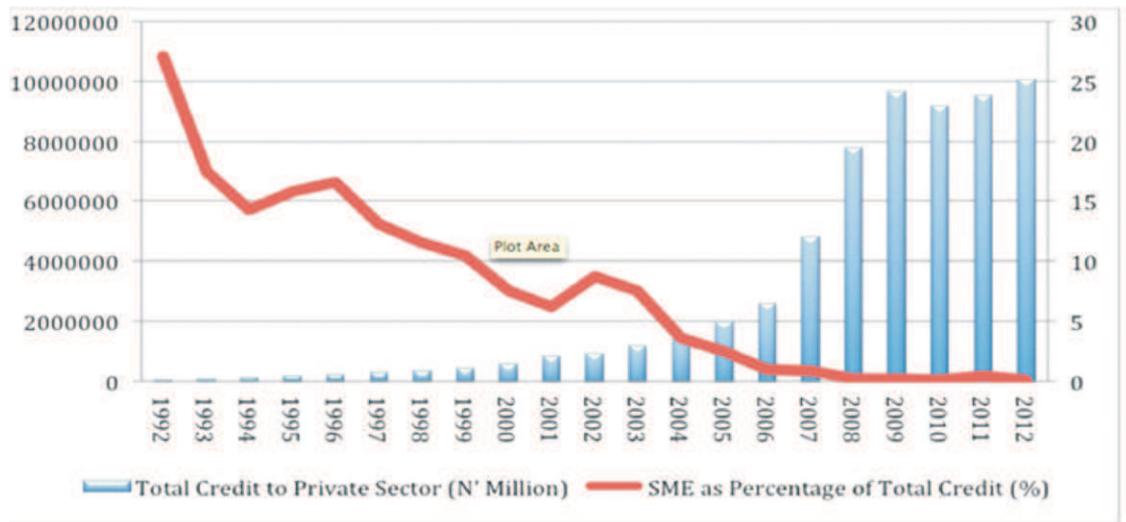
Table 7.1: Classification of MSMEs in Nigeria

S/N	Size Category	Employment	Assets (=N= Million) (excl. land and buildings)
1	Micro enterprises	Less than 10	Less than 5
2	Small enterprises	10 to 49	5 to less than 50
3	Medium enterprises	50 to 199	50 to less than 500

Source: NBS and SMEDAN (2012).

MSMEs make up of 96 percent of Nigerian business and represent 90 percent of manufacturing activities in manufacturing and industrial sectors. A study by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the National Bureau of Statistics (NBS) (2012) shows that SMEs contributed 46.54 percent to Nigeria's GDP in nominal terms in 2010. There are about 17,284,671 (micro-17, 261,753, small- 21,264, and medium-1, 654) MSMEs in Nigeria (Ibid). As Oyelarin-Oyeyinka explains, MSMEs in Nigeria are distributed in different regions of the country in the following clusters: the Aba leather and fashion cluster; Newi automobile cluster; the Otigba ICT cluster in Lagos; tie and dye cluster in Abeokuta and Osogbo; and the leather cluster in Kano (Oyelarin-Oyeyinka, 2007) (See Appendix 2).

Figure 7.5: Commercial Banks Loans



Source: Authors' Compilation/CBN and NBS

Over the years, efforts have been made to address the challenge of lack of credit for MSMEs in Nigeria. For instance in 2001, the CBN in collaboration with Bankers Committee initiated the Small and Medium Industry Equity Investment Scheme (SMIEIS). The goal of the SMIEIS is to promote rapid industrialization, sustainable economic development, poverty alleviation and employment generation. Other efforts to promote access to credit for MSMEs in Nigeria include, the Counterpart Funding Scheme of the Bank of Industry (BOI), the N200 billion Small and Medium Scale Enterprises Guarantee Scheme (SMECGS) by the CBN, the N200 billion SME Restructuring/Refinancing Fund and N100 billion Cotton, Textile and Garment (CTG) Fund, inter alia (Gbandi and Amissah, 2014; NBS and SMEDAN, 2012). These policies initiatives and programs are necessary to ensure that MSMEs access sufficient credit. However, despite these efforts MSMEs still find it difficult to access credit in Nigeria (Ukoha, 2013).

7.2. Employability Analysis of Nigerian Labour Market

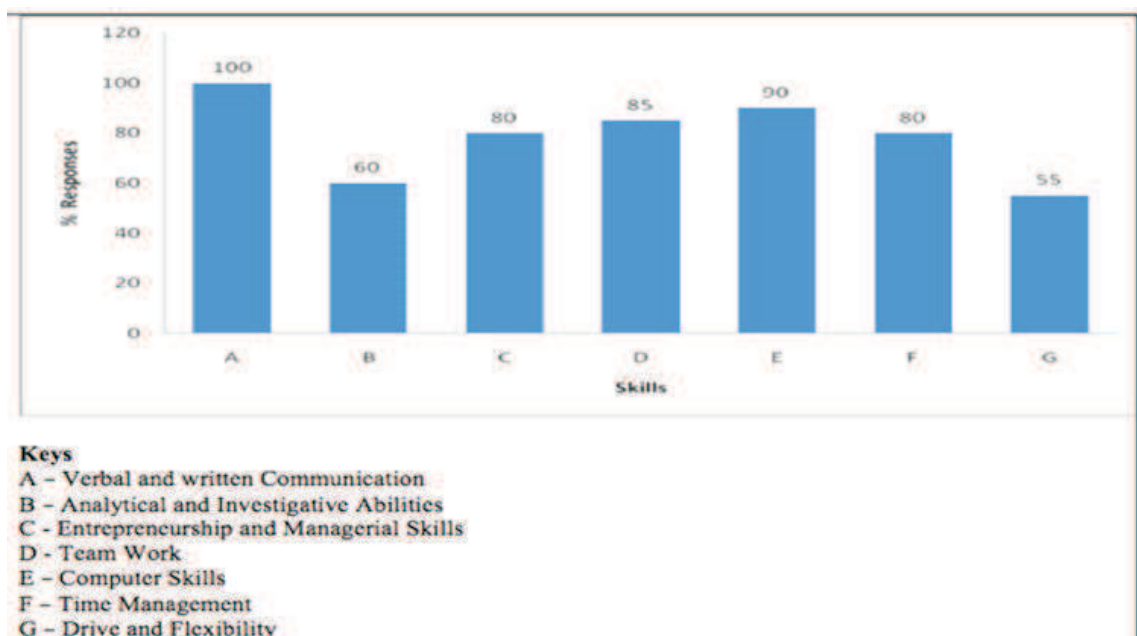
Just like investment in physical infrastructure, investment or lack thereof, in human capital (i.e., health, knowledge, and skills of the people) affects the level of economic growth. Using the inclusive growth diagnostic framework, this section of the study examines the employability of graduates of different educational and vocational institutions in Nigeria.

