



A COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN NIGERIA

Crowding in the Private Sector: Nigeria's Path to
Faster Job Creation and Structural Transformation

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ABBREVIATIONS AND ACRONYMS

AEDC	Abuja Electricity Distribution Company
ATA	Agricultural Transformation Agenda
BPP	Bureau of Public Procurement
BRT	bus rapid transit
BTI	Bertelsmann Stiftung's Transformation Index
BVN	bank verification number
CBN	Central Bank of Nigeria
CCB	Code of Conduct Bureau
CDA	community development agreement
CPSD	Country Private Sector Diagnostic
DFS	digital financial services
ECOWAS	Economic Community of West African States
ERGP	Economic Recovery and Growth Plan
FAO	Food and Agriculture Organization
FCCPC	Federal Commission for Consumer Protection and Competition
FDI	foreign direct investment
FLP	finished leather products
FRILIA	Framework for Responsible and Inclusive Land-Intensive Agriculture
FZ	free zone
GDP	gross domestic product
GEM	Growth and Employment Project
GIFF	Growth Identification and Facilitation Framework
ICPC	Independent Corrupt Practices and Other Related Offences Commission
ICRC	Infrastructure Concession and Regulatory Commission
ICT	information and communication technology
IEFX	investors and exporters foreign exchange
IFC	International Finance Corporation
IMF	International Monetary Fund
LARF	Land Acquisition Resettlement Framework
LME	London Metals Exchange

LMIC	lower-middle-income countries
LUA	Land Use Act
MFB	microfinance banks
MIREMCO	Mineral Resources and Environment Management Committee
MSME	micro, small, and medium enterprises
MTN	Mobile Telecommunication Company
MVA	manufacturing value-added
NBS	Nigerian National Bureau of Statistics
NCC	Nigerian Communication Commission
NIBSS	Nigeria Inter-Bank Settlement System
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NSC	Nigerian Shippers' Council
NSQF	National Skills Qualification Framework
NTM	non-tariff measure
OECD	Organisation for Economic Co-operation and Development
PET	polyethylene terephthalate
PPA	Public Procurement Act
PPP	public-private partnership
PSRP	Power Sector Recovery Plan
SEZ	special economic zone
SMDF	Solid Minerals Development Fund
SME	small and medium enterprise
SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
TCN	Transmission Company of Nigeria
TFP	total factor productivity
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
VAS	value-added service
VAT	value-added tax
WEF	World Economic Forum
WTO	World Trade Organization

EXECUTIVE SUMMARY

Given its resource endowments and market opportunities, Nigeria is uniquely placed for strong economic growth. Nigeria is rich in agricultural and mineral resources. Its population of about 200 million people presents a huge market—the largest in Africa—for domestic production. In addition, a large segment of Nigeria’s labor force is young and entrepreneurial—5.3 million people entered the labor force in 2018 alone. Moreover, market access to other member countries of the Economic Community of West African States (ECOWAS) and the wider African region offers opportunities to Nigeria’s private enterprises.

However, Nigeria’s resource endowments and opportunities have not translated into sustained economic growth and shared prosperity for its citizens. Gross domestic product (GDP) growth, which averaged 8.4 percent per year in the first decade of the 2000s, has slowed considerably, to around 2 percent in 2018, well below the average for many of Nigeria’s peers. Poverty has increased, with nearly half of the population living in extreme poverty (that is, below US\$1.90 per day). Nigeria now hosts the largest number of poor people in the world—surpassing India in 2018. The rate of unemployment has also risen, reaching 23 percent in 2018. Likewise, underemployment of labor—at around 20 percent—is rising. Indeed, Nigeria’s economic performance and development outcomes are diverging from regional averages and on its current trajectory the country is expected to further lag. Compounding Nigeria’s challenges is the strong regional disparity in development outcomes: poverty rates, and human capital indicators—such as adult literacy, primary school enrollment, and health outcomes—in the northern zones of the country are significantly worse than those in the southern zones.

The prediction for development outcomes is worrisome and creates a case for urgent action for faster economic growth and job creation. Prior to the COVID-19 pandemic, the number of people living in extreme poverty was projected to reach 120 million (or 45 percent of the population) by 2030. The pandemic and impending recession could further increase the poverty rate and reduce Nigeria’s economic and development outcomes. Estimates suggest that Nigeria needs investments worth 6–8 percent of GDP and 40 to 50 million higher-income and higher-productivity jobs by 2030 to reduce poverty and to help create a more prosperous Nigeria.

High dependency on crude oil exports has contributed to increasing poverty and inequality. Nigeria’s oil and gas sectors generate on average more than half of fiscal revenues and nearly 90 percent of the nation’s exports. Although a series of reforms in the early 2000s helped to raise productivity and growth (especially in the services sector) and increased non-oil contribution to GDP to 90 percent (compared with 68 percent in the late 1990s), the oil and gas sectors continue to dominate Nigeria’s economy. High dependency on oil exposes the country’s growth performance to the boom and bust cycle of oil prices, which creates economic uncertainty and dissuades investment. The shock of the unprecedented collapse in oil prices during the COVID-19 pandemic comes on the heels of a weak recovery from the 2014–16 oil price crash, which led to dramatic revenue shortfalls and debt buildup and

precipitated the recession of 2016. Also, oil dependency will deepen the imminent recession from the fallout of COVID-19. Moreover, the challenging governance framework of Nigeria’s oil industry, together with increased competition in the global oil industry, and traction with curbing the use of fossil fuels because of climate change effects, will diminish the oil sector’s long-term contribution to the economy. In the absence of adequate fiscal buffers and low non-oil revenues, public finance will become increasingly vulnerable to oil price shocks, hampering the government’s ability to invest in needed infrastructure and to provide vital services. The recent oil price crash during the first quarter of 2020—precipitated by the failure of two major producers (Saudi Arabia and Russia) to reach an agreement on production cuts and the subsequent oil price war, and the outbreak of the COVID-19 pandemic, which has devastated global oil demand—reinforces the argument that an over-dependency on oil exports creates substantial risk to Nigeria’s public finances.

Equally, Nigeria’s weak economic policy framework has impeded growth and development. Government policies and programs in the real sector (for example, the 2011–15 Agriculture Transformation Agenda and the 2007 National Integrated Industrial Development Strategy) that were developed to promote growth, drive non-oil exports, and create jobs have been poorly designed, inconsistent or short-lived, and weakly implemented. Moreover, important reforms under the 2017–20 Economic Recovery and Growth Plan (ERGP) have been delayed. As a result, targets for output diversification, growth, and job creation have not been met. For example, manufacturing value-added (MVA) has fallen dramatically during the past 20 years and is well below the MVA of regional peers such as Côte d’Ivoire and Ghana, while GDP growth—projected under the ERGP to average about 4.6 percent a year (2017–20) and to peak at 7 percent by 2020—is well below this target. In addition, the 3.75 million new jobs expected to be created annually under the ERGP have not materialized.

These policy challenges, which also reflect weak institutions, are eroding the social contract between the government and the private sector and are creating a difficult business environment in Nigeria. Nigeria lacks strong institutions that can deliver public services and economic opportunities efficiently and effectively and this has led to a high cost of doing business—to the detriment of the private sector. Consequently, the trust between the government and the private sector has eroded over the years. While improving, Nigeria’s business environment ranks 131 out of 190 countries on the 2020 World Bank Doing Business Index, well below its aspirational peers. Also, foreign direct investment (FDI) to Nigeria has progressively declined since 2011, reaching about US\$2 billion in 2018—the lowest level since the early 2000s. Ghana has now overtaken Nigeria as the largest recipient of FDI in West Africa.

Leveraging the World Bank’s Systematic Country Diagnostic (2019) for Nigeria, this Country Private Sector Diagnostic (CPSD) argues that Nigeria must focus on a wider private sector-led growth strategy based on its considerable factor endowment and market opportunities. Addressing the deficiencies in Nigeria’s policy framework and its infrastructure sector that are stifling growth would enable the Nigerian private sector to create millions of quality jobs for its rising population, mitigate Nigeria’s economic vulnerability by diversifying exports, and reduce inequality and instability by driving economic activity in underdeveloped regions.

Three key features of Nigeria's economy uniquely position the country for a strong non-oil sector growth that leverages the private sector. First, the country's rich agricultural and mineral resource base provides the opportunity to significantly expand food manufacturing and resource-based manufacturing, especially in the lagging North. Second, Nigeria's relatively large, fast-growing, and urban domestic population, and regional integration with ECOWAS, provide a ready market base for Nigerian food products, consumer goods, building materials, and services (such as financial, transportation, and digital). Third, with a large, young entrepreneurial population, Nigeria is well-positioned to increase productivity and innovation through digital entrepreneurship.

SECTOR OPPORTUNITIES

There is significant potential for accelerating growth and export diversification through increased private investment in sectors such as agribusiness, mining, manufacturing, and the digital economy.

Agribusiness can be transformative for Nigeria, especially for the northern zones. Nigeria has excellent agroclimatic conditions that could support the cultivation of a wide range of agricultural products across the various regions of the country. There is an abundance of arable land (82 million hectares), less than half of which is currently under cultivation, and an abundance of water resources, including large bodies of surface water, rainfall, and three of the eight major river systems in Africa. These conditions are ripe for the development of crops, such as cassava, citrus, cocoa, sesame, sugarcane, and tomato. These crops offer significant opportunities for private investment, based on value addition and intensity of processing, and offer opportunity for significant multiplier effects on employment and wealth generation, especially in the lagging northern part of the country. At the current low processing levels, businesses in the cocoa and sesame industries have significant potential to add value. Equally, cassava is a versatile product, with derivatives being used for alcohol, animal feed, flour, fuel (ethanol), starch, and sweeteners, all of which are possible areas for further processing. Cocoa beans and sesame seeds are already two of Nigeria's top non-oil exports (representing 17 percent and 16 percent of non-oil exports, respectively, in 2017); with further support they could help Nigeria achieve its objective of export diversification. Cash crops like citrus, cocoa, and sesame provide cash incomes, thus increasing the levels of disposable income for Nigeria's poorest households and helping to improve food security. The northern region has a comparative advantage in the production of four of the six crops—citrus, sesame, sugarcane, and tomato—given its suitable climatic and soil conditions.

Nigeria's more than 40 mineral deposits, including clay and kaolin, coal, gold, gypsum, iron ore, lead and zinc, phosphate, and tin, across 500 locations, could generate billions of dollars in revenues and create jobs in commercial mining all over the country. Bitumen, gold, iron ore, and limestone are some of the most highly valued minerals in the country. Presently, quarrying dominates the **mining** sector's output, accounting for more than 90 percent of it. Products such as granite, gravel, marble, sand, and other construction materials are in high demand locally because of a combination of a growing housing deficit and infrastructure development projects. The metal ores subsector, which accounts for less than 10 percent of output, is growing especially fast—recording a growth rate of 22.8 percent between 2016 and 2018.

Manufacturing presents opportunities for growth, especially via the development of fully functioning free zones/special economic zones (FZs/SEZs). Given the significant demand for and the availability of raw materials, subsectors such as chemicals, leather, and construction materials could significantly contribute to job creation, absorbing the labor that could be lost because of increased efficiencies in agricultural productivity. The chemicals sector presents attractive opportunities for private investment. Chemicals, including medicaments, polymers of ethylene and propylene, pneumatic tires of rubber, insecticides and fungicides, mixtures of odiferous substances, and mixed fertilizers, accounted for 9.5 percent (or about US\$3 billion) of Nigeria's imports in 2017. Those chemicals can be produced in Nigeria because several of them are products of petroleum or natural gas. The leather industry, already a top foreign currency earner and critical job creator, has the potential to grow further. In addition, an abundance of construction materials, such as granite, marble, and sand, combined with a growing domestic demand for affordable housing to support Nigeria's growing population, makes the construction subsector ripe for investment.

Digital entrepreneurship can accelerate the pace and inclusiveness of economic activity and has the potential to contribute to Nigeria's economic transformation. According to the Nigeria Digital Economy Diagnostic Report by the World Bank, currently Nigeria is capturing only a fraction of digital-enabled growth and it needs to strategically invest in the foundational elements of its digital economy to keep pace. Nigeria's thriving community of technology entrepreneurs includes one of the biggest e-commerce markets in Africa—estimated at \$12 billion—with 87 Nigerian platforms and 2.9 million employees. Fintechs have flourished and innovation hubs have doubled in the past two years. Digital financial services (DFS), which remain largely untapped opportunities, offer significant benefits through enhanced financial inclusion, especially in rural areas, and digital entrepreneurship.

To fully harness the potential of these sectors, Nigeria will need to address some critical constraints:

- **Agribusiness:** Improve access to quality input, skills, machinery and modern agricultural technology, and market information, all of which can be private sector driven, by developing agricultural digital ecosystems and through various social enterprises. Provide access to finance, including through value-chain digitization. Develop agriculture-specific infrastructure such as irrigation and storage through a public-private partnership (PPP). Promote successful business models like community block farming, which helps to de-risk agribusiness for smallholders. Develop agriculture insurance to support farmers during adverse climate events.
- **Mining:** Develop geological and geophysical data for commercial mining in conjunction with the private sector. Improve geoscience skills and knowledge by increasing institutions offering specialized training. Develop financing for mining including the leasing sector to provide access to necessary equipment. Formalize artisanal mining; and operationalize the Community Development Agreement of the Mining Act to minimize hostilities and disruptions to mining.
- **Manufacturing:** Develop FZs/SEZs by updating the regulatory framework. For chemicals, implement policies that support the consistent supply of gas and feedstock, such as the gas flare prohibition and punishment bill and the national Gas Flare Commercialization Programme, as well as moving to market-based gas pricing. For leather, formalize raw leather producers to strengthen their capacity

for handling and processing raw hides and skins using enhanced technology and collection and treatment facilities, and to increase their access to finance. For construction materials, improve regulation and the management of quality to enhance competitiveness.

- **Digital/information and communication technology sector:** Harmonize right of way policy for critical digital infrastructure and review national spectrum policy to optimize usage. Additional policy measures are needed to promote DFS; to continue to prioritize the digitization of government payments, social transfers, and tax collections; to increase digital literacy; and, to enhance digital skills.

More broadly, the growth of these sectors and the wider private sector has been stymied by a number of cross-cutting constraints.

Key cross-cutting constraints

Private firms identified the weak economic policy framework, which was manifested in various macroeconomic, trade, and financial sector challenges, as a critical cross-cutting constraint to private sector development and investment. Surveys, including the World Economic Forum’s (WEF) Executive Opinion Survey of the Global Competitiveness Report (2017) and the World Bank’s enterprise survey (2014), also cite infrastructure deficiencies (especially in the power sector) as one of the top constraints. In the interviews conducted in preparation for this CPSD report, private sector representatives added insecurity, corruption, anti-competitive practices in some key industries, poor human capital development, and inefficient land administration to the list of important constraints.

1. Weak economic policy framework

In the context of the macroeconomic environment, fiscal and exchange rate policies, especially in the aftermath of the 2014–16 oil price shock, have in some cases distorted markets and created uncertainty for investors. Nigeria’s fiscal envelope is too small (largely because of low non-oil revenues) to efficiently deliver public services that can make the private sector more competitive. Furthermore, some government expenses such as petroleum subsidies are inefficient. Since 2017, the Central Bank of Nigeria (CBN) has been operating multiple foreign exchange windows, which have distorted private sector activities. Reform measures will involve, on the fiscal side, greater mobilization of non-oil revenues and a review of inefficient spending. Following through on unifying all CBN-administered exchange rates into a single market-driven window is needed to eliminate market distortions and allow exchange rate flexibility.

Trade policies stymie the export competitiveness of the industrial sector and encourage smuggling. Nigeria has a protectionist trade regime, which limits opportunities and raises costs for the private sector. The absence of a coherent trade policy for an extended period led to an uncoordinated protectionist trade regime spearheaded by monetary, fiscal, and bureaucratic agencies. These policies include non-tariff measures (NTMs) such as the CBN’s restriction of foreign exchange for importing 43 goods; the import prohibition list on 23 “prohibited” products and 21 “absolutely prohibited” products imposed by the Nigeria Customs Service; and bureaucratic rules in favor of local content requirements, especially in the oil and gas and information and communication technology (ICT) sectors, which are incompatible with World Trade Organization (WTO) rule. Policy options include the development

of a new trade policy; tariff measures such as substituting import bans with tariffs; and reforming NTMs to focus on phasing out distortionary NTMs, such as foreign exchange restrictions and import prohibitions.