7.2.1. Skill Mismatch

The acquisition of a university degree is not the same as the acquisition of employability skills. Many scholars (Pitan and Adedeji, 2012) have stressed the need to bridge the skill gaps among graduates in the country. Skill mismatch refers to the lack or absence of essential quantitative or qualitative skills, knowledge or competences that employers demand in the workplace. The shortage of basic employability skills, especially among Nigerian graduates hampers the competitiveness of businesses and inclusive growth in the country.

recent survey of the employers of labour in Nigeria (Ibid) shows that despite the mastery of their disciplines, many Nigerian graduates in the job market are deficient in these essential competencies necessary for dealing with challenges in the business environment and enhancing business productivity. Thus, there is an apparent gap in the demand and supply of skills in the Nigerian labour market. As Pitan and Adedeji (2012) stressed, skills gap has a number of impacts at both the firm level and macroeconomic levels. First, skill mismatch in the Nigerian labour market compromises the productivity and competitiveness of business due to lack of human resources. To make up this shortfall, businesses are compelled to recruit expatriates at additional costs. At the macroeconomic level, skills mismatch remains one of the major causes of unemployment in the country.

Figure 7.7: Skills Required for Graduate Employment in Nigeria



Source: Akinyemi, et al, (2012).

From another perspective of skill mismatch, there is a relatively high demand for technical and vocational skills and a decrease in supply thereof in the Nigerian labour market. In the course of our consultations, the Nigerian Labour Congress (NLC) and the Federal Ministry of Works lamented the apparent lack of required technical skills among the unemployed groups in Nigeria. According the NLC, the paucity of basic technical skills in the construction sector has prompted Nigerian contractors to bring in expatriates craftsmen from neighboring countries such as Ghana to fill vacant job positions in Nigeria. In the same vein, a World Bank (2009) study shows that the recent growth in construction and leather industries in Nigeria has been constrained by the lack of skilled construction workers. The implication is that the shortage of skilled labour in Nigeria inflates the cost of production, thereby causing low return on investment. This situation relates directly to the

secondary education system in Nigeria. The shortage of technical and vocational skills in the Nigerian labour market is partly due to the low enrollment in polytechnics and technical colleges as students have shown preference for academic education against technical education (World Bank, 2009). As the World Bank (Ibid) observed, enrolment in technical colleges in Nigeria account for less than 2.6 percent of senior secondary enrolment in the country, while enrolment at polytechnics remains substantially low when compared with universities. Besides, there is an apparent disconnect between educational and training institutions and employers in Nigeria. This has resulted in a situation where educational and training institutions produce graduates without taking into consideration skills that are in demand at job market.

7.2.2. Lack of Social Safety Net in Nigeria

The apparent lack of social safety net (SSN) programs constrains many Nigerians, particularly the poor, from participating in the growth process of the economy. The high rates of unemployment and poverty in Nigeria have contributed to social inequality. This has become more pronounced due to lack of effective SSNs programs. Inclusive growth strategies address poverty reduction through the creation of productive employment opportunities while addressing extreme poverty through SSN programs (Ogujiuba and Alehile, 2011). The lack of effective social protection system has contributed as a constraint to inclusive growth and poverty reduction in the country. Although social safety net policy has been on the agenda of the Federal government of Nigeria since 2004, Holmes et al (2011) argue that, social protection in Nigeria has fallen short of the need of the poor. As a matter of fact, most Nigerians are unaware of their rights for social protection, while policy makers in the country see SSN programs as altruistic move by government as opposed to an obligation of the government to its citizens (Sanubi, 2011).

SSNs are crucial in poverty alleviation they provide resources to the most vulnerable in the society (The Independent Evaluation Group, 2011). Social safety nets consist of programs and policies designed to cushion the effect of economic poverty and vulnerability among citizens. SSNs involve various programs such cash transfers, promotion of efficient labour market, and the provision of basic healthcare (Sanubi, 2011). Unfortunately, governments in Nigeria are yet to fully fund and implement meaningful SSN programs that are impactful in peoples' lives. For this reason Sanubi (2011) observes that these policies have not present social protection programs in the country have not “gone beyond pedestal levels of mere residual safety nets for government” (2011, p.).

Nigeria initiated social protection policy in 2004 when the National Planning Commission drafted the social protection strategy. This was followed by the draft of the National Social insurance Trust Fund, which mapped out a social security strategy for the country. The strategy was organized around four themes, namely: social assistance, social insurance, child protection and the labour market. However, in spite of these encouraging steps, none of these draft policies have fully been implemented at the grassroots level (Homes, et al, 2011a). In addition to the absence of SSNs, when compared with other countries, the Nigeria government spends low proportion of its budget on social development with education and healthcare accounting for only 12 percent and 7 percent respectfully of

government expenditure (Hagen-Zanker and Tavakoli, 2011, cited in Holmes et al, 2011a, and p.2).

As Holmes et al (2011a) observe, SSNs programs cannot be implemented at the state and local levels due to the lack of an overarching social protection policy or strategy at the federal level. The existing social protection interventions in Nigeria are ad hoc, state-led and small-scale in nature. Besides, they are narrowly conceptualized to focus mainly on conditional cash transfer and health financing. A pilot program of the conditional cash transfer programs have been put in place in 8 States and the FCT (Okonjo-Iweala, 2014). An example is the conditional cash transfer program known as In Care of the People (COPE). An evaluation of existing SSN programs in Nigeria shows that they are ineffective in cushioning the effect of the high levels of poverty and inequality in the country. These programs are facing many challenges, which include, low coverage of the population in need, poor service delivery, weak institutional capacity and fragmentation of approaches (Holmes, et al, 2011b).

Since its independence, Nigeria has struggled to turn extractive economic and political institutions into inclusive ones. This is based on the rationale that with free-market competition, innovation and the involvement of the state in some areas, inclusive political and economic institutions nurture industrialization (Naqvi, 2012). From the foregoing, it will be unfair to limit the absence of inclusive growth in Nigeria's economic experience within the last decade or so. Rather, one can argue that the evolution of economic planning in Nigeria, particularly, since the inception of oil production in the country, can be characterized as a faltering pursuit of inclusive growth. Every government administration in the country, both the military and democratically elected one, has always declared their undivided focus on job creation and poverty reduction. Unfortunately, the quest for inclusive growth – at times with amorphous objectives – has remained an unfinished agenda of development policy in Nigeria.

Chapter 8

CONCLUSIONS

This study used the diagnostic framework of broad-based growth to investigate binding constraints to inclusive and employment-rich growth in Nigeria. The report reveals that many institutions and infrastructures necessary to conceive and deliver inclusive economic growth in Nigeria are either not available or inadequate. We also developed strategies and steps through which these constraints can be addressed in order to integrate employment and poverty reduction objectives into national macroeconomic and social frameworks. The identified constraints are similar to what other scholars have identified in economies that share similar structure. However, the Nigerian situation is peculiar given its size and structure of the economy, coupled with its strategic position in the West African sub-region. All indicators point to the fact that, the Nigerian economy has experienced an impressive growth rate in recent years while the rates of poverty, unemployment and underemployment have equally risen remarkably. Given that the goal of job-rich economy requires faster growth and greater employment intensity of growth. Unfortunately, the current growth trajectory of the economy will not create sufficient jobs needed to lift most Nigerians above the poverty line.

The binding constraints include poor physical infrastructure, deficient institutional capacity, public insecurity and inadequate credit for SMEs. Other impediments include skill mismatch and limited supply of technical and vocational skills and lack of a comprehensive social safety net for the most vulnerable members of the society. These factors constrain business environment and the prospects of employability in Nigeria thereby cutting across the micro and macro determinants of broad-based growth. Addressing these challenges will require sectoral interventions aimed at expanding employment opportunities in the short-term, and structural transformation of the Nigerian economy through diversification in the long-term. Recommended policy reforms for inclusive growth in Nigeria will create equality of opportunity through easy access to markets, resources and unbiased regulatory frameworks for all stakeholders in the economy. Addressing these binding constraints in Nigeria holds significant potential for inclusive growth, productive employment creation and the realization of Nigeria Vision 20:2020.

By any standard of measurement, most of Nigeria's population lives in poverty, with individuals subsisting in less than two dollars a day. The lack of inclusiveness in the Nigerian economy has created persistent poverty in the midst of plenty. Increasing poverty and the widening gap in income inequality underscore the need for sufficient public and private investment for social protection and the improvement of physical infrastructure. This will result in great gains in job creation, productivity and the reduction in poverty

among Nigerians. In pursuit of inclusive growth, the present administration should focus on sectors that have the potential of creating jobs for people at the bottom. Such sectors include mass housing, solid minerals, mining and agriculture. Fortunately, the pursuit of Nigeria's Vision 20:20 and President Goodluck's Transformation agenda had brought together a policy mix that supports increased public investment in infrastructure development, inclusive growth, job creation, development of value-chain and improved productivity in agriculture, and improved access to credit for MSMEs. However, the implementation and coordination of these policies across all sectors in the Nigerian economy is key to their success.

Chapter 9

COORDINATING AND SUSTAINING INCLUSIVE AND JOB-RICH GROWTH IN NIGERIA: ANALYSIS AND POLICY RECOMMENDATIONS

The preceding chapter outlines the binding constraints to inclusive and job-rich growth in Nigeria. Identified constraints are broadly divided into two groups. First are those constraints that impede business operations and profitability in Nigeria among which are poor physical infrastructures (i.e., electricity, transportation system, and communication networks), poor institutional and regulatory, and pervasive rent-seeking and corruption. The second group of constraints comprised of factors that negatively affect the employability of Nigerians in the labour market. Such factors include the widening gap in employable skills, lack of technical and vocational skills and lack of social safety nets in Nigeria. The implicated constraints point to one theme: the structural transformation and economic diversification of the economy is central to inclusive and job-rich growth in the country. The inclusiveness of the Nigerian economy can be guaranteed by addressing these constraints.

Therefore, boosting inclusive and job-rich growth in Nigeria will require a concerted and coherent public policy actions aimed at improving the macro and microeconomic pillars of the economy. Fortunately, through painstaking policy actions and sectoral interventions, the Nigeria government had begun the process of infusing balanced growth in different sectors of the economy. A classic example is the reform of the banking sector. Up until recently, the banking sector of the economy was in a state of disarray. However, apart from the recent global financial crisis, recent reform efforts by the Central Bank of Nigeria have put in place a sound and stable financial sector. To ensure strict monitoring and evaluation of the banking sector the CBN introduced additional financial system surveillance strategy (IMF, 2013).

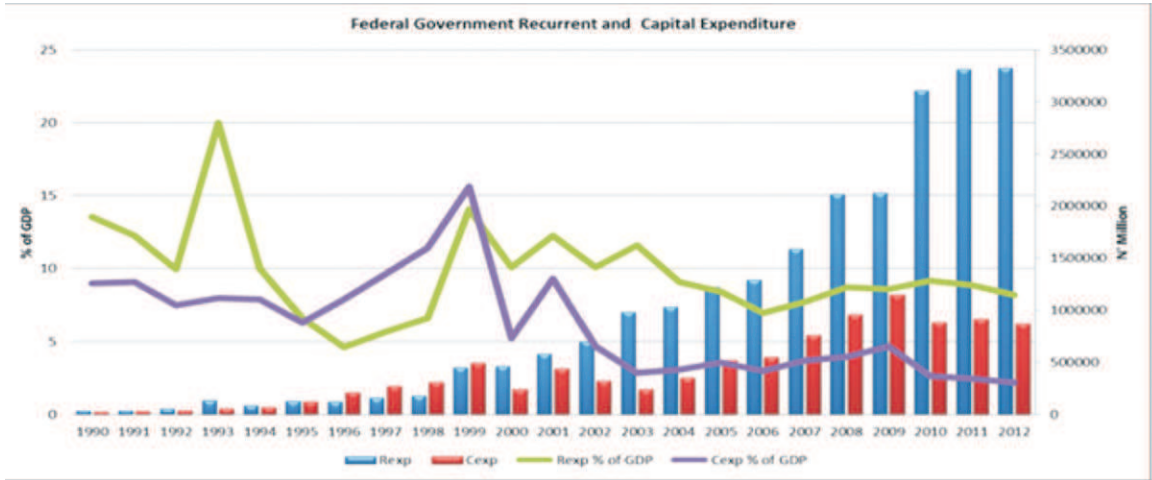
Other notable reforms in the banking sector include additional supervision of banks, the completion of recapitalization of eight banks, completion of the resolution of the three Bridge banks, and the establishment of Asset Management of Nigeria (AMCON) among others (NPC, 2013). These reform efforts in the banking sector have brought about remarkable improvement in the asset quality of banks. To this effect, the average capacity adequacy ratio of Nigerian banks rose from 4.03 percent at the end of December 2010, to 17.7 and 18.3 percent the end of December, 2011 and December, 2012 respectively (Ibid). In the same vein, the ratio of non-performing loans in the country dropped from 15.49 percent in December 2010 to 4.95 percent and 3.47 percent in December 2011 and December 2012 respectively. In general, high capitalization, low non-performing loans are beginning to infuse financial soundness in the sector. This is clearly demonstrated by the success in recent stress test of the Nigerian banking industry, which shows that the

banking system in the country is stable (IMF, 2013).

In the past couple of years Nigeria has pursued a tight monetary policy aimed at achieving a single digit inflation target. Up until 2007, the CBN had pursued monetary policy by using monetary targeting as the main anchor with either or both the narrow and broad money serving as intermediate targets (Dada, 2011). Although Nigeria is not formally classified as 'inflation targeter', however the approach of its monetary policy does so. To accomplish the goal of moving inflation to low or mid-single digit imply the implementation of contractionary monetary policy.

Inflation targeting policy manipulates short-term interest rate as a policy instrument and aggregate demand as the transmission channel for monetary policy. This monetary policy approach raises interest rates, discourages borrowing by businesses and depresses output in the economy. This policy has a major effect on the real economy. Inflation targeting policy reduces inflation at the cost of high unemployment rate and lower economic growth rate. As shown on figure 6, this unofficial policy has succeeded in reducing headline inflation from 12.4 percent in 2011 to 9.1 percent in 2013 (Okonjo-Iweala, 2013). Therefore, inflation targeting as manifested in the pursuit of restrictive monetary policies are inconsistent with the pursuit of inclusive and job-rich growth (Filipe, 2010). While we recognize the need to keep inflation under check, it is also important to understand the unintended consequences of a permanent single-digit inflation targeting policy on a developing economy such as Nigeria. As Agu and Evoh (2011) stressed, such a policy puts the economy on a permanent mode to combat inflation even when the threat of inflation is more perceived than real. Policies for inclusive and employment-centered growth require a relaxation of contractionary fiscal and monetary policy (Heintz, Oya, and Zepeda, 2008). Public spending is needed to foster infrastructural improvement and social protection for the most vulnerable groups in the Nigeria. This however, is contrary to recent trends in the country's recurrent and capital spending (see figure 9.1). Against this backdrop and to align monetary policy with the goals of inclusive and job-rich growth, we recommend some relaxation of monetary policy in Nigeria. This will go a long way to stimulate growth by reducing interest rates, increasing borrowing by businesses and creating employment opportunities in the economy.