Some policies and practices restrict access to bank services. Domestic credit to Nigeria's private sector—about 10.5 percent of GDP in 2019—is well below peers like South Africa (139.0 percent) and the average for Sub-Saharan Africa (about 45.5 percent). Few firms, mostly large ones, can access credit because of the limited availability of medium- to long-term credit tenors, high collateral requirements, and high interest rates, especially for micro, small, and medium enterprises (MSME). Commercial banks are reluctant to lend to MSMEs at affordable rates as a result of (a) the existing unlevel playing field and market distortions resulting from the CBN's subsidized development finance initiatives, (b) the government's crowding out of the private sector, (c) relatively incomplete financial information and infrastructure, (d) a weak debt resolution and loan recovery framework, (e) a weak microfinance sector, and (f) MSMEs' lack of technical capacity to make successful loan applications.

To address these issues, the following steps should be taken, among others: (a) Careful assessment of the effectiveness of CBN's subsidized development finance schemes in the medium term. This assessment should reorient schemes in such a way to address key risk factors influencing MSME lending and market-based pricing, and should identify financially sustainable solutions to encourage the banking sector to engage in risk-based pricing of financial products; (b) the government should look to balance external and domestic sources for its financing to avoid crowding out the private sector; (c) the coverage of the credit bureau should be extended to include a larger segment of the bankable population through integrating nontraditional credit providers into the credit reporting system, including leveraging technology available with mobile money operators; (d) the government should prioritize the development of stand-alone legislation to address current deficiencies in the insolvency framework to better protect creditors' rights; (e) the CBN should overturn its reversal of the decision to lower the minimum capital requirement for subtier 2 unit microfinance banks (MFBS) and revert to earlier minimum capital requirements, and require higher minimum capital requirements for new licenses for MFBS, and (f) the government should promote financial literacy and the digitization of financial records of MSMEs and support the deployment of incentive-based business information platforms, to improve access to finance.

2. Infrastructure deficiency

Infrastructure gaps are a major deterrent to private sector growth and overall economic development in Nigeria. The country has long struggled with poor access to and an unreliable power supply. About 60 percent of Nigeria's population has access to electricity, lower than most peers and the average for lower-middle-income countries at 86 percent. Most households and businesses receive less than five hours of power per day. The inconsistent electricity supply has driven most businesses to acquire inefficient diesel-powered generator sets that are two to three times more expensive than power from the grid or to adopt nascent off-grid solutions largely delivered through solar power systems. The poor maintenance of power plants, the limited capacity of the existing gas pipeline, payment risks to gas producers due to market liquidity constraints, transmission system losses due to limited wheeling capacity, and a non-cost reflective tariff regime, have all been identified as key culprits in Nigeria's

power sector challenges. Although the government partially privatized power assets, the desired efficiency improvements in electricity delivery have not materialized. Fiscal constraints resulting from the 2020 oil price shock and the COVID-19 pandemic are exacerbating the implications of the delayed implementation of the 2017 Power Sector Recovery Plan (PSRP). The Order on Transition to Cost Reflective Tariffs in the Nigerian Electricity Supply Industry has set the framework to transition to cost-reflective tariffs by June 30, 2021.

Off-grid solutions have the potential to provide households and businesses access to electricity. However, their large-scale adoption is hindered by limited demand assessment, high cost structure, limited technical expertise, and a lack of customer awareness and trust of solar powered solutions. Full implementation of the PSRP is required to stabilize the grid power market. In addition, several measures could help to increase supply of and demand for off-grid solar: (a) a review of import duties on off-grid components to ensure the fair treatment of importers of components and developers, while also encouraging local content development; (b) better engagement with distribution companies in mapping clusters suitable for off-grid solutions; (c) investment in training last-mile technicians to support off-grid solar companies; and, (d) reducing the overall cost of installation and maintenance.

Addressing the infrastructure gap requires significant investment, which the government alone cannot meet. Nigeria needs to invest US\$3 trillion in infrastructure over the next 30 years—about US\$100 billion annually until 2045. However, the government’s capacity to mobilize resources, allocate them effectively, manage innovative funding models, and provide oversight for infrastructure is weak. There is enormous scope for public-private partnerships. These partnerships could potentially represent 40 percent of Nigeria’s infrastructure needs, but currently they are not extensively used. To unleash PPPs, the law governing them needs to be reviewed to clearly state roles and responsibilities of each institution, including identifying a lead institution to drive PPPs, considering their capacity and convening power. Furthermore, the government’s capacity to develop PPP projects should be enhanced. Successful implementation of PPPs would require supporting states and line ministries; and setting up a project preparation facility with adequate funding and technical assistance for project preparation in areas such as engineering, legal, and structured financing.

Other constraints

Market-based competition and anti-monopoly policy are perceived to be weak in Nigeria. A high concentration across many key markets reflects the impact of government interventions and raises barriers to entry. Regulatory obstacles to competition exist in various sectors such as agribusiness (seed and fertilizers), manufacturing (polyethylene terephthalate, cement), and ICT (digital and financial services). The passage of the Competition Act in 2019 provides the opportunity to develop a functional framework to curb anticompetitive firm behavior, such as abuse of market dominance and cartels, and to achieve competitive prices for consumers. Successful implementation of the Competition Act will depend on the new Federal Competition and Consumer Protection Commission (FCCPC) being able to operate independently.

Land-based investments in Nigeria are undermined by ambiguous and inconsistent land administration. Two pieces of legislation govern the use and development of land: the Land Use Act (LUA) of 1978, which is incorporated into the 1999 constitution and governs land ownership rights and transactions; and the Urban and Regional Planning Act, Decree No. 88 of 1992, which provides a framework for land management. Despite the adoption of LUA more than 40 years ago, the regulations necessary to further guide states and guarantee consistency in implementation of the law still have not been enacted. In addition, the co-existence of customary and religious land practices with these statutory land laws results in confusing frameworks of land administration. Legal reforms are needed. In the absence of these reforms, innovative instruments such as the Land Acquisition and Resettlement Framework and the Framework for Responsible and Inclusive Land-Intensive Agriculture should be considered.

Governance challenges such as ongoing conflicts (for example, the Boko Haram insurgency) and corruption are having devastating consequences. The World Bank Group has placed Nigeria on its list of fragile and conflict-affected situations for 2020. Conflicts limit opportunities for private investment, gainful employment, and infrastructure development. Private enterprises in agribusiness and mining sectors, especially those located in the northern region, point to insecurity as the main threat to their enterprises. Nigeria is ranked 144th out of 180 countries on Transparency International's Corruption Perception Index 2018. About 30 percent of firms report experiencing at least one request for bribe payment—higher than the 25 percent average for Sub-Saharan Africa. Corruption hinders efficient public service delivery and investment and distorts the Nigerian private market. The current government has shown a keen interest in tackling these issues. The deployment of digital technology to government processes and procedures will help to increase transparency and reduce corruption.

Nigeria's poor human capital outcomes adversely affect labor quality, productivity, and economic growth. In light of the COVID-19 pandemic, these poor outcomes may be exacerbated without appropriate interventions. The government's low expenditure on health and education contributes to a large skills gap. The quality of education is poor in Nigeria; adult literacy rates are lower than in peer countries. In 2016, government expenditure on health was 0.6 percent of GDP in Nigeria—South Africa's was 4 percent, Côte d'Ivoire's was 2 percent, and Ghana's was 2 percent. Not surprisingly, Nigeria significantly lags peers on key maternal, nutrition, and child health service indicators. More funding and equipment are needed for the government technical colleges. Equally important is broadening the scope of the National Skills Qualification Framework to include more sectors. As Nigeria seeks to move its health systems toward universal health coverage, policy makers must identify and ensure appropriate roles for private providers and health markets. Doing so will require a synergistic relationship between the public sector and the private sector with the implementation of a deliberate policy and a strategic framework with tailored solutions to local environments.

These constraints, together with cumbersome and expensive procedures, reduce the incentive to formalize business activity, resulting in the highest rate of informality in Sub-Saharan Africa and low productivity. A large shadow economy has developed that is a constraint to economic growth. Nigeria's private sector—although large and vibrant—is predominantly informal and operates at relatively low levels of productivity

within an uncompetitive market. Despite the existence of several multibillion dollar domestic and foreign firms, informal MSMEs—numbering more than 40 million—dominate Nigeria’s enterprise landscape, account for 84 percent of the total labor force, and contribute 48.5 percent to nominal GDP and about 7.3 percent of export revenues. Only about 58 percent of firms in Nigeria formally registered at the time they started operations, compared with 84.1 percent in Sub-Saharan Africa as a whole. Reducing the cost and the number of procedures for registering a business could help to incentivize firms to formalize.

This CPSD can be a source of additional insight to guide policy makers during President Muhammadu Buhari’s second term and the recovery from the COVID-19 pandemic and oil price shock. The CPSD’s recommendations are key inputs into the IFC’s Country Strategy for Nigeria and the World Bank’s Country Partnership Framework. The following table summarizes important actions suggested by this CPSD.

KEY CONSTRAINTS	SUGGESTED ACTIONS
<p>Weak macroeconomic and financial policy framework</p>	<p>Fiscal, monetary, and exchange rate policies</p> <ul style="list-style-type: none"> • Follow through on unifying all CBN-administered exchange rate windows into a single market-driven window. • Introduce comprehensive tax policy and administration reforms (for example, establish consolidated/harmonized state revenue codes and expand electronic tax payments). • Bolster fiscal responsibility framework and intergovernmental fiscal coordination by incentivizing states to fully implement the 22-point Fiscal Sustainability Plan. <p>Trade policies</p> <ul style="list-style-type: none"> • Update Nigeria’s Trade Policy Framework. • Reform tariff measures: simplify multiple duties and charges on imports and substitute import bans with tariffs. • Reform NTMs: review existing NTMs for their distortionary impact and phase out foreign exchange restrictions on 43 imported goods by CBN and phase out import prohibitions on 44 products by the Nigeria Customs Service. <p>Banking sector policies</p> <ul style="list-style-type: none"> • Discontinue CBN’s subsidized development finance initiatives. • Balance external and domestic sources for government financing to avoid crowding out the private sector. • Integrate nontraditional credit providers into the credit reporting system to increase the coverage of credit bureaus. • Enhance creditors’ rights by prioritizing the development of stand-alone legislation to address deficiencies in the insolvency framework and by establishing specialized commercial and small claims courts with a clear mandate to adjudicate commercial cases expeditiously. • Overturn the CBN’s reversal of the decision to lower the minimum capital requirement for subtier 2 unit MFBs and revert to earlier minimum capital requirements. • Promote financial literacy, the digitization of financial records of MSMEs and support the deployment of incentive-based business information platforms.

Infrastructure deficiencies**POWER****Grid**

- Ensure the implementation of the Power Sector Recovery Plan (PSRP). An interministerial strategic team may need to be established to oversee the implementation of the PSRP.

Off-grid

- Review import duties on off-grid components to ensure the fair treatment of importers of components and developers.
- Support distribution companies in mapping of clusters suitable for off-grid solutions.
- Develop community engagement programs for mini-grid operators within the host community.
- Invest in training last-mile technicians to support off-grid solar companies and to lower the costs of installation and maintenance.

Public-Private Partnerships

- Review public-private partnership (PPP) law to make sure it clearly states the roles and responsibilities of each institution, considering the capacity and convening power of each one.
- Develop a PPP pipeline based on sector assessments to create a roadmap for mobilizing private financing.
- Enhance the capacity to develop PPP projects in government through technical/financial support to state governments and line ministries.

SECTOR OPPORTUNITIES**SUGGESTED ACTIONS****Agriculture**

- Incentivize disruptive technologies in agribusiness, including through social enterprises and value-chain digitization, to allow farmers access to quality inputs.
- Support community block farming and/or aggregate farmers into cooperatives and outgrower plans to improve productivity and farmers' bargaining power.
- Invest (through PPPs) in critical infrastructure (cold storage, warehouses, and transportation systems) that allows for reduction in postharvest losses.
- Adopt the framework for agriculture insurance.

Mining

- Develop geodata policy and data protocols to support the transparent use of and the dissemination of geodata to potential investors.
- Develop an ecosystem of financing, including the leasing sector.
- Formalize artisanal mining (for example, through a gold purchase program).
- Operationalize the Community Development Agreement of Mining Act to minimize hostilities and the disruption of mineral exploration.

Manufacturing

- Special economic zones: Update the regulatory framework for SEZs.
- Chemicals: Implement policies that support the consistent supply of gas and feedstock, such as the gas flare prohibition and punishment bill and the national Gas Flare Commercialization Programme, as well as move to market-based gas pricing.
- Leather: Prioritize the availability of chemicals for improved leather production and promote formalization in the primary segment to improve technical capability and quality.
- Construction materials: Improve quality and standards to enhance competitiveness.

ICT/digital economy

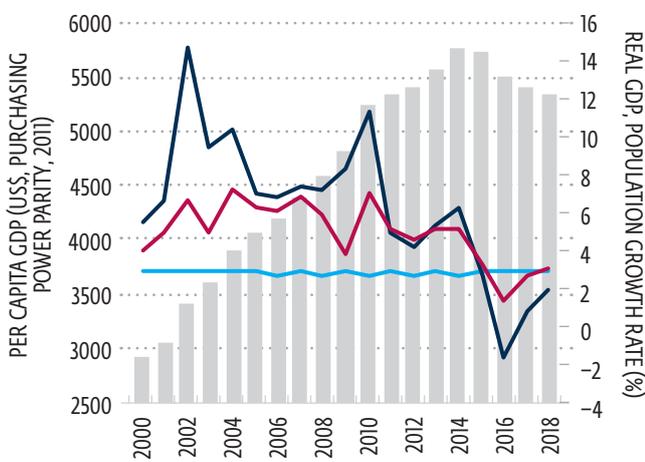
- Harmonize “right of way” policy across the country for consistency.
 - Optimize spectrum management, by reallocating used spectrum.
 - Implement the Strategic Roadmap for a Digital ID System in Nigeria.
 - Remove the overlap of responsibilities between different entities responsible for regulating the ICT sector.
 - Continue to accelerate the digitization of government payments, social transfers, and tax collections, including via a related awareness and training program.
 - Advance digital literacy in the economy, both for youth and adults.
-

1. INTRODUCTION AND COUNTRY CONTEXT

1.1 VOLATILE GROWTH AND HIGH INEQUALITY DESPITE SIGNIFICANT RESOURCE BASE

Nigeria's wealth has not translated into sustained economic growth and shared prosperity for its citizens. Abundant natural resources (including land and marine, diverse energy sources, commercial deposits of minerals and metals) and human capital¹ (a population of about 200 million people with a young labor force, and a strong entrepreneurial culture) places Nigeria at a unique advantage. However, GDP growth, which averaged 8.4 percent annually in the 2000s (see figure 1.1), has been volatile and slowed considerably, averaging about 2 percent the past five years (2014–18). Sluggish growth continued in 2019, when real GDP grew at 2.2 percent. Growth is now lagging that of peers (see figure 1.2).² In the face of faster population growth, the weak GDP growth is putting downward pressure on living standards. In 2018, the poverty rate was about 44.2 percent—representing about 87 million people—the highest among peers by international standards.³ The slow pace of job creation in the face of a rapidly growing labor force (for example, 5.38 million net new entrants in 2018, according to the National Bureau of Statistics 2019) pushed the rate of unemployment from 9.9 percent in the third quarter of 2015 to about 23.1 percent in the third quarter of 2018. Labor force underemployment also increased, from 17.4 percent to 20.1 percent, over the same period. Human capital outcomes are relatively poor; Nigeria ranks 152 out of 157 countries on the World Bank's 2018 Human Capital Index because of inadequate health and education systems. With the fallout from the COVID-19 pandemic (see the Addendum to CPSD on COVID-19), a recession is imminent, and Nigeria's GDP is forecasted to contract in 2020 and potentially in 2021.

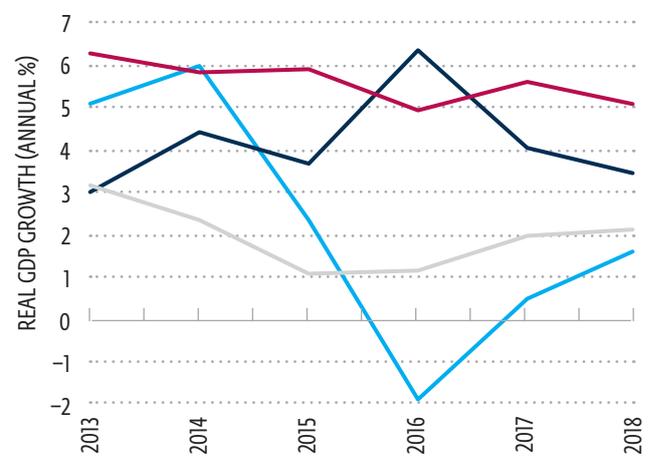
FIGURE 1.1 ECONOMIC AND POPULATION GROWTH (2000–18)



NIGERIA GDP PER CAPITA
NIGERIA GDP GROWTH RATE

NIGERIA POP. GROWTH RATE
SUB-SAHARAN AFRICA GDP GROWTH RATE

FIGURE 1.2 RECENT GDP GROWTH: NIGERIA VERSUS PEERS



NIGERIA
ASPIRATIONAL PEERS (AVERAGE)
STRUCTURAL PEERS (AVERAGE)
REGIONAL PEERS (AVERAGE)

Source: Staff calculations based on International Monetary Fund data and World Development Indicators.