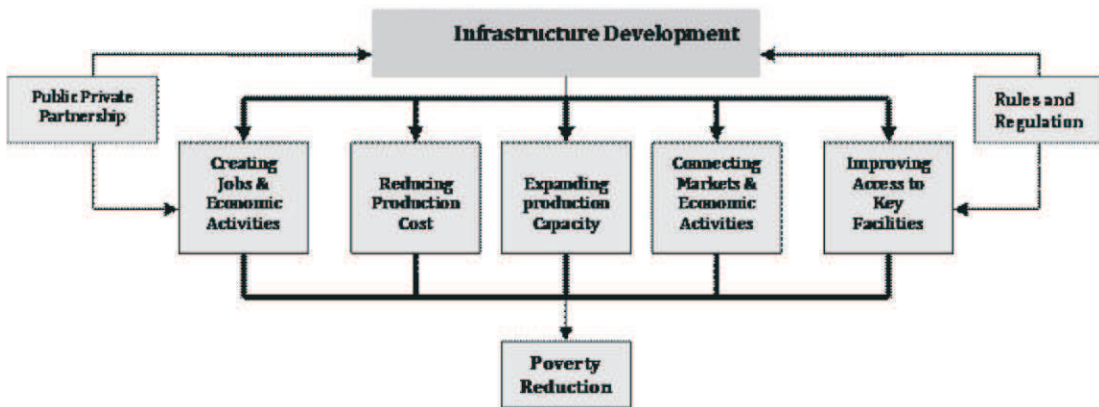
Figure 9.1: Federal Government Expenditure in Nigeria



Source: Authors' Compilation and CBN/NBS

As one of the binding constraints to inclusive and job-rich growth, bridging the gap in physical infrastructure is key to productive employment creation and inclusive growth in Nigeria. Figure 9.2 show that infrastructural development has a direct impact in poverty reduction. As a capital-intensive project, Nigeria needs to invest at least 12 percent of its GDP or an annual investment of \$10 Billion for the next ten years in order to reduce infrastructural deficit (Lamido, 2012). This presents the major challenge to the development of physical infrastructure in Nigeria: lack of long-term funding and absence of risk-sharing structures (Ibid).

Figure 9.2: Infrastructure for Inclusive Growth and Poverty Reduction



Source: Asian Development Bank (2012)

Traditionally, the Nigerian government has been the sole financier of infrastructural development. However, the low state of physical infrastructure in the country shows that this approach is not sustainable. Therefore to address the infrastructural challenge in Nigeria, more sustainable approaches in infrastructural financing are essential. One innovative solution to infrastructural funding challenge is to adopt public-private partnership approach. Given that governments do not always possess the necessary project management skills to execute infrastructural projects, PPP models stand out as a cost-effective approach to financing such complex and capital-intensive projects. Table 9.1 presents four approaches identified by the Asian Development Bank (ADB, 2012) for PPP financing of physical infrastructural development.

Table 9.1: Public-Private Partnership Approaches to Financing of Physical Infrastructure

Approaches	Description
	The private sector designs, constructs, and tests the facility; then operates it, while the public sector retains the ownership.
Build–operate–transfer or build–transfer–operate.	The private sector designs, constructs, and tests the facility, sometimes operating it or transferring it to the public sector for operation after some time.
Build–own–operate.	The private sector builds and retains ownership of a facility, in addition to operating the project.
Operation and Maintenance.	Private sector operates and maintains a facility owned by the government.

Source: Asian Development Bank (2012, p.52).

Over the years, past administrations in Nigeria have overlooked the poor state of power supply in the country, however, as revealed by the federal ministry of finance, strategic investment is being made in the sector to ensure adequate generation and supply of electricity for commercial and household use across the country. For instance, the present administration has privatized 4 power generation companies and 10 power distribution companies to ensure efficiency. Nigeria also mobilized \$1.5 billion in finance from multilateral sources to invest in electric power transmission network in 2014 and beyond (Okonjo-Iweala, 2014).

Micro, small and medium enterprises (MSMEs) comprise the vast majority of businesses in Nigeria. The strategic position of MSMEs in economic development and job creation underscores the need for additional ways to extend credit to the sector. This study acknowledges the existence of various channels through which credit is being extended to SMEs in Nigeria. While additional credit facilities for SMEs are needed, it is essential to ensure that SMEs are properly managed through adequate entrepreneurial skills. Unfortunately, such entrepreneurial skills are lacking among many owners of MSMEs and this has contributed mismanagement and the consequent reluctance of banks to extend

credit to them. This is understandable given that most business owners in the country have little or no formal education. This deficiency can be addressed through organized training programs for SME clusters across Nigeria delivered through SMEDAN. As established in the preceding section, many SMEs are denied credit because they lack the required collateral demanded by banks. Efforts should be made to improve the productivity of SMEs by implementing the Nigeria Enterprise Development Program (NEDEP). This will provide SMEs with business development support and access to credit. Given that underemployment and low productivity are prevalent in Nigeria than unemployment, ongoing entrepreneurial training strategy can be used to improve the quality of work in the informal sector, particularly, in agriculture where the poor are predominantly engaged.

Low supply of vocational and technical skills in Nigeria is partly due to the strong preference for academic education and the low esteem in which Nigerian youth hold blue-collar occupations (World Bank, 2009). Shortage of technical and vocational skills in demand can be addressed through the enrichment of technical subjects and additional funding for such institutions. Efforts should also be made to establish a partnership and working relationship between technical and vocational institutions and employers of labour as a way of anchoring the world of learning in the world of work. Such a relationship will make educational curriculum relevant to the demands of the labour market in the country. Target interventions such as education-to-work transitions should also be used to improve technical and vocational education and training in Nigeria. This objective can be achieved through partnerships with the private sector through tax incentives strategy.

Another good example of intervention is the initiative by the Federal Ministry of Education to create Vocational Education Institutions (VETs) and Innovation Enterprise Institutions (IEIs) (World Bank, 2009). Such intervention will go a long way to provide employment for many school leavers and university graduates looking for a way to update and upgrade their employable skills. Other challenges facing technical education institutions in Nigeria should equally be addressed. Among these problems are, shortage of equipment and supporting materials, under-qualified staff, inadequate facilities for practical training, outdated courses (Ibid). Increase in formal vocational training by Nigeria polytechnics, universities and technical colleges will provide the requisite skills in the construction sectors of the economy. As suggested by the National University Commission (2013), tertiary institutions of learning in the Nigeria should adhere strictly to regulatory regimes and accreditation requirements to ensure uniform standard and turnout of quality graduates.

Institutional reforms will go a long way to improve the investment climate in Nigeria. The country needs improvement in the following key areas, namely: starting a business, obtaining permits and license, property registration, and contract enforcement (World Bank, 2009). It has become imperative for all the 36 states in Nigeria to harmonize their institutional frameworks for company registrations and contract enforcement. Part of this can be accomplished through the Corporate Affairs Commission. Reforms in the legal and regulatory environment will help to improve Nigeria's investment climate ranking and attract more private investment.

Structurally, the pattern of growth of the Nigerian economy is focused on agriculture and retail trade sectors. Agriculture has been the largest employer of labour in the country. Young people and women are beginning to gain a foothold in this sector. This means that agriculture has the potential for promoting inclusive and employment-rich growth in the country. Unfortunately, the sector remains undeveloped. Agriculture is dominated by self-employment, which is characterized by small-scale enterprises, low productivity and small income generating capacity. Besides, demand in this sector is domestically driven (World Bank, 2009). Efforts should be intensified to refocus policy towards the development of the agro-industrial sector through value-added chain of production in the country. Careful implementation of the Agricultural Transformation Action (ATA) Plan by the present administration promises to create millions of jobs (NPC, 2013). In addition, the ATA plan would also yield significant benefits in agro-industrial activities in such areas as Oil Palm, Sorghum, Cassava, Cotton, Cocoa, Rice, GES Fertilizer and Maize.

Another way to encourage innovation in agriculture in Nigeria is through crop insurance schemes for small and medium scale farmers. Such an insurance scheme will protect them against crop failures or natural disasters. Crop insurable adverse weather conditions in Nigeria, which affect farmers includes, disease attack, fire, drought, excessive rain excessive windstorm and flood. Banks in Nigeria are unwilling to lend to smallholder farmers, primarily because of the risk of default in loan payment in the case of drought and pest infestation. Therefore, the design of an affordable crop insurance program to respond to needs of the small and medium-scale farmers in rural Nigeria will go a long way to improve agricultural productivity and job creation in the country. An innovative example, which can be applied in Nigeria, is the index-based crop insurance contract, developed in Malawi in partnership with the World Bank (Global Facility for Disaster Reduction and Recovery, 2011). As noted by the Global Facility for Disaster Reduction and Recovery, index-based crop insurance is better than the traditional crop insurance because, it can easily be distributed among individual smallholder's farmers. Besides, this insurance program builds confidence on the agricultural industry, which attracts credit for the smallholder farmers and protects loan providers from weather-related risks (Vargas, 2010).

Inclusive growth cannot be fully realized without effective social safety net programs for the most vulnerable members of the society. Social protection programs will insure Nigerians at risk of poverty against risks such as unexpected decline in wages, illnesses and other household emergencies. Extension of government healthcare programs to households in urban and rural communities will allow families to have access to medical care thereby reducing their financial vulnerability. A good example is the SURE-P intervention in the health sector through maternal and child health programs across Nigeria. Against this backdrop, and based on the various social safety net programs that have been piloted in the country, it has become imperative for the federal government of Nigeria to adopt a comprehensive national social protection strategy. Piloted cash transfer programs in some states in Nigeria should be scaled-up to other parts of the country as a federal government program. A comprehensive and national SSN strategy will go a long way in cushioning the effect of increasing unemployment and growing income inequality

in Nigeria.

From the foregoing, it has become obvious that bringing inclusiveness and broad-based growth to the Nigerian economy will require a comprehensive review of the national employment policy in the country. A comprehensive policy review will enable the integration of recent developments in economic and labour market landscape into the Nigeria's employment policy. An updated employment policy will serve as a framework for the articulation and implementation of inclusive and employment-rich growth.

As the missing link between recent economic growth and poverty reduction in Nigeria, productive employment strategies require coherent national policies that would promote employment-centered growth based on specific socio-economic circumstances of the country. Therefore the goal of employment generation should underlie all macroeconomic policies and national development strategies in order to reduce the rate of poverty in the country. Coherent and sustained implementations of these policies require a coordinated effort of numerous institutions, departments and ministries at all levels of government. However, it is imperative for the federal ministry of labour and productivity (FMLP) to play an oversight role to ensure the efficient coordination of inclusive and employment-centered growth policies and programs across sectors in the Nigerian economy. Besides, such an oversight function will go a long way to reduce project duplications as observed during our consultation, and harmonize policies geared towards the goal of poverty reduction.

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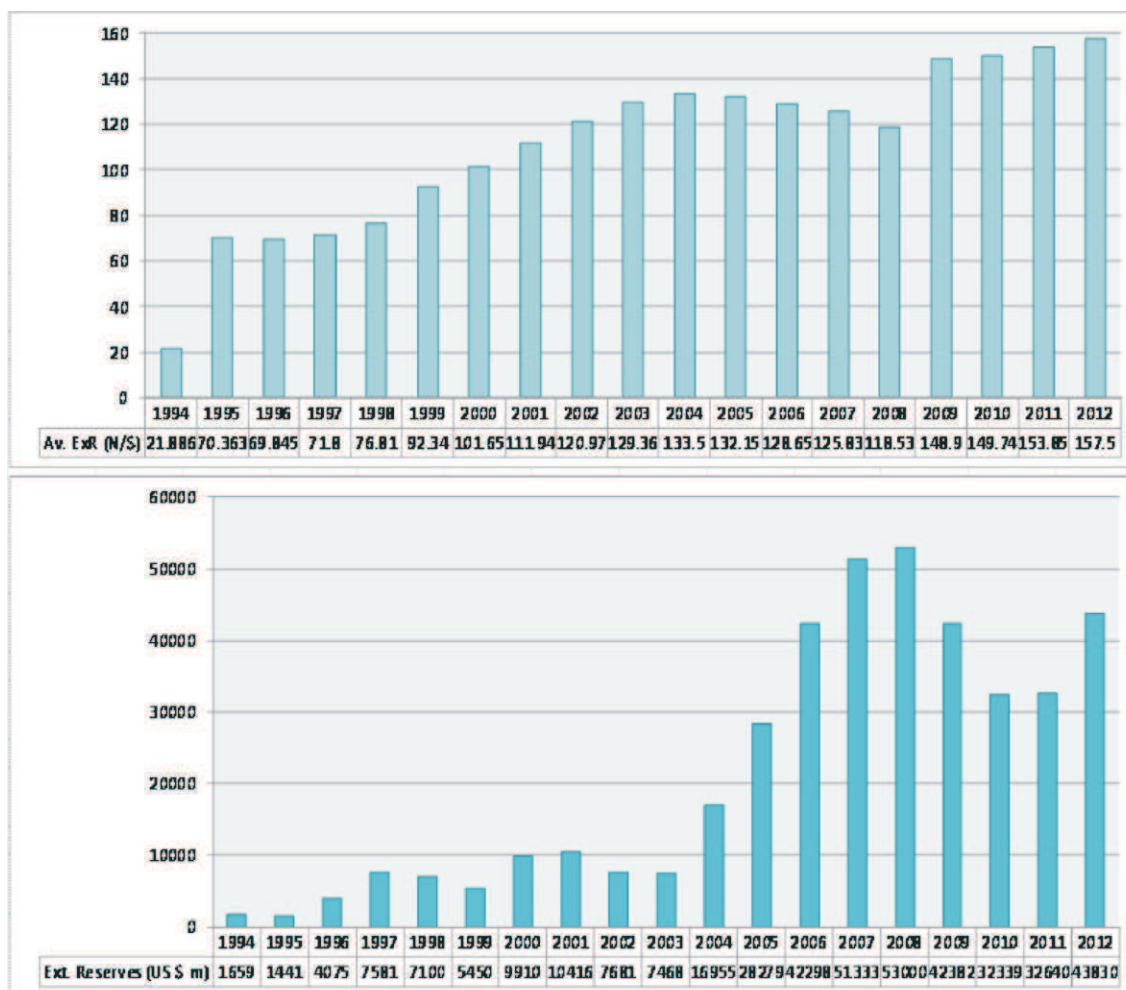
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APPENDICES

Appendix 1: List of Institution And Stakeholders Consulted.