Note: **Structural** peers include both lower- and upper-middle-income countries that resemble Nigeria in the key economic structure and performance indicators—such as Algeria, Egypt, India, Indonesia, and Iran. **Aspirational** peers are countries that Nigeria can potentially improve toward to match their economic performance—such as Brazil, Colombia, Malaysia, Mexico, Peru, Russia, and South Africa. **Regional** comparators are countries that are geographically close and exhibit similar economic characteristics (Angola, Cameroon, Côte d’Ivoire, Ethiopia, Ghana, Kenya, Senegal, Tanzania, and Uganda).

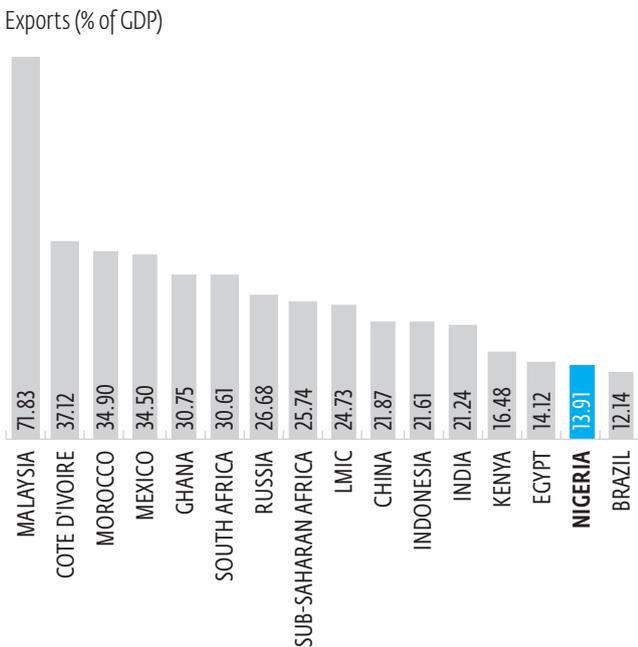
Nigeria also faces a widening income gap and strong regional and gender disparities in development outcomes. The Gini coefficient, a statistical measure of economic inequality in a population, increased from 0.36 to 0.42 between 2011 and 2016, contradicting trends in other African countries (World Bank 2016b). Poverty rates in the northern region (made up of the north central, northeast, and the northwest regions) are significantly higher than in the South. In 2016, 87 percent of all poor people in the country lived in the North, which has been experiencing persistent upward poverty trends since 2011. Nearly half of the most impoverished communities are in the northwest region of the country. In contrast, the southern part of the country achieved significant poverty reduction between 2011 and 2016. Poverty rates in the southern zones were about 12 percent in 2016. Other indicators, such as infant and maternal mortality rates, literacy and school enrollment rates, and gender equality also lag in northern states. For example, 42 percent of adults in the North had no education, compared with 13 percent in the South. More than two-thirds of girls in the North ages 15–19 are unable to read, compared with less than 10 percent in the South. Nigeria also scores low on gender equality, ranking 133rd out of 149 countries in the World Economic Forum’s Gender Gap Index, with particularly low relative scores on educational attainment and political representation (World Economic Forum 2018). Men are twice as likely as women to have wage employment when working (World Bank 2019a). Gender discrimination is also categorized as high, with Nigeria among the 10 percent of countries worldwide exhibiting the highest levels of gender discrimination (OECD 2014).

Urgent action is required to address Nigeria's challenges. Under present conditions, the number of people living in extreme poverty is projected to reach 120 million (or 45 percent of the population) by 2030.⁴ Estimates suggest that 40 to 50 million higher-income and higher-productivity jobs will be needed to employ Nigeria's population by 2030 to reduce poverty and to help create more inclusive growth (World Bank 2015). Inequality may worsen because of the COVID-19 pandemic—the poor, whose livelihood mostly depends on daily labor, are likely to be disproportionately affected. Faster and more inclusive economic growth will decrease the number of people living in poverty, and will help the country evolve into a prosperous nation. Otherwise, there is a risk of social instability.

1.2 THE CHALLENGES OF NIGERIA'S OIL-DEPENDENT ECONOMY

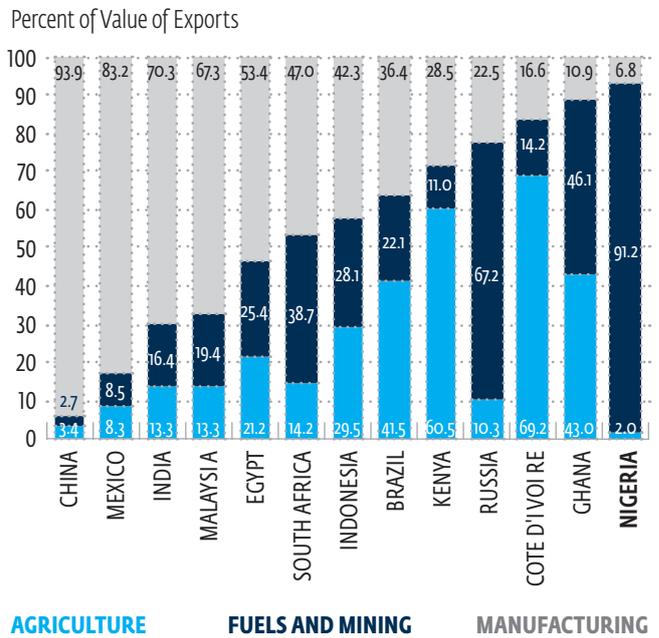
The economy's dependence on oil is a root cause of Nigeria's weak growth and low development outcomes. Nigeria is one of the least diversified exporters in the world. Shortly after independence in the 1960s, crude oil exports became the mainstay of the economy, which led to decades of productivity decline in historically export competitive sectors such as agriculture and manufacturing. A series of reforms⁵ in the early 2000s helped to improve productivity⁶ and growth (especially in the non-oil sector) and to diversify the economy. As a result, the non-oil sector now accounts for about 90 percent of GDP, compared with 68 percent in the late 1990s. However, the oil sector still generates more than half of fiscal revenues and nearly 90 percent of the nation's already low exports relative to peers (see figure 1.3). The nation's endowment in agriculture and other resources (including gas) has added limited value, especially when comparing manufacturing exports with peers (see figure 1.4).⁷ Consequently, the economy is highly sensitive to the boom and bust cycles of oil prices that create macroeconomic volatility, stymieing private investments. An example is the oil price downturn and negative production shocks (between 2014 and 2016) that devastated Nigeria's public finances and precipitated the recession of 2016 (see the appendixes for further discussions). The recent crash of oil prices by as much as 65 percent in the first quarter of 2020—precipitated by the failure of two major producers (Saudi Arabia and Russia) to reach an agreement on production cuts and the subsequent oil price war, along with the ongoing COVID-19 pandemic, which has devastated global oil demand—has led to a significant cut in the federal government's budget for 2020, demonstrating the substantial economic risks of over-dependency on oil exports.

FIGURE 1.3 EXPORTS OF GOODS AND SERVICES (2013–17): NIGERIA VERSUS PEERS



EXPORTS (% OF GDP) Source: World Development Indicators.
 Note: LMICs = lower-middle-income countries.

FIGURE 1.4 MERCHANDISE EXPORTS COMPOSITION (BY VALUE) IN 2017: NIGERIA VERSUS PEERS



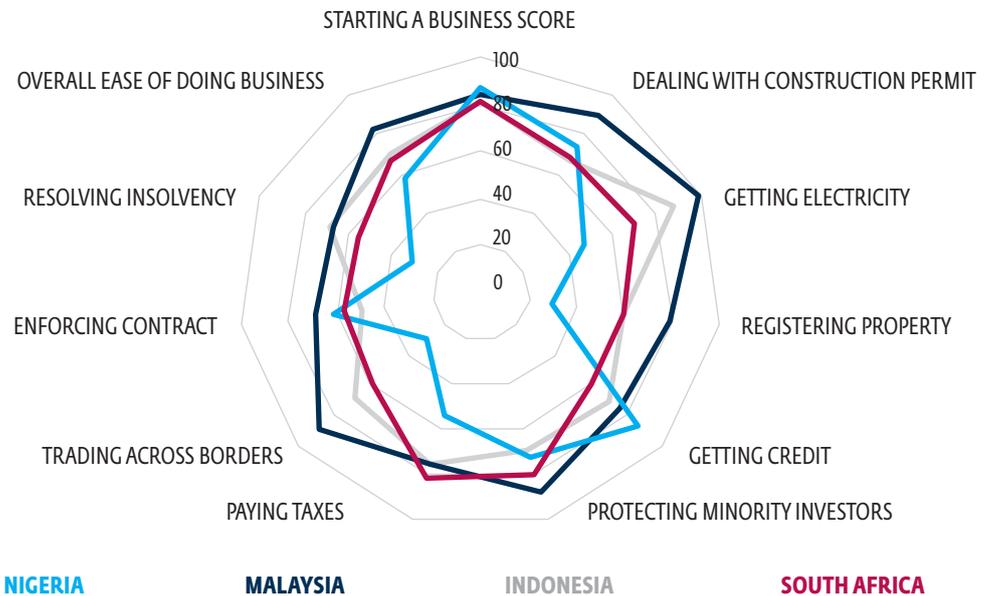
Source: World Trade Organization.

Besides oil price volatility, several other issues are exacerbating the uncertainty about the long-term viability and sustainability of Nigeria’s oil dependency. Failure to modernize the governance framework for the oil industry has created uncertainty and has limited investment.⁸ Furthermore, it constrains the fiscal envelope and the government’s ability to deliver public services. By international standards, Nigeria’s competitiveness in oil production is low because of the comparatively high oil royalties and taxation regime,⁹ combined with one of the highest costs to produce oil.¹⁰ In addition, militancy in the Niger Delta—the main oil producing area—and the frequent vandalization of oil pipelines pose further risks to Nigeria’s oil production. At the same time, Nigeria’s oil industry is facing increased competition. Technological advances that allow extraction in previously inaccessible locations means that more countries, even in Africa (for example, Ghana, Kenya, Mozambique, Tanzania, and Uganda), are discovering and producing oil. Nigeria’s crude oil customers (such as the United States) are now purchasing from other countries and substituting their demand with shale oil obtained through fracking—the injection of fluid into shale beds at high pressure to free up petroleum resources. Concern over the adverse impact of fossil fuels on climate change and the development of alternative (clean) energy sources such as biofuels also may reduce the relevance of crude oil in the future.¹¹

Nigeria’s weak economic policy framework is the second major issue contributing to the country’s weak growth and development outcomes. Over the years, government policies and programs to promote growth, drive non-oil exports, and create jobs have been poorly designed, inconsistent or short-lived, and inadequately implemented. Agriculture policies and plans tend to change frequently and to differ in focus and approach (for example, from the 2011–15 Agricultural Transformation Agenda to the 2016–20 Agriculture Promotion Policy) usually in response to changes in political leadership. This creates uncertainty for investors and results in performance that is below expectations.¹² In the manufacturing sector, the National Integrated Industrial Development Strategy (2007) and the Nigeria Industrial Revolution Plan (2014)—aimed at increasing the manufacturing sector’s contribution to GDP—have not produced the desired results. Manufacturing value-added (MVA) has fallen dramatically during the past 20 years, from 17.4 percent of GDP in 1998, to 8.7 percent of GDP in 2017—below the MVA of regional peers such as Côte d’Ivoire (12 percent) and Ghana (11 percent).¹³ More recently, key macroeconomic reforms proposed under the Economic Recovery and Growth Plan 2017–20 (ERGP) have not advanced, and are holding back private investments.

These policy challenges also reflect weak governance; weak institutions are eroding the social contract¹⁴ and creating an environment that is not conducive to business in Nigeria, relative to peers. Strong public institutions can provide faster, more inclusive, and sustained delivery of public services, which reduces the costs of operating in the private sector. However, Nigeria’s institutions struggle with the delivery of public services (health care, education, security, etc.), the provision of economic opportunities, or the enforcement of the rule of law.¹⁵ In addition, transparency, accountability, and sustainability in the management of public resources, and policy coordination among all three tiers of government (federal, state, and local) and across sectors have been difficult to achieve (World Bank 2019b). The cost of operating in this business environment is relatively high and as a result, trust between the government and the private sector has eroded. Despite recent progress,¹⁶ Nigeria’s business environment ranks 131 out of 190 countries on the 2020 World Bank Doing Business Index, well below its aspirational peers—Malaysia (12), Indonesia (73), and South Africa (84) (see figure 1.5). When looking at key indicators such as “Paying Taxes,” “Trading Across Borders,” “Registering Property,” and “Getting Electricity,” Nigeria ranks 159th, 179th, 183rd, and 169th, respectively, out of 190 countries.

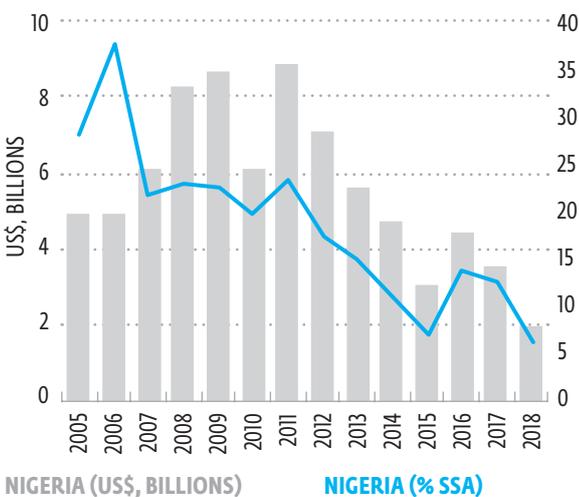
FIGURE 1.5 DOING BUSINESS 2020 COMPARISON FOR NIGERIA VERSUS SELECT PEERS



Source: World Bank Group 2019a.

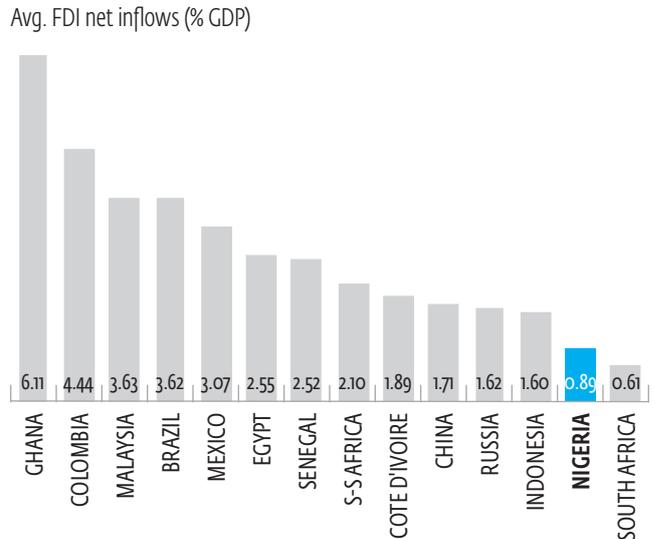
The challenging business environment has contributed to a large shadow economy and low foreign direct investment (FDI). Under the tough business environment, a large shadow economy¹⁷—estimated at 56.2 percent of GDP—has developed (Schneider, Buehn, and Montenegro 2010) and has constrained overall economic growth as vast sections of the private sector “hide in the shadows” or stay below the radar of formal regulation. FDI to Nigeria has progressively declined since 2011, reaching about US\$2 billion in 2018—its lowest level since the early 2000s (see figure 1.6). Nigeria’s share of FDI to Sub-Saharan Africa has equally diminished. Ghana has overtaken Nigeria as the largest FDI recipient in West Africa for the first time in several years (see figure 1.7).

FIGURE 1.6 NIGERIA'S FDI TRENDS



Source: United Nations Conference on Trade and Development. Note: FDI = foreign direct investment; SSA = Sub-Saharan Africa.

FIGURE 1.7 AVERAGE FDI NET INFLOWS (2015–17)



Source: World Development Indicators. Note: FDI = foreign direct investment; S-S Africa = Sub-Saharan Africa.