Bank of Industry (BOI), Nigeria
National Planning Commission (NPC), Nigeria
Central Bank of Nigeria (Research Department)
Office of the chief Economic Adviser to the President of Nigeria
Nigeria Labour Congress (NLC)
Federal Ministry of Industry, Trade & Investment (FMITI), Nigeria
Federal Ministry of Finance, Nigeria
Federal Ministry of Works, Nigeria
Federal Ministry of Communication Technology, Nigeria
Federal Ministry of Agriculture and Natural Resources, Nigeria
Federal Ministry of Education (FME), Nigeria
National Bureau of Statistics (NBS), Nigeria
National Directorate of Employment (NDE), Nigeria
National Orientation Agency (NOA), Nigeria
National Universities Commission (NUC), Nigeria
Subsidy Reinvestment and Empowerment Programme (SURE-P), Nigeria
Trade Union Congress (TUC), Nigeria
National Employer Consultation Association (NECA), Nigeria
River State Sustainable Development Agency (RSSDA), Nigeria
Fate Foundation, Nigeria
UNDP Regional Office in Nigeria
Diamond Bank, Nigeria
UNIDO Regional Office in Nigeria
Zenith Bank, Nigeria
The National Assembly of the Federal Republic of Nigeria (Senator Enyi H Abaribe, Nigerian Senator).

Appendix 2: Nigeria's Exchange Rate and External Reserves (1994-2012)



Source: Authors' Compilation and CBN

Appendix 3: Highlights of the Labour Force in Nigeria

	2006	2007	2008	2009	2010	2011
Nigeria Population	140,431,790	144,925,607	149,563,227	154,349,250	159,288,426	164,385,656
Economically Active	78,922,666	81,448,191	84,054,533	86,744,278	89,520,095	92,384,738
Labour Force	57,455,701	59,294,283	61,191,700	63,149,835	65,170,629	67,256,090
Employed	50,388,650	51,763,909	52,074,137	50,709,317	51,224,115	51,181,884
Unemployed	7,067,051	7,530,374	9,117,563	12,440,517	13,946,515	16,074,205
Newly Unemployed		463,323	1,587,189	3,322,954	1,505,997	2,127,691

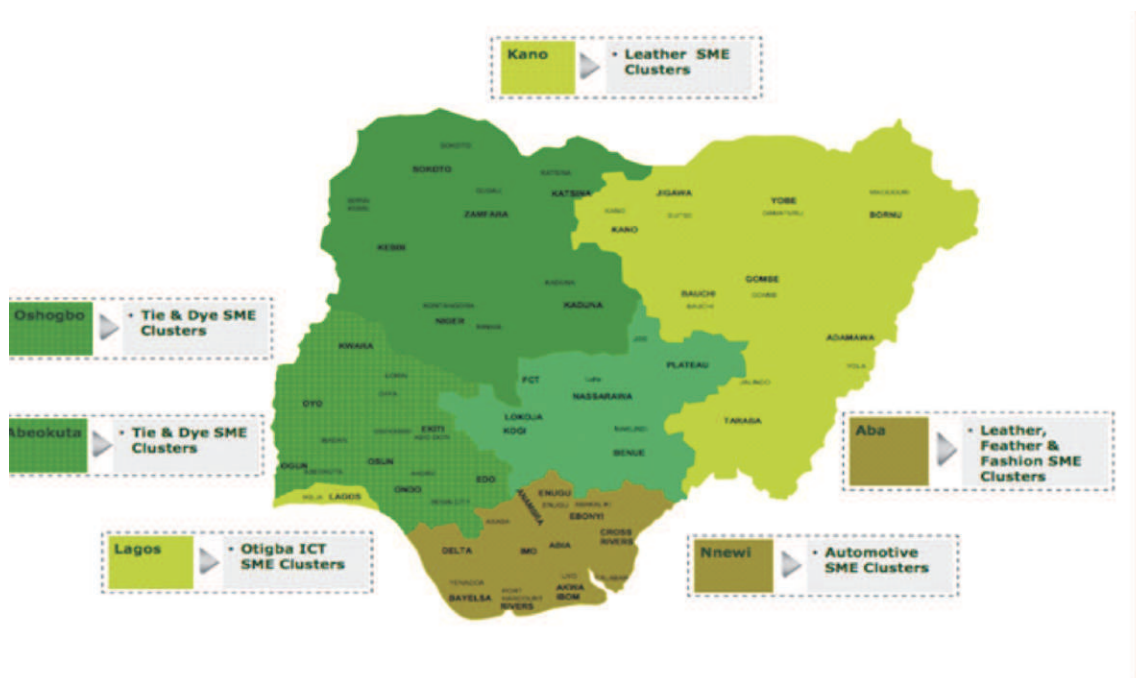
Source: NBS (2012)

Appendix 4:
Administrative map of Nigeria showing the 36 States of the Federation and the Federal Capital Territory. Abuja



Source: NBS (2012) NBS Economic Outlook 2012

Appendix 5:
Selected Regional & Sectoral Distribution of SME Clusters in Nigeria



Source: Oyelaran-Oyeyinka (2007)

Appendix 6: Distribution of Employed Persons by State

State	Total
ABIA	1,174,705
ADAMAWA	728,744
AKWA-IBOM	1,580,075
ANAMBRA	1,867,469
BAUCHI	634,880
BAYELSA	916,364
BENUE	1,664,418
BORNO	1,396,022
CROSS RIVER	544,776
DELTA	689,203
EBONYI	918,101
EDO	695,489
EKITI	1,028,067
ENUGU	1,404,270
GOMBE	840,037
IMO	1,587,267
JIGAWA	1,535,660
KADUNA	1,659,562
KANO	2,788,444
KATSINA	1,978,864
KEBBI	892,404
KOGI	1,438,926
KWARA	1,002,166
LAGOS	3,800,531
NASARAWA	622,065
NIGER	1,411,487
OGUN	1,762,740
ONDO	1,611,371
OSUN	1,524,312
OYO	2,372,968
PLATEAU	1,310,001
RIVERS	1,698,633
SOKOTO	844,274
TARABA	877,054
YOBE	841,334
ZAMFARA	658,526
FCT	232,112
National	

Source: NBS (2010)

Appendix 7: Sectoral Growth in Nigeria (1990-2012)

Sectoral growth	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture	9.829	2.964	3.857	4.22	6.642	6.5	7.056	7.403	7.192	6.266	5.879	5.823	5.641	3.971
Industry	13.28	10.11	5.471	-3.755	21.26	4.15	1.709	-2.511	-2.234	-3.414	2.025	5.823	1.851	1.159
Crude Petroleum & Natural G	13.33	11.13	5.233	-5.707	23.9	3.3	0.497	-4.512	-4.538	-6.188	0.452	5.249	0.142	-0.913
Solid Minerals	9.555	3.796	9.89	4.316	5.435	10.85	9.533	10.28	12.75	12.77	12.08	12.08	12.5	12.52
Manufacturing	13.16	3.442	6.945	10.09	5.657	10	9.612	9.391	9.567	8.895	7.855	7.568	7.501	7.554
Building & Construction	10.21	4	12	4.344	8.75	10	12.1	12.99	13.03	13.07	11.97	11.85	12.11	12.58
Wholesale & Retail Trade	8.684	1.6	2.5	6.482	5.76	9.7	13.51	15.26	15.2	14.02	11.48	11.22	11.34	9.615
Services	14.88	3.561	7.233	22.46	0.408	8.83	7.961	9.182	9.878	10.36	10.82	11.9	13.2	13.85
Telecommunication & Post	6.494	6.223	28.07	47.82	38.84	28.97	29.61	33.66	33.84	34.02	34.18	34.38	34.58	31.83
Hotel & Restaurant	6.426	3.7	4.501	6.843	4.635	10.85	10.45	12.91	12.95	12.94	11.89	11.95	12.13	12.13
Finance & Insurance	35.99	3.958	4.484	29.42	-9.556	2.732	2.849	4.977	5.033	4.822	4.008	3.943	3.977	4.047
Real Estate	10.19	3.89	4.996	3	3	10.85	11.09	11.68	11.72	11.79	10.94	10.75	10.55	10.41
Education	6.973	1.644	1.617	7.867	7.035	10.85	10.55	10.77	10.78	10.77	10.01	9.814	9.69	9.848
Health	6.973	1.644	1.618	0.801	2.044	10.85	9.998	10.33	10.35	10.34	10.01	9.957	9.543	9.16
OVERALL GDP	11.36	4.89	4.717	4.633	9.567	6.579	6.512	6.031	6.45	5.984	6.958	7.977	7.428	6.582

Appendix 8: Sectoral Contributions to GDP (1981-2012)

Contribution to gdp	1981	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture	33.63	39.94	42.654	42.304	42.14	41.01	40.98	41.19	41.72	42.01	42.13	41.7	40.87	40.19	39.21
Industry	35.63	32.49	29.603	29.816	27.43	30.35	29.66	28.32	26.04	23.92	21.8	20.79	20.38	19.32	18.34
Crude Petroleum & Natural G	29.09	27.36	25.908	26.036	23.46	26.53	25.72	24.26	21.85	19.6	17.35	16.29	15.88	14.8	13.76
Solid Minerals	0.936	0.226	0.2497	0.262	0.261	0.251	0.261	0.269	0.28	0.296	0.315	0.33	0.343	0.359	0.379
Manufacturing	5.607	4.906	3.445	3.5183	3.702	3.57	3.684	3.791	3.912	4.026	4.137	4.171	4.156	4.158	4.196
Building & Construction	2.828	1.178	1.3223	1.4143	1.41	1.4	1.445	1.521	1.62	1.721	1.836	1.922	1.991	2.077	2.194
Wholesale & Retail Trade	14.17	14.34	13.039	12.763	12.99	12.54	12.9	13.75	14.95	16.18	17.41	18.14	18.69	19.37	19.92
Services	13.74	12.06	13.381	13.703	16.04	14.7	15.01	15.21	15.66	16.17	16.84	17.44	18.08	19.05	20.35
Telecommunication & Post	0.434	0.392	0.4513	0.5519	0.78	0.988	1.196	1.455	1.834	2.306	2.916	3.658	4.552	5.703	7.053
Hotel & Restaurant	0.747	0.39	0.3655	0.3647	0.372	0.356	0.37	0.384	0.408	0.433	0.462	0.483	0.501	0.523	0.55
Finance & Insurance	1.414	3.169	4.1561	4.1468	5.129	4.234	4.081	3.941	3.902	3.85	3.807	3.702	3.564	3.45	3.368
Real Estate	1.384	1.248	1.3907	1.3944	1.373	1.29	1.342	1.4	1.474	1.547	1.632	1.693	1.736	1.787	1.851
Education	0.185	0.18	0.1627	0.1579	0.163	0.159	0.165	0.172	0.179	0.187	0.195	0.201	0.204	0.208	0.215
Health	0.048	0.047	0.0426	0.0414	0.04	0.037	0.039	0.04	0.041	0.043	0.045	0.046	0.047	0.048	0.049
TOTAL (GDP)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Appendix 9: Unemployment Rates By State 2007 – 2011

STATE	2007	2008	2009	2010	2011
Abia	25.1	11.9	14.5	22.8	11.2
Adamawa	21.5	13.5	29.4	24.6	33.8
Akwa-Ibom	18.0	11.1	34.1	27.7	18.4
Anambra	14.9	7.3	16.8	10.8	12.2
Bauchi	20.5	6.9	37.2	27	41.4
Bayelsa	21.9	67.4	41.5	27.4	23.9
Benue	7.9	7.8	8.5	6	14.2
Borno	12.5	11.8	27.7	26.7	29.1
Cross-River	32.8	18.9	14.3	27.9	18.2
Delta	22.9	11.5	18.4	27.9	27.2
Ebonyi	7.9	5.1	12	25.1	23.1
Edo	14.8	15.6	12.2	27.9	35.2
Ekiti	11.4	11.5	20.6	28	12.1
Enugu	14.1	10.5	14.9	28	25.2
Gombe	16.9	7.6	32.1	27.2	38.7
Imo	28.3	17.4	20.8	28.1	26.1
Jigawa	27.0	5.9	26.5	14.3	35.9
Kaduna	8.7	12.7	11.6	12.4	30.3
Kano	10.1	5.8	27.6	14.7	21.3
Katsina	10.9	11.8	37.3	11	28.1
Kebbi	1.3	16.5	12	10.7	25.3
Kogi	14.6	16.4	19	9.5	14.4
Kwara	17.7	10.2	11	2.7	7.1
Lagos	13.7	7.6	19.5	27.6	8.3
Nassarawa	11.8	17	10.1	3.4	36.5
Niger	4.2	3.9	28	11.7	39.4
Ogun	3.6	5.8	8.5	27.8	22.9
Ondo	6.7	6.3	14.9	28	12.5
Osun	7.2	6.5	12.6	27.6	3
Oyo	8.1	8.7	14.9	27.7	8.9
Plateau	6.8	4.7	7.1	10.4	25.3
Rivers	66.4	12.1	27.9	27.8	25.5
Sokoto	12.3	5.9	22.4	15.9	17.9
Taraba	15.2	19.9	26.8	24.7	12.7
Yobe	24.4	12.8	27.3	26.2	35.6
Zamfara	19.1	16.4	13.3	14.5	42.6
FCT	47.8	8.7	21.5	11.8	21.1
Nigeria	12.7	14.9	19.7	21.4	23.9

Source: National Bureau of Statistics (2013)