1.3 BEYOND OIL—A PATH TO SUSTAINABLE AND INCLUSIVE GROWTH

First, Nigeria must promote a private sector–led growth strategy to break the dependency on oil (World Bank 2019b). Under this strategy, Nigeria must capitalize on its existing opportunities. The abundance of key inputs presents a strong case for the development of Nigeria’s non-oil sectors. Nigeria is rich in the base resources (agricultural and mineral) that are required for food and the manufacturing of several key products,¹⁸ making a case for its development of resource-based manufactured products. For instance, Nigeria’s huge gas resources—the seventh largest gas reserves in the world and the largest in Africa—give the country the potential to shift its focus away from oil exports and toward the manufacturing of base chemicals and fertilizers. Similarly, the lagging northern region’s large deposits of strategic industrial, metallic, and precious minerals could support the industrial development of the region.

Second, the relatively large domestic population and the regional integration with ECOWAS and (to a lesser extent) the African continent provide a solid market base for Nigerian products, while the large Nigerian diaspora can be leveraged for financing. Nigeria’s rapid population growth and urbanization is providing a ready market for food, fast-moving consumer goods, building materials for housing, and consumer, financial, transportation, and digital services. As the urban population continues to increase—its growth is projected to be 3.9 percent per year, compared with 1 percent among the rural population (World Bank 2018b)—the large and growing housing and infrastructural needs of the country will continue to drive the demand for construction materials such as cement (limestone), granite, marble, sand, and gravels. In 2017, imports of construction materials such as granite, taps and valves, and metal structures, some of which could be produced domestically, were valued at US\$1.2 billion. The strong West African regional integration with ECOWAS and the recently approved African Continental Free Trade Agreement have also extended Nigeria’s market potential and opportunities to improve competitiveness.¹⁹ Remittances from Nigeria’s large diaspora of 1.3 to 3 million Nigerians living abroad, especially in Canada, Italy, South Africa, Spain, the United Kingdom, and the United States, account for 6 percent of GDP (US\$25 billion in 2019) and can be leveraged for long-term financing of capital projects.

Third, Nigeria is uniquely placed to use technological advances to transform its economy. Technology is transforming the nature of jobs, production techniques, and how people interact with the world to deliver services. Future growth will hinge on how effectively the country stimulates higher-productivity activities and innovation by adopting new technologies, including digital technologies. Increasingly, innovation hubs are at the center of digital infrastructure development in Nigeria, with the number of active hubs growing from 23 to 55 between 2016 and 2018. The software development industry grew from ₦960 billion (about US\$6.4 billion) in 2012 to around ₦3.7 trillion (about US\$10.5 billion) in 2017. Nigeria’s e-commerce and online trading market is worth about US\$13 billion and is expected to rise to US\$50 billion in the next 10 years (Ernst & Young 2018). In addition, business process outsourcing could generate about 5 million direct and indirect jobs for Nigeria in the next five years. The new technology trends emerging during the COVID-19 pandemic may strengthen these opportunities in the near and mid-term.

This CPSD positions the private sector as the engine of Nigeria’s growth and development. The CPSD assesses opportunities for and constraints to private sector-led growth. It provides policy reform priorities for the government to mobilize private investment and drive solutions to break Nigeria’s oil dependency, create quality jobs for the rising population, diversify exports, drive economic activity in undeveloped regions, and contribute to overall economic growth and poverty reduction—all within the medium term (a three- to five-year period). The CPSD’s recommendations are key inputs into the IFC’s Country Strategy for Nigeria and the World Bank’s Country Partnership Framework and informs investors about Nigeria’s prospects.

Before drilling further into the opportunities and constraints that confront the private sector, this report briefly looks into the state of Nigeria’s private sector in chapter 2.

2. STATE OF THE PRIVATE SECTOR

2.1 PREDOMINANCE OF THE MICRO, SMALL, AND INFORMAL SECTOR

Nigeria's vibrant private sector has several large firms in all sectors,²⁰ and they are mainly based in Lagos and the southern region. Nigeria hosts several large indigenous enterprises and multinational companies, many of which are listed on the Nigeria Stock Exchange. These large firms are making significant investments in technology and infrastructure, and are employing thousands of workers. For example, Dangote Industries, located in the Lekki Free Zone near Lagos, is constructing a US\$15 billion refinery and petrochemical plant—one of the largest in the world. Another example is Flour Mills of Nigeria Plc (located in Lagos), which owns one of the largest single-site wheat mills in the world.

However, because of the challenging business environment, micro, small, and medium enterprises—mostly informal—dominate Nigeria's enterprise landscape. Nigeria has approximately 41.54 million micro, small, and medium enterprises (MSMEs) (SMEDAN and NBS 2017)—41.46 million microenterprises, and 73,081 small and medium enterprises (figure 2.1). These MSMEs account for 86.3 percent of the national workforce and contribute about 49.8 percent to nominal GDP and about 7.6 percent to exports (SMEDAN and NBS 2017). However, only 2.1 percent of the dominant microenterprises are formally registered. MSMEs are largely involved in five sectors: wholesale/retail trade (42.3 percent), agriculture (20.9 percent), other services (13.1 percent), manufacturing (9.0 percent), and accommodation and food services (5.7 percent). Female entrepreneurs account for 48.7 percent of the ownership of microenterprises and 22 percent of the ownership of small and medium enterprises (figure 2.2). High compliance costs are a major disincentive to formalization, especially for a small firm. It takes firms twice as much time to formalize in Nigeria (1.5 years) as in the rest of Sub-Saharan Africa (an average of 7 months) (World Bank 2016a). Informality also is detrimental to the economy—empirical evidence indicates that an increase in the size of the informal sector negatively affects growth.²¹ On the other hand, informal jobs can be transformational, especially if markets can be structured to include them.²² Reducing the cost and procedures for registering a business could incentivize firms to formalize.

FIGURE 2.1 MSMES IN NIGERIA BY SIZE

Informal Enterprises:

- (a) 96% farm owners; 84% non-farm sector
- (b) Most micro enterprises operate informally

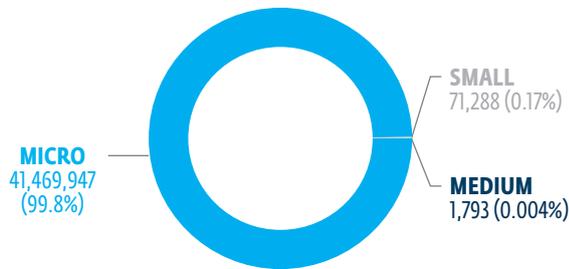
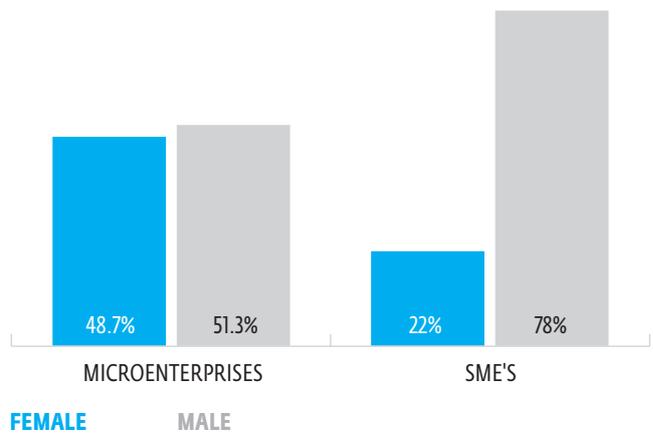


FIGURE 2.2 OWNERSHIP OF MSMES IN NIGERIA BY GENDER

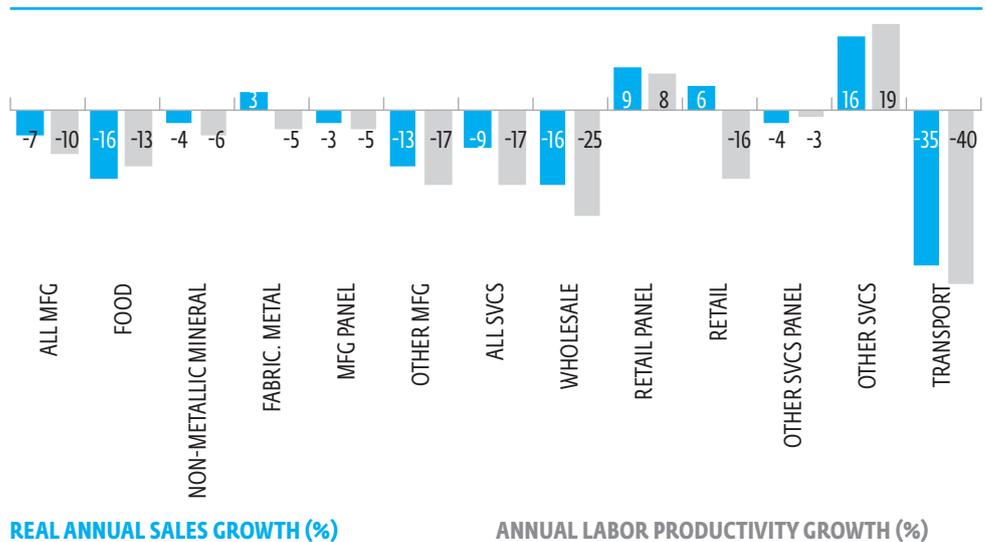


Source: Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS) Survey 2017.
 Note: MSME = micro, small, and medium enterprise; SME = small and medium enterprise.

2.2 LOW PRODUCTIVITY PREVALENT ACROSS SECTORS

Several sectors of the economy show low productivity²³ (figure 2.3). Nigeria’s manufacturing sector has a lower total factor productivity (TFP) relative to other comparator countries: TFP is between two and three times higher in Côte d’Ivoire, Ethiopia, and Ghana, and almost five times higher in Kenya than in Nigeria. At least in part, Nigeria’s low productivity measure appears to be driven by low productivity in the country’s North (World Bank 2016a). TFP in the northern states (except Kano and Kaduna) is about one-third of TFP in the southern states. Although firm productivity in Lagos compares favorably with productivity in Côte d’Ivoire, Ethiopia, and Ghana, cities in Nigeria’s North lag considerably. The TFP of firms in Kano and Kaduna is about one-quarter of the TFP in Lagos.

FIGURE 2.3 LOW PRODUCTIVITY ACROSS SECTORS

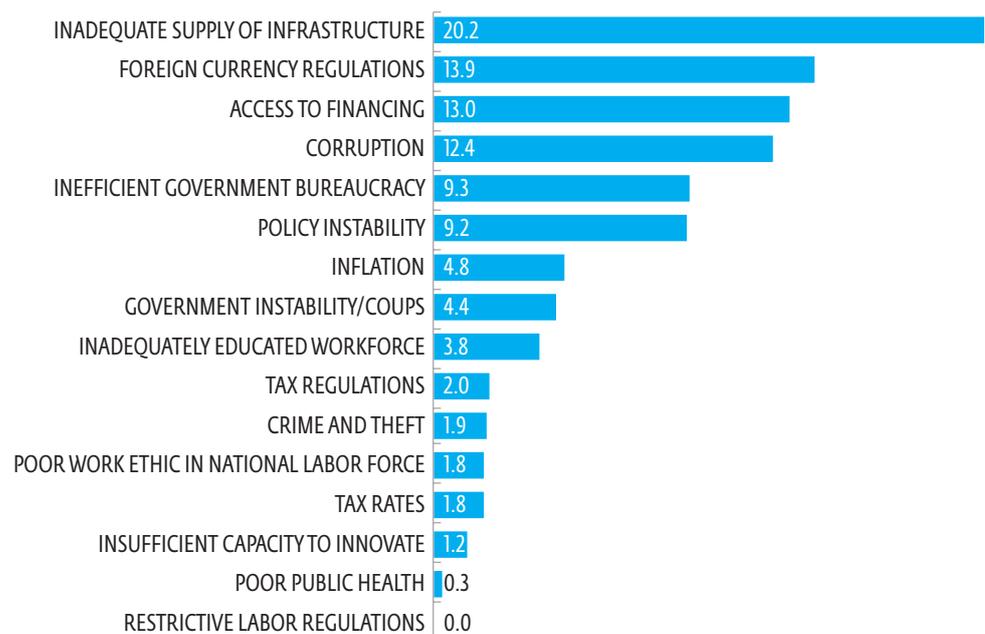


Source: World Bank Enterprise Survey 2014. All MFG = All Manufacturing; All SVCS = All services.

3. CROSS-CUTTING CONSTRAINTS IN THE NIGERIAN ECONOMY

Infrastructure deficiencies, foreign currency regulation, and access to financing are Nigeria’s top three constraints. This report uses business environment surveys for Nigeria and interviews of several private enterprises across sectors and states, as well as comparisons with aspirational peers, to prioritize the constraints in the Nigerian economy. According to the World Economic Forum’s Executive Opinion Survey (WEF 2017), infrastructure deficiencies, foreign currency regulation, and access to financing are the “most problematic factors for doing business in Nigeria” (figure 3.1). Collectively, macroeconomic management challenges, including foreign currency regulations, policy instability, inflation, tax regulation, and tax rates, are cited by about 32 percent of respondents as the biggest constraints to doing business in Nigeria. In addition to those constraints, the World Bank’s Enterprise Survey (2014) also identified corruption, and our interviews highlighted insecurity, anticompetitive practices in some key industries, poor human capital development, and inefficient land administration as key obstacles to private enterprises. Nigeria underperforms its aspirational peers in every dimension needed to drive private sector development and investment: finance, infrastructure (including power, transport, water, ICT), health education, and land (see appendixes).

FIGURE 3.1 MOST PROBLEMATIC FACTORS FOR DOING BUSINESS IN NIGERIA, 2017



Source: World Economic Forum.

This report categorizes and focuses on the top constraints: a weak macroeconomic and financial sector policy framework, and infrastructure deficiencies. It also briefly examines some of the other challenges to private investment, which include anticompetitive practices, governance challenges (particularly insecurity and corruption), poor human capital, and inefficient land administration.

3.1 WEAK MACROECONOMIC AND FINANCIAL SECTOR POLICY FRAMEWORK

Fiscal, Monetary, and Exchange Rate Policies

Nigeria's fiscal envelope is too small to meet its large infrastructure and human capital financing needs. Government revenues are low (8 percent of GDP in 2018) and remain reliant on volatile oil and gas revenues, with non-oil revenues (4 percent of GDP) stagnating in absence of tax policy and administration reforms. Energy subsidies further reduce the limited fiscal space. Low revenue levels and inefficient public spending are aggravated by the delays in budget approvals, and budget implementation is characterized by limited transparency and accountability.²⁴ In addition, mainly domestically financed fiscal deficits, together with central bank operations, crowd out private sector borrowing as domestic yields increase, and risk-averse banks prefer to invest in high-yield risk-free public sector securities.

The multiple objectives of Nigeria's monetary policy hinder its effectiveness and create uncertainty, while multiple exchange rates continue to distort private sector activities. Because the monetary policy of the Central Bank of Nigeria (CBN) simultaneously targets exchange rate stability and inflation and economic growth—the latter via various financial support plans for sectors such as power and agriculture—it sends conflicting signals. Since 2017, the CBN has been operating multiple foreign exchange windows that segment the foreign exchange market and distort economic decision making. Nearly 70 to 80 percent of the transactions are channeled through the Investors and Exporters Foreign Exchange (IEFX) window, in which the CBN has regularly intervened to stabilize the exchange rate. During the COVID-19 pandemic, the CBN moved toward a unified exchange rate system when it adjusted the official exchange rate alongside other exchange rate windows in March 2020. The federal government communicated to the International Monetary Fund (IMF) its commitment to maintaining a unified and flexible exchange rate regime, with CBN only intervening to smooth large foreign exchange fluctuations. Follow-through will be critical because the existence of multiple exchange rate windows creates economic uncertainty and dampens private investment²⁵ by distorting the access to financing (foreign currencies) for exporters, importers, and foreign investors.²⁶ On the other hand, remittances—a large source of foreign currency inflows to Nigeria—can lower the cost of financing for the private sector by enhancing the country's credit rating with major international rating agencies. Although official statistics show that remittances to Nigeria were a staggering US\$25 billion in 2019, their true size is likely to be larger.²⁷

Market efficiency can further be improved by removing foreign exchange restrictions on imports. Improving remittance statistics through estimation of informal remittance flows and collection of data on remittance costs by corridor would also be beneficial. On the fiscal side, revenue mobilization can be enhanced, and fiscal management improved with the implementation of the following fiscal reforms:

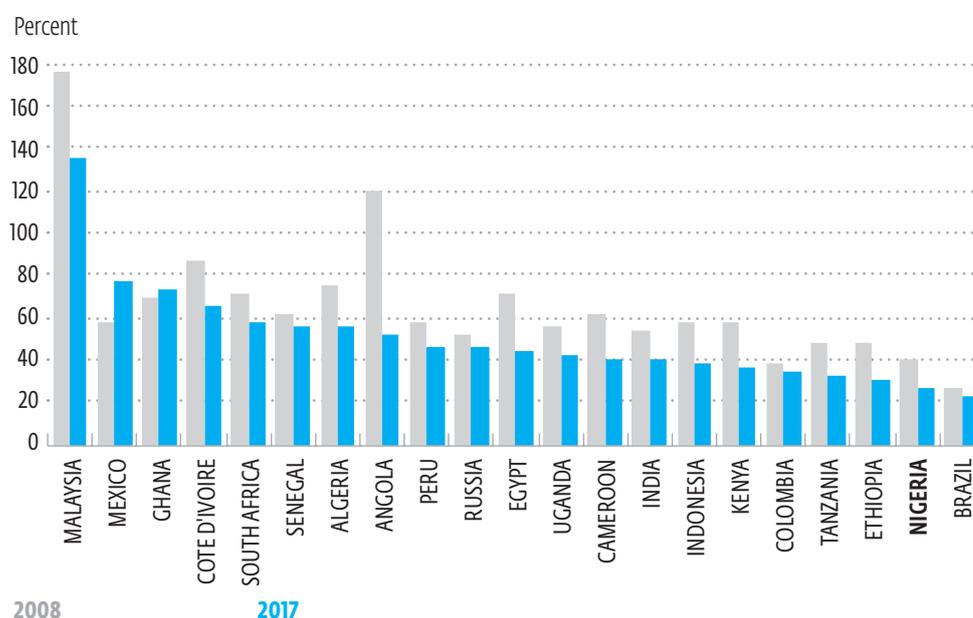
- a. bolstering fiscal responsibility framework and intergovernmental fiscal coordination by incentivizing states to fully implement the 22-point Fiscal Sustainability Plan;
- b. establishing consolidated/harmonized state revenue codes;
- c. expanding electronic tax payments;
- d. removing petrol price subsidies combined with measures to shield the poor from negative impacts; and,
- e. improving budget implementation by strengthening (multiyear) budgeting practices on the basis of realistic macroeconomic assumptions, actual revenue outturns, and costed impact of new revenue measures.