Appendix 10:
Unemployment Rate By Educational Level, Age Group And Gender, 2010

EDUCATIONAL Level	Urban	Rural	Composite
Never Attended	19.2	17.7	17.9
Below primary	24.9	23.1	23.5
Primary	21.8	21.8	21.8
JSS	24.5	22.4	23.1
Vocational/Commercial	27.9	24.1	25.7
SSS	24.2	23.6	23.9
NCE/OND/Nursing	22.3	20.4	21.5
B.A/B.Sc/B.ED/HND	24	21.5	23.1
M.Sc/M.A/M.Admin	20.7	18.5	20.1
Doctorate	19.6	19.6	19.6
Others	22	23.7	22.8
Age group			
15-24	26	24.8	25.2
25-34	23.5	20.7	21.7
35-44	21.8	18.3	19.6
45-54	20.5	19	19.5
55-64	22.1	20.5	21.1
Gender			
Male	21.6	18.5	19.6
Female	24.2	23.1	23.5
	22.8	20.7	21.4

Source: National Bureau of Statistics (2013)

Appendix 11:
Unemployment Rate By Educational Level, Age Group and Gender (2011)

EDUCATIONAL Level	Urban	Rural	Composite
Never Attended	19	22.8	22.4
Primary School	15.5	22.7	21.5
Modern School	14.5	27.5	24.3
VOC/COMM	34.5	27	28.7
JSS	16.6	36.9	33.4
SSS 'O LEVEL	13.9	22.5	20.1
A LEVEL	34.1	29.7	31
NCE/OND/NURSING	17.2	22.5	20.2
BA/BSC/HND	16.8	23.8	20.2
TECH/PROF	5	27.9	20.6
MASTERS	3.2	8.3	5.1
DOCTORATE	11.1	7.7	9.1
OTHERS	31.3	36.1	35.5
Age group			
15-24	33.5	38.2	37.7
25-44	16.3	24.1	22.4
45-59	12.5	19.6	18
60-64	17.8	22.1	21.4
Sex			
Male	16.9	25.1	23.5
Female	17.2	26.1	24.3
	17.1	25.6	23.9

Source: National Bureau of Statistics (2013)

Appendix 12: Population Of Nigeria, 2011

STATE	Male	Female	Total
Abia	1,634,100	1,616,716	3,250,816
Adamawa	1,854,239	1,813,180	3,667,419
Akwa Ibom	2,344,065	2,268,002	4,612,067
Anambra	2,431,578	2,364,830	4,796,408
Bauchi	2,800,377	2,699,360	5,499,737
Bayelsa	1,008,392	958,034	1,966,426
Benue	2,485,533	2,445,602	4,931,135
Borno	2,557,002	2,373,075	4,930,077
Cross River	1,698,146	1,639,371	3,337,517
Delta	2,422,277	2,391,640	4,813,917
Ebonyi	1,221,718	1,277,554	2,499,272
Edo	1,866,766	1,827,321	3,694,087
Ekiti	1,415,936	1,378,639	2,794,575
Enugu	1,850,250	1,938,069	3,788,319
Gombe	1,456,460	1,311,992	2,768,452
Imo	2,313,604	2,283,896	4,597,500
Jigawa	2,535,827	2,495,276	5,031,103
Kaduna	3,582,665	3,504,561	7,087,226
Kano	5,820,054	5,238,260	11,058,314
Katsina	3,417,863	3,307,763	6,725,626
Kebbi	1,900,705	1,892,880	3,793,585
Kogi	1,939,353	1,902,531	3,841,884
Kwara	1,383,922	1,358,171	2,742,093
Lagos	5,524,080	5,144,059	10,668,139
Nassarawa	1,094,124	1,072,996	2,167,120
Niger	2,369,061	2,305,320	4,674,381
Ogun	2,193,607	2,218,692	4,412,299
Ondo	2,022,999	1,989,106	4,012,105
Osun	2,029,948	1,969,852	3,999,800
Oyo	3,312,362	3,284,030	6,596,392
Plateau	1,826,838	1,836,590	3,663,428
Rivers	3,159,409	2,985,264	6,144,673
Sokoto	2,160,554	2,131,862	4,292,416
Taraba	1,352,007	1,295,406	2,647,413
Yobe	1,431,202	1,325,820	2,757,022
ZAMFARA	1,921,639	1,916,521	3,838,160
FCT Abuja	1,143,686	1,049,927	2,193,613
NIGERIA	83,482,348	80,812,168	164,294,516

Source: National Bureau of Statistics (2013)

Appendix 13:
Average Household Size By State, 2007-2008.

STATE	2007			2008		
	URBAN	RURAL	NATIONAL	URBAN	RURAL	TOTAL
Adamawa	5.0	5.3	5.2	6.6	6.0	6.0
Akwa Ibom	3.9	4.4	4.4	4.4	5.1	5.1
Anambra	4.0	4.6	4.4	4.6	4.4	4.5
Bauchi	7.3	8.1	7.9	7.2	6.7	6.8
Bayelsa	3.3	3.2	3.3	6.1	4.8	4.9
Benue	6.2	4.9	5.1	5.0	6.4	6.1
Borno	4.6	5.7	5.7	4.6	5.4	5.3
Cross River	3.3	4.0	4.0	3.4	4.2	4.1
Delta	4.6	4.0	4.0	4.1	3.5	3.6
Ebonyi	4.6	5.1	5.1	3.9	5.4	5.3
Edo	4.3	3.3	3.3	3.6	4.0	3.8
Ekiti	3.1	2.9	2.9	3.3	3.2	3.2
Enugu	4.0	4.1	4.1	3.9	4.0	4.0
Gombe	5.7	6.1	6.1	6.7	5.8	5.9
Imo	3.9	3.8	3.8	5.6	4.4	4.5
Jigawa	5.7	6.1	6.1	6.6	6.5	6.5
Kaduna	4.8	6.0	6.0	9.0	10.7	10.4
Kano	7.1	6.5	6.5	7.2	6.3	6.5
Katsina	5.8	5.7	5.7	6.6	5.9	6.0
Kebbi	5.9	5.6	5.6	17.0	10.2	10.9
Kogi	4.0	3.9	3.9	3.8	3.9	3.9
Kwara	4.4	3.8	3.8	4.5	4.0	4.2
Lagos	3.7	4.2	4.2	3.8	4.2	3.8
Nassarawa	1.5	3.7	3.7	5.0	5.9	5.7
Niger	5.1	5.7	5.7	4.6	4.9	4.8
Ogun	3.0	2.9	2.9	3.3	3.0	3.2
Ondo	3.5	3.7	3.7	3.6	3.9	3.7
Osun	3.0	3.4	3.4	3.8	4.1	3.9
Oyo	3.7	3.3	3.3	4.1	3.9	4.0
Plateau	4.4	5.2	5.2	4.6	5.8	5.7
Rivers	3.5	3.8	3.8	3.8	4.6	4.4
Sokoto	4.0	4.8	4.8	6.6	4.7	5.0
Taraba	5.1	5.5	5.5	5.9	5.3	5.3
Yobe	6.4	5.5	5.5	6.2	5.4	5.5
Zamfara	6.2	5.6	5.6	5.9	5.4	5.5
FCT	4.3	4.5	4.5	4.7	5.3	4.9
	4.0	4.7	4.7	4.6	5.4	5.2

Source: National Bureau of Statistics (2013)