Trade Policies

Nigeria’s protectionist trade regime limits opportunities and raises costs for the private sector. Despite the positive effects trade openness can have on an economy,²⁸ Nigeria’s trade openness of goods and services has been declining for the past decade—from 40.8 percent of GDP in 2008 down to 26.3 percent of GDP in 2017—and lags all of its peers except for Brazil (figure 3.2). Nigeria’s current trade policy, which was developed in 2002, is outdated. The absence of a coherent trade policy for an extended period led to an uncoordinated protectionist trade regime spearheaded by monetary, fiscal, and bureaucratic agencies. These uncoordinated measures include NTMs such as the CBN’s restriction of foreign exchange for importing 43 goods; the import prohibition list on 23 “prohibited” products and 21 “absolutely prohibited” products imposed by the Nigeria Customs Service; and bureaucratic rules in favor of local content requirements, especially in the oil and gas²⁹ and ICT sectors, which are incompatible with WTO rules. Import bans have induced nontransparent border clearance procedures, delays, and rent seeking,³⁰ which has led to an increase in smuggling. The recent decision (September 2019) by the government to close the country’s land borders to all trade activities is another example of protectionist policy. All trade is now conducted through the seaports. Although this may help to reduce rampant smuggling across the porous land frontiers, it has severe consequences for agribusiness and the private sector, especially legal traders of foodstuff across the West African region.

Tariffs and poor trade facilitation also are holding back trade. Tariffs are being applied to imports including goods in which Nigeria does not have comparative advantage in producing. In 2016, Nigeria’s weighted tariff average was 11.25 percent, twice as high as the average in Sub-Saharan Africa, five and a half times higher than in previously commodity-dominated exporters such as Indonesia, and nine times higher than the average in Mexico. The high trade costs also are partly related to the poor trade facilitation. According to the World Bank’s Doing Business report, Nigeria is among the 10 worst-performing countries in the “ease of trading across borders” category, ranking 182 out of 190.

FIGURE 3.2 TRADE OPENNESS OF GOODS AND SERVICES (2008 AND 2017): NIGERIA VERSUS PEERS



Source: World Development Indicators database.

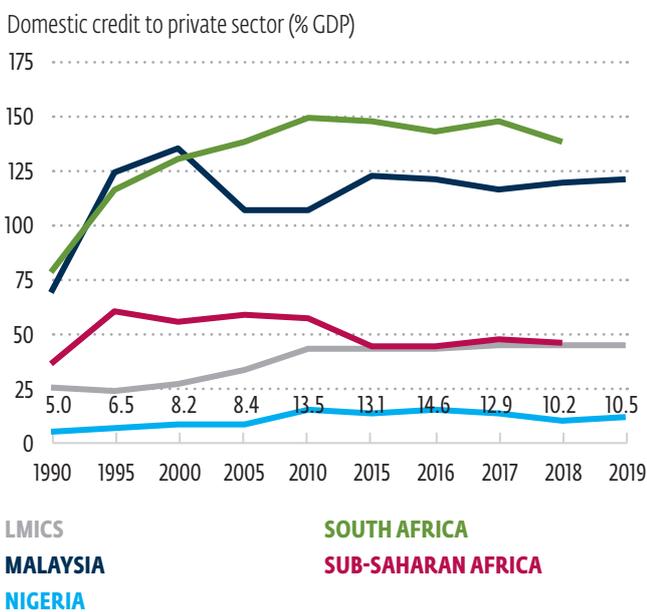
Although regional bodies such as ECOWAS offer high potential market opportunities for the private sector, few gains have been made to date. Nigeria has been a member of ECOWAS since 1975; however, its share of intra-ECOWAS exports has remained low (around 6 percent of Nigeria’s total exports in 2016) mainly because of limited progress in export diversification and significant gaps in implementation of the ECOWAS commitments. For instance, Nigeria began aligning its tariff regime with the ECOWAS Common External Tariff (CET) in 2015 but never completed it. The lack of publicly shared information regarding the ECOWAS Trade Liberalization Scheme (ETLS) prevents many traders from knowing their rights under the ETLS and subjects them to harassment by customs officers.³¹ Often, customs officials decline to recognize ECOWAS Certificates of Origin or to exercise other favorable treatment because of revenue targets (Woolfrey, Apiko, and Pharatlathe 2019). The recent signing of the Africa Continental Free Trade Agreement is an important step in the right direction. However, to fully capitalize on this and other trade initiatives, the government of Nigeria needs to emphasize in its domestic policies the vital links between regional integration and its global competitiveness agenda.

Nigeria should further liberalize trade and enhance trade facilitation to encourage economic growth through regional and global trade. Nigeria will need to reform its tariff measures including simplifying multiple duties and charges on imports; substituting import bans with tariffs; and improving the predictability of its tariff regime by increasing binding coverage and lowering high bound rates. The reform of NTMs should focus on phasing out distortionary NTMs, such as foreign exchange restrictions and import prohibitions. To reduce high costs, delays, and inefficiencies in border and port clearance, redundant formalities should be reduced with the simplification and harmonization of documents and the streamlining of procedures and automation. These reforms should be undertaken in the context of an updated trade policy and legal framework.

Restricted Access to Banking Services

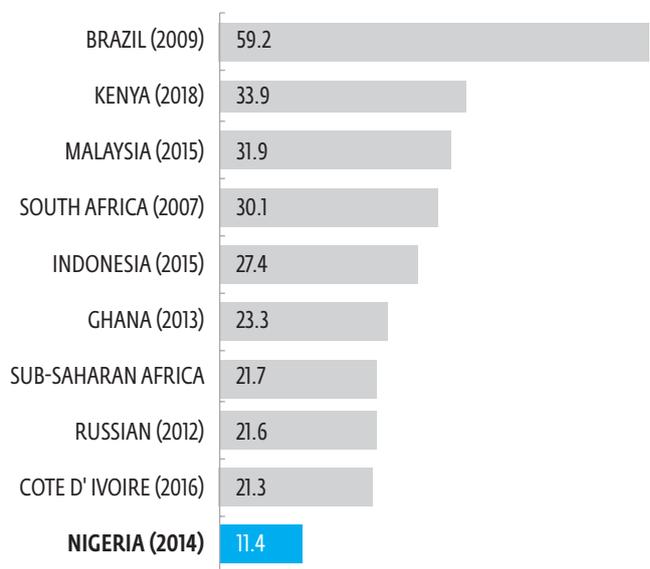
Few firms can access financing. Domestic credit to Nigeria’s private sector— about 10.5 percent of GDP in 2019³²— has declined in recent years (from a peak of 14.6 percent in 2016), and is well below the levels for SSA and LMICs (figure 3.3), as well as aspirational peers like Malaysia. According to the latest enterprise survey available, only 11.4 percent of firms in Nigeria have access to finance, which is low when compared with the SSA average of 21.7 percent and with aspirational peers Brazil (59.2 percent) and Malaysia (31.9 percent) (figure 3.4). Firms face limited availability of medium- and long-term credit, high collateral requirements and high interest rates. The CBN’s prime lending rates declined from 15.4 percent in August 2019 to 11.76 percent in August 2020, but the upper end of the lending rate that financial intermediaries charge is as high as 30 percent. According to the Global Findex database (2017), lending to microenterprises and SMEs is underdeveloped, with only 0.6 percent of households managing a nonfarm enterprise reporting the use of bank loans for start-up financing. Only 3.4 percent of investments and 3.9 percent of working capital needs are reported to be financed by bank loans. While the number of microfinance banks (MFBs) has grown above 1,000, providing access to financial services to nearly 13 million depositors (of which 10 million are otherwise unbanked) and 4 million borrowers, their net additional contribution to financial inclusion has fallen since 2014. Furthermore, their combined asset base stands at barely 1 percent of the assets of the deposit money banks.

FIGURE 3.3 DOMESTIC CREDIT TO PRIVATE SECTOR



Source: World Development Indicators database.
 Note: LMICs = lower-middle-income countries. Data for South Africa and Sub-Sahara Africa only available to 2018.

FIGURE 3.4 PERCENT OF FIRMS WITH BANK LOAN/LINE OF CREDIT



Source: World Bank Enterprise Surveys (various years).

Agriculture and mining sectors are two of the most underfunded sectors in Nigeria. Since 1972, Nigerian government policies have mandated that banks offer credit to agriculture, yet most banks are reluctant to lend to smallholder farmers, favoring large borrowers. Credit to the agricultural sector was 4 percent of total banking sector credit in 2018 (table 3.1), which is very low for a sector that contributes about 22 percent of GDP (as at December 2019). Without credit, farmers are unable to acquire key inputs including machinery, seeds, and skills necessary for improving agricultural productivity. The CBN’s development finance schemes—such as the Anchor Borrower Program (launched in 2015) and the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)—have in recent years targeted the agriculture sector, to boost this sector’s productivity and creation of jobs. When compared with other sectors, the mining sector received the lowest credit allocation—0.1 percent—from banks. For this sector to play a greater role in the economy, more lending needs to be channeled into it, as well as other critical sectors.

TABLE 3.1 SECTORAL DISTRIBUTION OF BANKING SECTOR CREDIT, DECEMBER 2018

Agriculture	4.0%
Mining	0.1%
Manufacturing	14.7%
Oil and Gas	23.5%
Power Sector	2.7%
Construction	4.1%
Trade	7.1%
Government	9.0%
Real estate	4.1%
Finance, insurance and capital Market	7.3%
Education	0.4%
Oil and gas - services	7.2%
Power and energy - services	2.0%
Other Services	13.7%
TOTAL	100%

Source: Central Bank of Nigeria database.

The rate of financial inclusion in Nigeria is lower than for peers. According to the Global Findex database, in 2017, only 40 percent of Nigeria’s population aged 15 years and older have a bank account, compared with 85 percent of the same population in Malaysia and Kenya, 70 percent in Brazil, 57 percent in Ghana, and 69 percent in South Africa.³³ Challenges include: the exclusion of non-salaried workers; long distances to financial access points, especially in rural areas and in the North. In 2019 the CBN revised the Guide to Bank Charges, to reduce fees on card maintenance, electronic transfers, ATM withdrawals, and bill payments. However, bank charges for account opening and maintenance remain relatively expensive for the poor (World Bank 2019b). Mobile money licenses were introduced in 2011 under a “bank-led” model and 21 licenses have been issued, but uptake has been low as only 5.6 percent of eligible Nigerians have a mobile money account, compared with 72.9 percent in Kenya, 38.9 percent in Ghana, 19 percent in South Africa, and an average 20.9 percent in SSA.

Recent policies of the CBN have attempted to drive credit growth and improve financial inclusion. The CBN is enforcing a minimum loan-to-deposit ratio (LDR), by increasing the required LDR to 65 percent while assigning a 150 percent risk weight to SMEs loan portfolios as part of risk weighted assets calculation. Banks that are noncompliant with the LDR requirements are subject to additional Cash Reserve Ratio (CRR) requirements that CBN imposes until the LDR is achieved. According to the CBN, this policy measure has increased credit to priority sectors like agriculture and manufacturing, while exerting downward pressures on lending rates.³⁴ However, the medium-term sustainability implications of these policies need to be carefully assessed. The CBN, in an effort to accelerate mobile money penetration, recently (August 2020) approved licenses for three Payment Service Banks (PSB) and has scaled up the Shared Agent Network Expansion Facilities (SANEF) incorporated in 2019.

In general, the private sector’s access to banking services in Nigeria is largely curtailed by (a) an unlevel playing field and market distortions, (b) the government’s crowding out of the private sector, (c) relatively incomplete financial information and infrastructure, (d) a weak debt resolution and loan recovery framework, (e) a fragmented microfinance sector, and (f) MSMEs’ lack of technical capacity to make successful loan applications. These challenges can be further explained as follows:

- **Unlevel playing field and market distortions:** The CBN’s development finance schemes (for example, Anchor Borrower’s Program, Non-Oil Export Stimulation Facility, and MSME Development Fund), which lower lending rates, need careful assessment so as not to undermine private sector credit growth. Market distortions would hamper the credit transmission channel of monetary policy and propagate monetary policy shocks to the real economy. Any possible disconnect between loan pricing and underlying risk may discourage commercial banks from venturing into underserved markets without subsidized interest rates. Moreover, credit market dynamics are also influenced by the current governance of the development finance schemes. The dual role of the CBN as a regulator of the banking sector as well as provider of schemes or shareholder in some development finance institutions (DFIs) is sub-optimal and runs risks of creating conflicting objectives. It is also worth noting that the quasi-fiscal subsidy borne by the CBN under its DFI schemes reduces its profits – that should normally be surrendered to fiscal authorities – thereby reducing government’s available resources. As indicated earlier, the CBN’s LDR policy needs careful assessment, particularly in cases where the noncompliance of banks results in higher cash reserve requirements that impair banks’ liquidity positions and, for some banks, reduce their risk appetite.

- **Government’s crowding out of the private sector:** The banking system shifted its credit risk exposure to the government and CBN securities. Holdings of CBN paper rose almost 10-fold while that of government paper rose by 20 percent between 2014 and 2018, crowding out private sector credit. More recently however, the appetite for government and CBN securities has waned on account of the CBN’s LDR policy that constrained banks from channeling funds to invest in treasury instruments, as well as declining interest rates on such instruments.
- **Incomplete financial information and infrastructure:** Weaknesses in the country’s credit reporting system continue despite the enactment in May 2017 of the Credit Reporting Act to strengthen the legal and regulatory framework for credit reporting. Only 13.9 percent of the adult population was covered under the credit reporting system, well below South Africa’s coverage of 64.4 percent and Kenya’s coverage of 34.0 percent.³⁵
- The difficulty in uniquely identifying a large portion of the population has a deleterious effect on financial inclusion because lenders are wary of making loans to a person or an enterprise that is not uniquely identified. It is important to continue the progress made in identity management and to have national identification numbers linked with bank verification numbers.
- Poor knowledge of movable asset lending by financial institutions, weak enforcement procedures, and low awareness levels by the public continue to inhibit rapid adoption of the new regime of movable asset financing. To address the collateral constraint to MSME lending, a modern, unified, electronic collateral registry was established in 2016 and a Secured Transaction in Movable Asset Act was enacted in 2017. However, only a limited number of transactions collateralized with movable assets has been registered by 162 financial institutions as of December 2019.
- **A weak debt resolution and loan recovery framework:** The country’s score for “strength of insolvency framework,” as measured by Ease of Doing Business indicators, has remained at 5 (out of 16) since 2014—well below the average score of 6.5 for SSA. The dispute resolution mechanism should also be improved to include adoption of alternative dispute resolution, establishment of specialized and well-resourced commercial courts, and adoption of fast-track procedures to improve debt recovery.³⁶ The government has devoted efforts to address some aspects of financial distress in companies through the newly issued Companies and Allied Matters Act (CAMA) of 2020;³⁷ however, the need still exists for “stand-alone” legislation to drive business rescue and ensure an effective framework for resolving financial distress both of firms and individuals.
- **A weak microfinance sector:** The regulatory framework for MFBs requires further strengthening to address the financial sustainability challenges of the smaller unit and state MFBs. The CBN announced a tiered increase in minimum capital in October 2018 to help consolidate the sector and boost its resilience.³⁸ However, revisions issued in March 2019 could reduce the effectiveness of the policy measure aimed at strengthening the microfinance banking system.³⁹ The minimum capital requirements for the sub-Tier 2 Unit MFBs was reduced to N50 million.⁴⁰ This reduction needs to be thoroughly reviewed to mitigate risks of infringement and ensure sustainability of the operations of MFBs in this segment.
- **MSMEs’ lack of technical capacity to make successful loan applications:** Microenterprises make up over 70 percent of businesses and are mostly informal and led by women and youth. The CBN established Entrepreneurial Development

Centers to build the capacity of MSMEs and carry out training programs for the MFB sector, amongst other initiatives. However, poor bookkeeping habits and lack of financial discipline are some of the frustrations flagged by banks and financial institutions in engaging with this category of customers.

Tackling these challenges will require concerted efforts by the government and regulatory authorities. The way forward should include the following actions:

- Careful assessment of the effectiveness of CBN’s subsidized development finance schemes in the medium term. This assessment should reorient schemes in such a way to address key risk factors influencing MSME lending and market-based pricing, and should identify financially sustainable solutions to encourage the banking sector engage in risk-based pricing of financial products. For market segments that might require subsidies, transparent mechanics of defining, targeting, financing, sequencing and phasing out these subsidies should be developed and publicly announced.
- Reverse/reduce the crowding out of private sector borrowing, through a medium-term debt strategy that appropriately balances domestic and external finance to address both crowding out and foreign exchange risks.
- Extend the coverage of the credit bureau to include a larger segment of the bankable population. This can be done by developing and implementing strategies to integrate nontraditional credit providers into the credit reporting system, including by leveraging financial technology to use alternative data to create credit profiles that will make many economic actors “visible” and that will facilitate access to finance and on better terms.
- Harmonize the bank verification number and national identification number databases to ensure a single unique identification number and develop and implement a roadmap for accelerated enrollment.
- Enhance the capacity of lenders to use a collateral registry in developing MSME lending products, to develop and roll out asset-based lending programs, and to effectively leverage the emerging credit infrastructure to boost lending to the MSMEs.
- Support the operationalization of the corporate insolvency provisions of CAMA 2020 by (a) developing corporate insolvency regulations, and (b) developing regulatory capacity and training to build a body of practice and ensure effectiveness of the insolvency regime introduced by CAMA. In tandem, efforts should be made to quickly enact a comprehensive, stand-alone Insolvency Law that will, in addition to addressing the shortcomings in CAMA 2020, cover both corporate insolvency and individual bankruptcies. Work is also needed to ensure speedy and efficient adjudication of commercial disputes, particularly the enforcement of creditors’ rights.
- Enforce earlier minimum capital requirements communicated in CBN’s October 22, 2018, circular, currently delayed because of the COVID – 19 outbreak. In the interim, higher minimum capital requirements should be mandatory for new licenses for MFBs, especially unit MFBs to strengthen the sector’s resilience and ensure its sustainability.
- Promote financial literacy and the digitization of records of microenterprises and support the deployment of incentive-based business information platforms. Digitizing the records of microenterprises and providing easy-to-understand financial management education would ensure the transparent selection of serious and disciplined entrepreneurs who could be supported with financing. This effort would promote formalization and facilitate enterprise growth.

3.2 INFRASTRUCTURE DEFICIENCIES

Infrastructure gaps are a major bane on private sector and on overall economic development in Nigeria. Estimates suggest that infrastructure deficiencies cost Nigeria about 4 percent of GDP growth annually.⁴¹ The total infrastructure stock (road, rail, power, airports, water, telecommunications, and seaports) in Nigeria represents only 35 percent of GDP and is far below the level of peer emerging-market countries (for example, Brazil, China, India, Indonesia, and South Africa), in which the average stock is 70 percent.⁴² WEF's 2016–17 Global Competitiveness Index ranks Nigeria's infrastructure at the bottom—132 out of 138 countries.

Inadequate infrastructure is the biggest contributor to low productivity in key sectors. For instance, an estimated 20 to 40 percent of agricultural produce is lost post-harvest due to delinquencies in

- a. Power supply, because most rural areas where agriculture is prevalent are cut off from the national grid—only 41 percent of rural dwellers have access to electricity versus 86 percent of the urban population;
- b. Storage, given that inadequate storage facilities lead to loss of agricultural produce and even a reduction in the quality of produce;
- c. Transportation, because bad roads and the near absence of rail facilities increase the cost and duration of transporting agricultural produce from the point of production to processing/consumption/storage; and
- d. Irrigation, because only one percent of arable land is irrigated, and because most farmers lack basic irrigation knowledge, or they do not possess the means to acquire proper irrigation tools to boost productivity.

In the mining sector, the largest investment needs are in power, transport, and water resources. Many companies that largely depend on electricity to power their heavy equipment have lost significant profit margins because of the high individual cost of energy generation.

The state of Nigeria's infrastructure is as follows:

- **Power sector:** Nigeria has long struggled with poor access to electricity and an unreliable power supply. About 60 percent of Nigeria's population has access to electricity, which is less than most peers and the average for LMICs (86 percent). Similarly, power consumption per capita—at 144.5 kWh—is below the average for Sub-Saharan Africa (485 kWh) and for South Africa (4,200 kWh), China (3,927 kWh), and Brazil (2,620 kWh). Nigeria has the second-largest absolute access deficit in the world after India, and the largest in Sub-Saharan Africa (IEA 2017).
- **Transport sector:** Nigeria's transportation networks are inadequate for the country's land mass and population size. Of the country's 200,000 kilometers of road, only about 60,000 kilometers (or 30 percent) are paved;⁴³ in comparison, about half of all roads for the world's lower-middle-income countries, on average, are paved. In 2017, 40 percent of federal roads, 78 percent of state roads, and 87 percent of local government roads were designated to be in poor condition. Limited urban transportation infrastructure, mass transportation services, and urban space that is allocated to movement all serve to reduce the productivity of cities. Nigeria

scores lower on WEF's quality of road infrastructure index than its peers. The World Bank's 2018 Logistics Performance Index puts Nigeria at 110 out of 160 countries, below its neighbors Benin (76th) and Cameroon (95th), and below peers like Kenya (68th) and South Africa (33rd).

- **Water and sanitation sector:** Across water and sanitation indicators, Nigeria underperformed compared with its peers. Only 20 percent of Nigeria's population has access to improved water sources, compared with 93 percent in Malaysia, and 36 percent in Ghana. Nearly 30 percent of water points and water schemes fail within their first year of operation. Nigeria's sanitation sector is in critical condition—only 27 percent of Nigerians have access to improved sanitation compared with nearly half of the population in aspirational peers. Thus, 130 million Nigerians do not meet the Millennium Development Goals standards for sanitation. This poor access to water may also limit economic opportunities in Nigeria—according to the 2016 United Nations World Water Development Report, three out of four jobs worldwide are water dependent.
- **ICT infrastructure:** Mobile connectivity in Nigeria is at 76 percent penetration, compared with 169 percent in South Africa and 130 percent in Ghana. Only 39 percent of the population has access to mobile broadband connection, compared with 105 percent and 79 percent in South Africa and Ghana, respectively. There are higher levels of penetration in urban areas than in rural areas and more women than men have access. There is a 29 percent gender gap in access to mobile internet. Nigeria has about 222 servers per million people, a significant improvement from the 67 servers per million people it had in 2016; however, it still falls below Sub-Saharan Africa's average of 574 servers per million people.⁴⁴ This deficiency in servers, a low internet speed rate of 3.9 Mbps (versus the global standard of 7.2 Mbps), coupled with enabling infrastructure challenges such as poor access to electricity, limit the performance of Nigeria's budding digital economy.⁴⁵

This CPSD report addresses two key aspects of the infrastructure deficiency: (a)

Nigeria's inadequate power supply because it is the most significant infrastructure deficiency that affects the private sector and economic growth in the country; and, (b) Nigeria's inadequate public-private partnership (PPP) framework, which, if improved, could help address deficiencies across all infrastructure subsectors, including energy generation (renewables), energy transmission, transportation (express and highways, sea ports and air ports, mass transit), solid waste management, agriculture, water and sanitation, health, and education.

Inadequate Power Supply

Inadequate power supply is the top constraint for large firms (World Bank 2015).⁴⁶

Approximately, 28 million households and 11 million small and medium enterprises in Nigeria receive less than five hours of power per day. In August 2020, the Transmission Company of Nigeria (TCN) estimated peak electricity demand at 28,290 MW; however, peak grid generation only reached 5,257 MW. Inconsistent electricity supply has driven businesses to pursue off-grid alternatives. Not surprisingly, 86 percent of the companies in Nigeria own or share an energy generator to cover about 48 percent of their total electricity demands (GIZ 2015a). However, generator-derived power is costly compared with the cost of power from the national grid.⁴⁷

Therefore, Nigerian firms report very high electricity costs, equal to about 3.9 percent of sales compared with only about 1 to 2 percent of sales in Russia and China. Combined with high losses attributable to power outages, unreliable and expensive power will make it challenging for Nigerian firms to compete in international markets (World Bank 2016c).⁴⁸

Grid Power Supply

To address the long-standing problems of the grid, the government privatized power assets, but challenges remain along the value chain. Six electricity generation companies and 11 distribution companies were privatized, leaving the one transmission company (the Transmission Company of Nigeria or TCN), as a government-owned entity.⁴⁹ However, privatization so far has failed to deliver on its promise because of problems along the entire value chain, beginning with generation. Although total installed generation capacity is about 13,000 MW, it is reduced to only 6,300 MW (as of August 2020) because of poor maintenance, input constraints (gas and water), and the limited capacity of the existing gas pipeline. Transmission system losses due to limited wheeling capacity further amplifies insufficient power generation by conveying to distribution companies less than generated power.⁵⁰ Distribution challenges place stress on the entire system. A first set of distribution problems revolves around end-user tariffs. Historically, delays in the periodic review of these tariffs to ensure cost-reflective pricing have meant that distribution companies have paid, on average, far less than what is due to As a result, they play a central role in the accrual of more than US\$3 billion of sector arrears (or 1.5 percent of current GDP) (Edeh 2019),⁵¹ and in generation companies accumulating arrears to gas suppliers. A second set of distribution problems concerns the low collection rates of distribution companies. It is estimated that on average less than 50 percent of all electricity distributed is not paid for by consumers, including not only households and businesses but also government ministries and agencies.⁵²

Moving forward, the implementation of the Power Sector Recovery Program is crucial. In 2018, the federal government of Nigeria launched a comprehensive Power Sector Recovery Program (PSRP) to address the challenges in power sector reform. The PSRP identifies numerous interventions to restore financial viability, improve operational efficiency, and enhance service delivery of the power sector. The comprehensive list of interventions includes establishing cost-recovery tariffs, funding projected sector deficits due to tariff shortfall, clearing historical deficits (including government ministries' debts toward distribution companies), improving distribution companies' performance, ensuring gas supply for power generation, improving confidence in the sector through governance and transparency interventions, and implementing off-grid and renewable energy solutions to increase electricity access.⁵³ Although implementation of the PSRP has been delayed, a recent order to transition to cost-reflective tariffs in the Nigerian Electricity Supply Industry sets the framework to transition to cost-reflective tariffs by June 30, 2021. The following measures may facilitate timely implementation of PSRP:

- Establish an interministerial strategic team to oversee the implementation of PSRP, and to improve sector governance, coordination, and institutional arrangements.

- Initiate turnaround of distribution companies on the basis of Performance Improvement Plans (PIPs) and enforcement of their payment obligations.
- Institute coordinated planning to improve network performance and expand grid and off-grid access in a cost-effective manner.

Off-Grid Power Supply

Off-grid energy solutions are eco-friendly (renewable) alternatives to diesel-powered generators that complement the grid and alleviate existing power shortages. Off-grid solutions in Nigeria largely involve the deployment of solar panels or power energy storage systems, or some hybrid of both.⁵⁴ Nigeria has the potential to bridge power supply gaps with solar energy. According to experts, if solar modules were placed on only 1 percent of Nigeria's land mass (920 km²), they could potentially generate 207 million MWh per year, 10 times the total electricity currently generated in Nigeria (GIZ 2015b). Off-grid solutions tend to be small, stand-alone solar power generating systems with storage batteries that provide electricity to a single user or multiple users through a decentralized distribution network. They differ from grid power that is supplied by independent power plants that are connected to a national or centralized grid and they operate independently of the grid distribution companies. Solar energy systems can be classified as follows: (a) solar home systems (up to 100 kW); (b) solar mini-grids (up to 1 MW), which are based on electricity regulation in Nigeria, typically supplying smaller communities (for example, rural areas, industrial clusters, or residential estates); and (c) captive power (exceeding 1 MW), in which the electricity is entirely consumed by the generator itself (for example, schools, hotels, offices, and industrial companies).

Although still relatively nascent, off-grid power presents exciting opportunities for private investors to rapidly increase electrification in Nigeria, with support from government and donor schemes. Off-grid projects in Nigeria have gained traction recently because they provide an effective solution to rural electrification in a challenging environment. In addition, off-grid systems can serve households, communities, and clusters of SMEs where it would be uneconomical to extend the national grid. A GIZ assessment suggests that nearly 8,000 isolated solar systems providing 4.4 GWh per year can effectively provide electricity to more than 26 million Nigerians. The Rocky Mountain Institute conservatively estimates that the off-grid market in Nigeria can offer potential annual revenues of ₦2.8 trillion (about US\$8 billion) to private investors, if 75 percent of residents and businesses that are running on small-scale generators switch to off-grid systems (RMI 2018). Moreover, there are many industrial and commercial clusters that are currently underserved or unserved by the grid, making them suitable for off-grid solutions (Cader and Moller 2015). Two examples of these in Abuja are the Idu Industrial Park and the Garki commercial cluster. The Idu Industrial Park hosts more than 130 large power consumers across different business sectors, but only a few of the consumers are currently connected to the grid; most depend on fuel generators.

Several factors, partly unique to off-grid solutions and partly shared with the grid, have limited the deployment of off-grid and renewable energy solutions including:

- Regulatory barriers such as the inconsistent application of import duties on decentralized renewable energy components that raise end-user costs. For example, solar panels are exempt from import duties but batteries are subject to 20 percent duties.
- Unproven at-scale business models: the selection of economically viable sites and the sizing of the generation asset have many limiting factors in the Nigerian market: (a) limited data availability for demand assessment; (b) the high cost structure of the development and construction phase, which makes it difficult to compete with diesel generators (the average tariff cost for a kilowatt-hour is about ₦150, which although quite high is less expensive than the average cost of diesel generators in remote areas, which are more than ₦200); (c) low confidence in distribution company transparency, which makes many developers opt for sites far away from the grid to reduce the chances of grid expansion and interconnection; and (d) poor capacity usage, especially in rural communities.
- Limited human capital and technical expertise: there is an insufficient supply of solar and wind technicians that are capable of installing and maintaining systems, and there are very few enabling policies or incentives to address this talent gap.
- Lack of consumer awareness and trust: there is a need to build consumer awareness and trust—Nigerians who are aware of off-grid solutions often have a deep distrust of solar technologies.

To address these challenges and move forward, key stakeholders (government, regulators, and investors) can take the following steps:

- Review import duties for off-grid components to ensure fair treatment of importers of components and developers, and in tandem, incentivize the establishment of manufacturing/assembling plants in-country.⁵⁵
- Set up a mini-grid/decentralized energy solutions desk within distribution companies to engage with investors who are interested in providing off-grid solutions to ensure power reliability in underserved clusters.
- Support distribution companies in the mapping of clusters that are suited to off-grid solutions on the basis of criteria agreed on by both parties to encourage additional development of decentralized energy solutions within each distribution company's distribution network coverage area.
- Develop a benchmark for the selection of optimal and densely populated sites with productive loads to increase the financial viability of projects with increased economic activity and higher consumption. The benchmark can act as a standard guide to investors/lenders.
- Government support to developers for land acquisition and other related issues such as right-of-way, permitting process, title and perfection issues, community relations, etc.
- Establish an independent certification body to provide industry-wide certification to technicians and mini-grid developers, and invest in training last-mile technicians to support off-grid solar companies and to reduce the overall cost of installation and maintenance while improving the quality and reliability of service. This step may include support to the National Power Training Institute of Nigeria (NAPTIN) to provide affordable training to low-skilled technicians.

- Increase the number of training centers that are accredited to provide the learning content developed by the Renewable Energy and Efficiency Policy and the Nigerian Energy Support Programme in each state, and incorporate off-grid courses into universities' engineering-related curriculum to provide certification to students.
- Develop community engagement programs for mini-grid operators within the host community to preserve customer interest, increase collections rate and reduce defaults, collect feedback, maintain satisfaction, and quickly identify operational problems. The programs should also increase awareness to reduce the distrust of solar solutions and the tariffs set by developers.

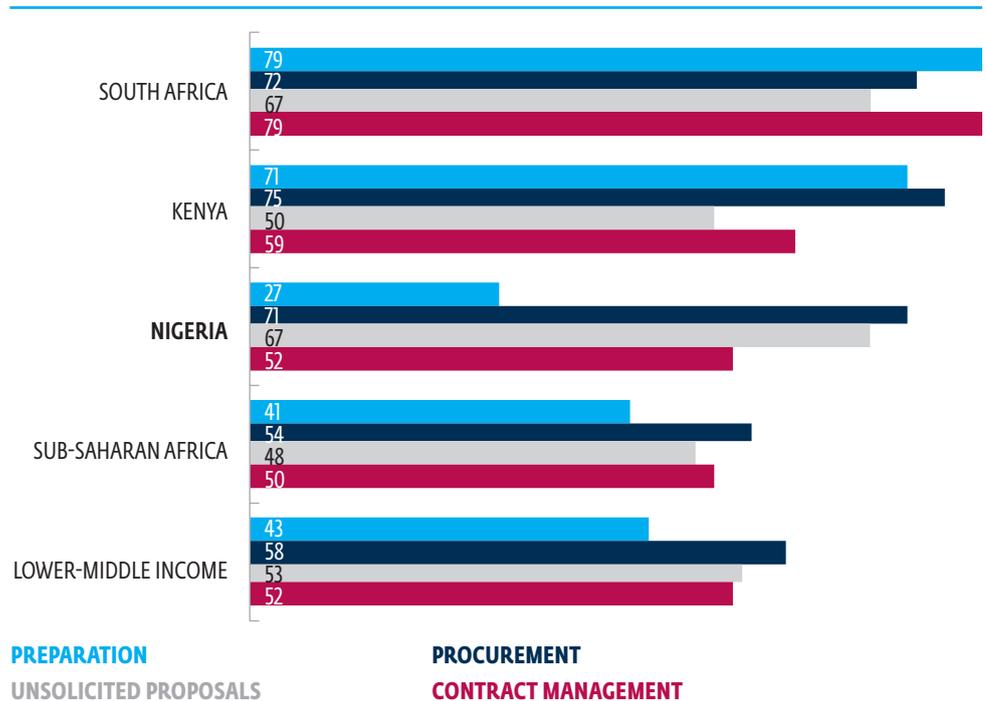
Inadequate Public-Private Partnership Framework

Addressing the infrastructure gap requires significant investment, which the government alone cannot meet. Nigeria needs to invest US\$3 trillion in infrastructure over the next 30 years—about US\$100 billion annually until 2045.⁵⁶ However, the government's capacity to mobilize resources, allocate them effectively, manage innovative funding models, and provide oversight for infrastructure, is weak (Federal Republic of Nigeria 2017). According to the Global Infrastructure Outlook report, between 2007 and 2017, Nigeria's annual average public investment in infrastructure across the sectors of transport (rail, roads, airports, and ports), energy, telecommunications, and water was equivalent to about 3.6 percent of GDP and did not surpass 4.6 percent of GDP in any given year during that period. This means that Nigeria effectively spent below the annual average infrastructure investment in Africa, which accounted for about 4.3 percent of GDP on average during the same period. Furthermore, Nigeria's infrastructure investment is insufficient to meet the infrastructure goals of the Sustainable Development Goals, which require investments to account for up to 6.8 percent of GDP until 2030. The rapid growth in population—projected to reach nearly 400 million by 2050—coupled with urbanization presents a strong urgency for infrastructure development. Without drastic improvements, this growth will compound the already-overwhelming infrastructure deficit and growth of urban slums.

Despite their low use, the scope for public-private partnerships (PPPs) is enormous. Due to fiscal constraints, governments around the world have turned to PPPs to design, finance, build, and operate infrastructure projects.⁵⁷ The injection of private capital is also expected to increase efficiency in service delivery. Estimates for Sub-Saharan Africa show that about one-third of the infrastructure investment gap can be met through operational optimization, thus narrowing the investment gap from US\$100 billion to US\$66 billion (National Integrated Infrastructure Master Plan estimate). PPPs could potentially represent 40 percent of this optimized gap, with an amount up to US\$26 billion.⁵⁸ PPP opportunities exist across a range of sectors including renewables (solar), off-grid and decentralized generation, grid extension, transport (express and highways), mass transit (rail and BRT), sea and airports, water, agriculture, health, and education (see appendixes). Despite its scope, Nigeria does not use PPPs as extensively as other developing countries and has an inconsistent track record in their implementation. From 1990 to 2019, Nigeria launched 56 PPPs (US\$39 billion), compared with 1,064 in China and 643 in Brazil (World Bank Private Participation in Infrastructure database).

Nigeria’s regulatory and institutional PPP frameworks are on par with peers in many aspects, but show some weaknesses (figure 3.5). The frameworks on contract management, procurement, and unsolicited proposals are in line with or above those of peers, and progress was made in enhancing transparency and disclosure of PPP contracts by launching the PPP disclosure web portal. However, Nigeria lacks some of the key common features of successful PPP programs (see World Bank 2018c), especially in project preparation and elements such as clear institutional separation of functions, processes, and criteria for project selection and prioritization, as well as so-called “jurisdiction issues” (that is, jurisdiction of local courts, recourse to international arbitration, sovereign immunity, etc.), among others.

FIGURE 3.5 COMPARISON OF NIGERIA'S PPP FRAMEWORKS, 2018



Source: World Bank 2018c.

With no central dedicated PPP unit in charge, roles and responsibilities lack clarity, coordination is poor, and the institutional set up is ineffective. Although the ICRC Act (2005) and the National Policy on Public Private Partnership (2009) set the principles for PPPs, they are too high-level and fall short of providing clear guidance. The processes described in the Act are not fully implemented. This uncertainty leads to an unclear division of roles and accountability among various federal ministries and agencies along the PPP project cycle. The National Policy on PPP (NP4) sets out the government’s commitment toward PPPs, PPP policy objectives, and the institutional structure (including the formation of the Infrastructure Concession and Regulatory Commission, established by an Act of Parliament in 2005) and processes for managing PPPs. However, NP4 does not clearly specify which agency is in charge (for example, in the “institutional framework” subsection, it mentions three agencies⁵⁹ and in Section 6 it lists more than eight agencies as “parties/stakeholders” in the PPP process) thus creating some uncertainty as to which agency, among the many cited, should effectively lead the country’s PPP agenda.

The role of the Ministry of Finance needs to be further clarified under the existing PPP framework. The key role of the Ministry of Finance, being the manager of the government's finances, is to ensure that PPPs provide value for money and are in line with fiscal priorities, while various entities can be the “gatekeeper” (for example, Ministry of Finance or PPP unit within the ministry, dedicated entity, and so on.). This gatekeeper role needs to be more clearly established in the Act and/or in implementing regulations. Although NP4 attempts to address this by assigning to the Ministry of Finance the role for evaluating fiscal risks, it is not clear how this function is to be discharged or how fiscal priorities are to be taken into consideration. Furthermore, the absence of a clear mandate with regard to the evaluation of value for money in specific PPP projects persists.

PPP preparation suffers from a lack of capacity in terms of skills and funding to create a PPP pipeline that is sufficiently anchored in the country's public investment management system. Overall, Nigeria only scores 27 (out of 100) according to the World Bank's PPP Procurement benchmarking (World Bank 2018c), scoring lower than the Sub-Saharan Africa average and LMICs. The Nigerian regulatory framework lacks the specific methodologies developed for various assessments, including the prioritization of projects, economic and risk analysis, value for money analysis, or environmental impact. Moreover, PPP preparation does not include a clear methodology for assessing affordability from a fiscal perspective. Despite recent capacity building efforts including through the World Bank Group PPP certification program, limited PPP capacity and experience within line ministries to identify and implement PPP projects, coupled with a lack of funding for the (rather expensive) project preparation phase for PPPs results in a low PPP pipeline, which extends to local sponsors. Going forward, it is essential that projects enter the PPP pipeline through a robust formal public investment management process with requisite approvals. It is also essential to ensure that projects do not arbitrarily leave the pipeline without adequate basis, and without an appropriate approval process, once they become part of the agreed and approved pipeline (World Bank Group 2019c).

The procurement framework for PPP operations is fundamentally sound. However, there are a few areas that need to be improved to enhance transparency. These areas include (a) the inclusion of a standstill clause in the PPP Policy and (b) the role of the Bureau of Public Procurement (BPP). Nigeria does not have a “standstill” safeguard in its PPP procurement framework that would allow unsuccessful bidders to challenge a contract award before the PPP contract signing and execution. In addition, public procurement in Nigeria is regulated by BPP through the Public Procurement Act (PPA) of 2007, Regulations and Manual. Procurement in PPPs is supposed to be carried out in accordance with PPA. Section 16(1) of PPA provides that no public procurement shall be conducted by a procuring entity until it has obtained a certificate of “No Objection” to a contract award from BPP. The bureau is responsible for monitoring every stage of the PPP procurement process to ensure consistency with PPA. The Infrastructure Concession and Regulatory Commission (ICRC) policy requires the ICRC Resource Center to work with BPP to develop an appropriate joint manual for PPP procurement processes. A PPP procurement manual was developed in 2017, but it appears to be in draft form and needs to be finalized.

Nigeria's low access to long-term domestic finance makes it difficult to advance the PPP agenda. Local currency markets need to be unlocked and access to international finance needs to be enhanced. Nigeria's banking sector holds assets worth US\$75 billion—a potential funding source of US\$7 billion to US\$8 billion for infrastructure projects and PPPs. But the banking sector has a low-risk appetite and a limited level of familiarity with the infrastructure sector and PPPs. Nigerian pension funds are a potential source of solid funding for PPPs, but their statutory framework caps investment in infrastructure at only 10 percent of their total assets (that is, US\$2.2 billion—with total assets of US\$22.5 billion). In addition, pensions funds are constrained by their lack of sophistication to assess individual infrastructure projects and they are constrained by their inability to take on construction risks. The shortage of long-tenor debt and high interest rates makes foreign currency debt a feasible alternative but brings along foreign exchange risks and potential contingent liabilities for the government.

The following solutions can be implemented to address these challenges:

- **Improve the institutional and regulatory framework:** given the shortcomings identified above, a new, comprehensive PPP bill in line with international best practice is needed to, among other things (a) state, as clearly as possible, the roles and responsibilities of each institution involved in the PPP process, including the key role to be played by the Ministry of Finance (as discussed above), taking into consideration the capacity and convening power of each institution; (b) appoint a dedicated lead institution to steer the PPP program effectively; (c) clearly address key PPP procurement issues; and (d) provide for, among others, “jurisdiction issues” (discussed above), which are dear to international investors. In addition, NP4 needs to better define what types of PPPs it covers and address the gaps that still remain,⁶⁰ among other things. Alternatively, or in addition to the policy, enabling regulations under a new PPP bill would need to be issued following international good practices, spelling out the key aspects of the bill and how implementation of those issues is to take place, and fully addressing the institutional setup issue, among others.
- **Support fiscal assessments:** (a) clarify roles and methodologies for the assessment of fiscal implication of PPPs and report those roles in a transparent manner by embedding them in a PPP framework; (b) assess the current stock of PPP liabilities; and (c) assess PPP fiscal implications against Nigeria's debt management strategy.
- **Develop a PPP pipeline:** carry out sector assessments to create a roadmap for mobilizing private finance and carry out project screening to create a robust pipeline of projects across target sectors (transport and power).
- **Increase PPP capacity:** (a) provide support to states and line ministries and set up a project preparation facility with adequate funding and technical assistance for project preparation in areas such as engineering, legal aspects, and financial structuring; and (b) create methodologies for project preparation (project level assessment and prioritization, risk analysis, etc.), and for standardized material specifically for project selection, PPP transaction advisory, and targeted capacity enhancement.
- **Better manage PPP contracts:** review regulations and guidelines to support systematic and robust project preparation, tender processes, and contract management.

- Alleviate financial constraints: leverage the capital markets (see box 3.1) and InfraCredit (which helps raise long-tenor local capital for infrastructure projects, including from pension funds, insurance firms, or other long-term investors), and explore the role of the National Infrastructure Facility of the Nigeria Sovereign Investment Authority.

BOX 3.1 RAISING LONG-TERM FINANCING: THE LIMITED ROLE OF NIGERIA'S CAPITAL MARKETS

The Nigerian Stock Exchange (NSE) is the second largest market in Africa after South Africa. The bond market is also one of the most developed in Sub-Saharan Africa after the Johannesburg Stock Exchange (JSE) with a fully developed benchmark yield curve and a fairly liquid secondary market for trading debt securities. In addition to issuance and trading of the traditional equities and bonds, the NSE recently introduced new products including real estate investment trusts (REITS), exchange traded products (ETPs), green bonds, infrastructure bonds, sukuk bonds, diaspora bonds, and retail bonds.

The World Bank Group supported capital market development in Nigeria through the Efficient Securities Markets Institutional Development (ESMID) Program from 2009 to 2013. Although significant progress was made under the program, the market remains limited. Given the size of Nigeria's economy and the large number of eligible firms that can raise financing through the NSE, the market is underserving the private sector with less than 170 firms listed, compared with more than 900 firms listed in Malaysia, and more than 350 firms listed in South Africa. Total market capitalization in June 2019 was about US\$70 billion (or 19.5 percent of GDP) with the equity market accounting for only

about 9 percent of GDP—well below Malaysia's 112.3 percent and South Africa's 236.6 percent. New listings of initial public offerings and corporate bonds are scarce on the NSE. Large private sector enterprises are reluctant to list equity on the stock exchange—many of them cite an unwillingness to dilute ownership, stringent disclosure and compliance requirements, and costs of issuance as the deterrents. Over the past five years, new capital raised on the market has been dominated by federal government of Nigeria bonds. In addition, institutional investors (for example, pension fund administrators) have heavily invested (with more than 70 percent of their funds) in federal government of Nigeria securities at the expense of corporate bonds and equities even though their investment in infrastructure has grown since 2013, but still remains very limited (₦18 billion in 2018).

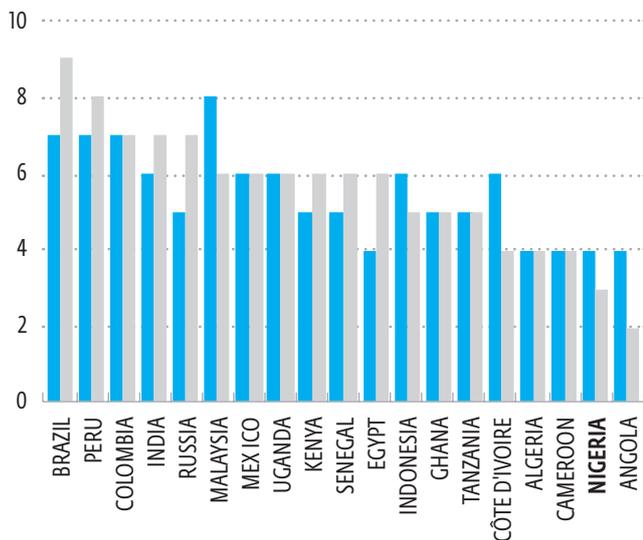
In 2015, the Securities and Exchange Commission launched a 10-year Capital Market Master Plan that sets out strategies to prioritize investor education, including developing a commodities exchange, product diversification, and tax incentives to make capital markets more attractive to investors. Although some of those activities are being implemented, several have yet to be.

3.3 OTHER CONSTRAINTS

Inefficient Anti-Monopoly and Competition Policies

Nigeria’s fundamental conditions to support a market-based economy in which markets reward competitive businesses fall far short, compared with peer countries.⁶¹ Nigeria’s market-based competition policy and anti-monopoly policy are weak, according to the Bertelsmann Stiftung’s Transformation Index (BTI) (figure 3.6)—only Angola performs below Nigeria in terms of anti-monopoly policy. In addition, businesses perceive competition-related business risks in Nigeria to be relatively high compared with peers; vested interests and cronyism are the most prominent risk components according to the Economist Intelligence Unit 2018 survey (figure 3.7).

FIGURE 3.6 NIGERIA’S SCORE VERSUS PEERS’ SCORES ON MARKET-BASED COMPETITION AND ANTI-MONOPOLY POLICY

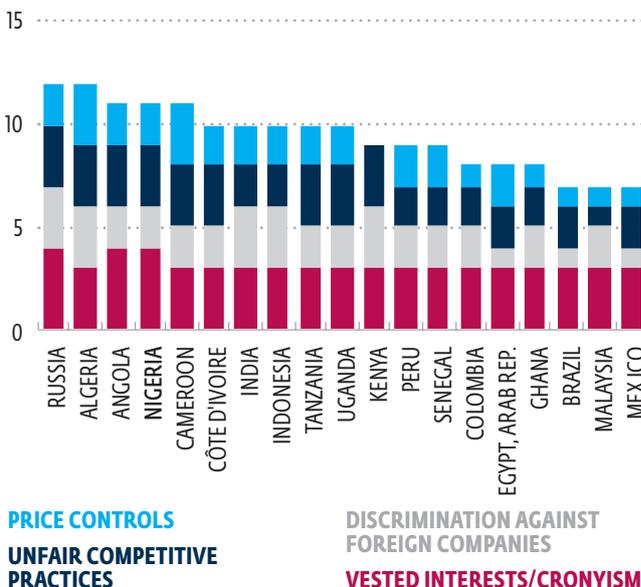


MARKET-BASED COMPETITION ANTI-MONOPOLY POLICY

Source: The 2018 Bertelsmann Stiftung’s Transformation Index (BTI).

Note: The BTI is a perception indicator based on in-depth assessments of countries; a lower score is worse.

FIGURE 3.7 NIGERIA’S SCORE VERSUS PEERS’ ON PERCEIVED BUSINESS RISKS RELATED TO WEAK COMPETITION POLICIES



Source: Economist Intelligence Unit 2018 survey.

Note: Highest risk per area = 4; maximum total level of risk = 16; a higher score is worse.

A high degree of concentration across many key markets in Nigeria reflects the existence of government interventions that hinder competition. Provisions in the law governing the corporate sector (Companies and Allied Matters Act 1990) contain restrictions on foreign companies that enter the market without first incorporating a Nigerian company. Regulatory obstacles to competition exist in various sectors like agribusiness (seed and fertilizers), manufacturing (PET, cement), and ICT (digital and financial services). See the appendixes for a summary of key competition restrictions in various sectors that are detrimental to the private sector’s ability to enter, expand, and compete in these markets. The restrictions outlined here are largely *de jure* or “on the

books.” However, de facto advantages (through advantageous access to licenses, public procurement contracts, or tax breaks) that are provided to some politically connected firms also shape the competitive landscape in Nigeria. For example, in cement, some players have reportedly received de facto exclusive or advantageous import rights and were given favorable access to government assets during the privatizations around 2000 (Cocks 2012).

Larger players seem to exercise significant influence over industrial, trade, and investment policies, which places them at an advantage over those that do not have the same level of access to government. The Nigeria Industrial Policy and Competitiveness Advisory Council (NIPCAC),⁶² for example, plays a key role in advocating for protections and incentives for industry. Both the NIPCAC and the standard setting process are mostly driven by larger players that have influenced policies to favor incumbents. The Standards Organization of Nigeria is aware of this issue and is attempting to increase inputs from a broader range of smaller firms and stakeholders.

State aid to firms—such as subsidized financing and investment incentives—is designed in a way that targets politically connected or large players, or the sectors in which these firms play. Potential distortions to the level playing field are not explicitly considered in incentive design. “Special incentives” are available for strategic or major investors and are negotiated case-by-case (Nigerian Investment Promotion Commission and Federal Inland Revenue System 2017) and are not publicly available. The Pioneer Status Incentive (PSI)⁶³ has seen reports of abuse and double-dipping by firms, which recently has led to the restructuring of the plan to improve transparency. However, complaints that the plan excludes certain firms remain. For example, the minimum tangible assets required for eligibility have been raised significantly (to ₦100 million or around US\$280,000), putting SMEs and technology companies that typically have more intangible assets at a disadvantage.⁶⁴ The various and overlapping investment incentive programs in place (U.S. Bureau of Economics and Business Affairs 2018) contribute to distortions in competition.

Nigeria’s concentrated markets and the lack of pro-competition government interventions increase the risk of anticompetitive firm behavior (such as abuse of dominance and cartels); but the passage of Competition Act 2019 provides an opportunity to develop a functional framework to tackle such behavior. Successful implementation of the Competition Act will depend on the new Federal Commission for Consumer Protection and Competition (FCCPC) being able to operate independently of political influence and it having enough resources. In particular, the FCCPC requires adequate staff and the necessary secondary legislation and guidelines to carry out its mandate. For example, the FCCPC has been given the role of approving mergers and acquisitions transactions (previously carried out by the Securities and Exchange Commission) but currently it lacks the regulations, resources, and capacity to fulfill this role. Further, secondary legislation and capacity is needed to combat anticompetitive behavior effectively (for example, the ability to conduct raids, to summon parties, to enter into settlements, and to implement a leniency policy). Finally, it is important that FCCPC remains independent of the Federal Ministry of Industry, Trade, and Investment, for example, through safeguards against political appointees being placed in decision-making positions.

In addition, clarifying areas of the legal framework will be important to ensure a competitive regime. For example, exemptions from the law for the professional services should be removed. Provisions for price regulations in the law could be removed or their use limited to specific situations with a clear rationale. Also, the FCCPC will need to define how public interest provisions (for example, employment considerations) will be used to prevent them reducing the law’s effectiveness. In addition, it will be necessary to harmonize PPA and the Competition Act (for example, unlike the Competition Act, PPA expressly excludes public officers from application of collusion and bid rigging offenses) and to ensure cooperation between the agencies to prevent anticompetitive practices in public procurement. The FCCPC also will need to manage its concurrent jurisdiction with regulators of sectors such as telecommunications and aviation.

Removing restrictions to competition in Nigeria’s key markets could create new markets, and boost growth and welfare. Available retail price data for 41 food items provide preliminary evidence that retail prices are generally higher in Lagos than in other major cities in the rest of the world even when controlling for GDP per capita, import costs, the status of logistics, and local tax rates. This data potentially reflects weak competition in those product markets. Prices of staple goods are, on average, 15 percent higher than in other economies around the world even after controlling for these factors.⁶⁵ Boosting competition in those goods markets could provide more affordable access by low-income households and could boost welfare. At the same time, tackling restrictive product market regulations in key input sectors in Nigeria is likely to have positive impacts on productivity of downstream firms and overall growth in the economy. For example, tackling restrictive regulations in Nigeria’s professional services sectors alone could result in an increase in GDP growth by at least 0.2 percentage points (World Bank Group 2016a). The impact would be even larger if reforms were implemented in other service sectors with higher spillover across the economy, such as electricity, telecommunications, and transport.

Ongoing Violence and Insecurity

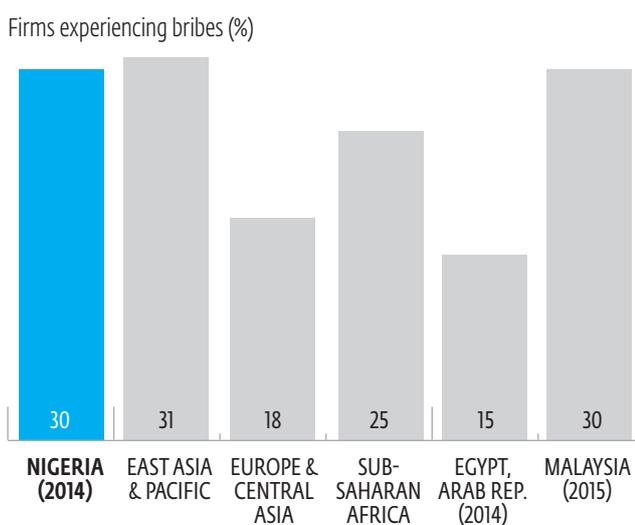
Ongoing conflicts and violence across the country are making it difficult to encourage private sector investment and achieve inclusive and sustainable growth. Because of ongoing conflicts such as the Boko Haram insurgency in the North-East, the herder-farmer clashes in the Middle-Belt and parts of the South-West, and militancy in the Niger Delta, Nigeria ranks 14th out of 178 countries on the Most Fragile States Index 2019⁶⁶—ahead of countries like Libya (28th) and Liberia (30th)—and it is now on the World Bank Group’s list of countries in fragile and conflict-affected situations for 2020.⁶⁷ Conflicts limit opportunities for private investment, gainful employment, and infrastructure development. Several private sector players in agribusiness and mining sectors, especially those in the North, point to rising insecurity as the main threat to their enterprises. According to the United Nations High Commissioner for Refugees, the Boko Haram insurgency has displaced more than 2 million people within Nigeria, while thousands of MSMEs have either relocated or closed. The herder-farmer crisis claimed 528 lives in the first quarter of 2018 alone.⁶⁸ Citizens in these conflict-affected areas have been unable to access basic services. Between January 2016 and October 2018, Nigeria lost US\$7 billion to the activities of militancy groups and oil pipeline

vandals in the Niger Delta region, according to the Nigeria National Petroleum Corporation. The cost of military interventions is immense and constitutes a huge drain on the limited resources of the nation and crowds out productive investment in infrastructure and human capital necessary for private sector growth. An average 10.5 percent of the national budget was allocated to defense between 2008 and 2018. Meanwhile, the health care budget for 2018 was 3.9 percent of the total. The World Bank Group Systematic Country Diagnostic (2019b) offers insights into how Nigeria can rebuild its social compact to address the conflict and violence including increasing government accountability and citizen engagement and addressing the needs of those affected by the conflict.

Corruption

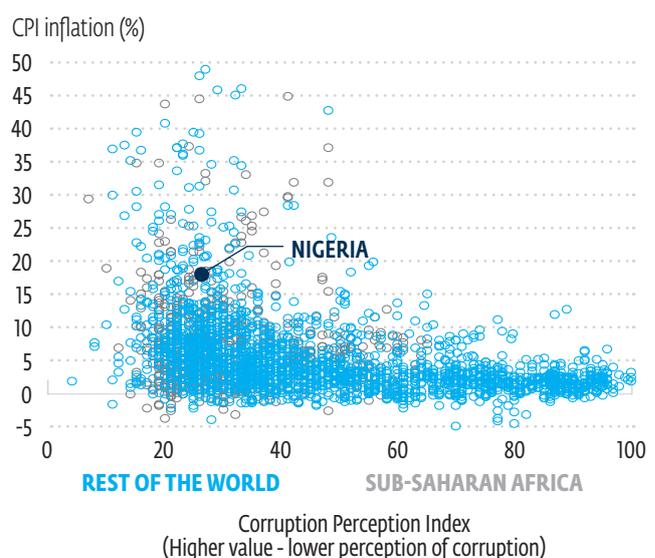
Corruption, poor transparency, and weak government accountability constrain private sector development. Nigeria faces significant corruption challenges and it is ranked 144th out of 180 countries on Transparency International's Corruption Perception Index 2018. About 30 percent of firms report experiencing at least one request for bribe payment—higher than the 25 percent average for Sub-Saharan Africa (figure 3.8). Corruption hinders achieving value for money in public service delivery and investment and it distorts the Nigerian private market, which introduces inefficiencies and prevents fair competition. Corruption creates a tax on investment⁶⁹ that leads to lower investment levels. Additionally, the costs associated with corruption can be passed on to consumers, which results in inflation (figure 3.9). The International Monetary Fund estimates that tackling corruption could lead to an increase of cross-country real GDP growth of 0.5 to 1.5 percentage points, a tax revenue-to-GDP ratio of 1.5 percentage points, and a 12 percent return for each dollar spent on public investment.

FIGURE 3.8 SHARE OF FIRMS EXPERIENCING BRIBES



Sources: World Bank Enterprise Survey 2014 (2015) and International Monetary Fund 2018.

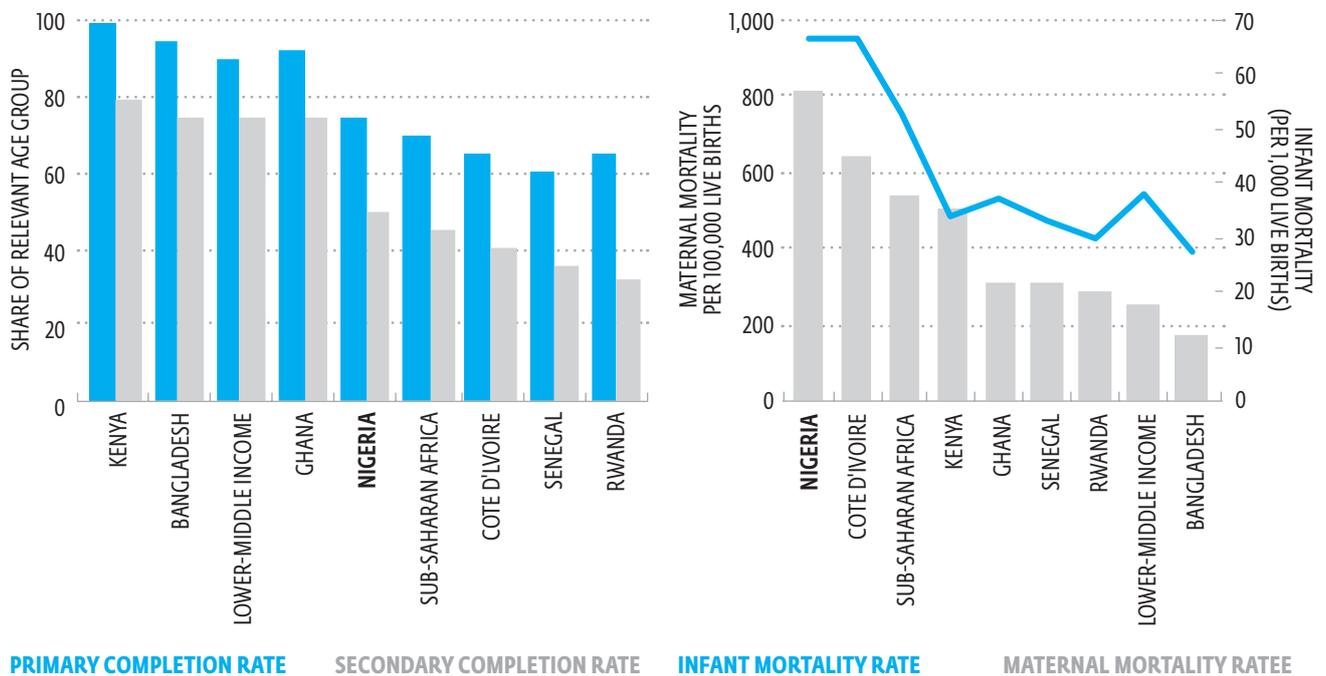
FIGURE 3.9 INFLATION AND CORRUPTION PERCEPTION INDEX



Several factors undermine the government’s efforts at tackling corruption. Many institutions—including the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), the Code of Conduct Bureau (CCB), the judiciary, the police and other para-military organizations such as Customs and Excise—are involved in the fight against corruption, in addition to the government joining the Open Government Initiative (OGI) in 2016. These agencies, however, face major challenges: (a) lack of a Special Court (except for the CCB); (b) lack of an Assets Forfeiture Law, which would allow EFCC to seize the assets of suspects of corruption and financial crimes so that they cannot influence the results of lawsuits before the courts convict them; (c) inadequate training of personnel; (d) outdated laws (the Evidence Act in use in Nigeria dates back to 1945, and the Penal and Criminal Codes are more than 50 years old); (e) uncooperative foreign countries; (f) undue publicity of high-profile cases by the media, which distracts EFCC, ICPC, and CCB prosecution; (g) hasty investigations; and (h) lack of strong exhibits despite the fact that the burden of proof lies with the prosecutor. In addition, automated and digitized processes and services—which decrease human intervention and promote transparency—are lacking. The World Bank Systematic Country Diagnostic (World Bank 2019b) suggests that addressing corruption will involve a more effective rolling out of the Open Government Initiative to states and local government areas, and the deployment of digital technology to government processes and procedures.

Poor Human Capital

Nigeria’s poor human capital outcomes adversely affect labor quality, productivity, and economic growth. About 73 percent of the workforce has completed primary education (with lower completion rates for women), well below Kenya, Ghana, and the average for LMICs (91 percent) (figure 3.10). Approximately 10 million children do not attend school; more than 90 percent of these children live in the North and according to UNICEF (2019), about 60 percent of out-of-school children are girls. Health conditions are also poor: two out of every five children under five years of age (44 percent) suffer from chronic malnutrition, among the highest in the world. Mortality rates in Nigeria are high; the under-five mortality rate was 107 per 1,000 live births in 2017. Nigeria is projected to overtake India in 2021 as the country with the most under-five deaths in the world. The following sections discuss several educational and health issues that negatively affect Nigeria’s human capital.

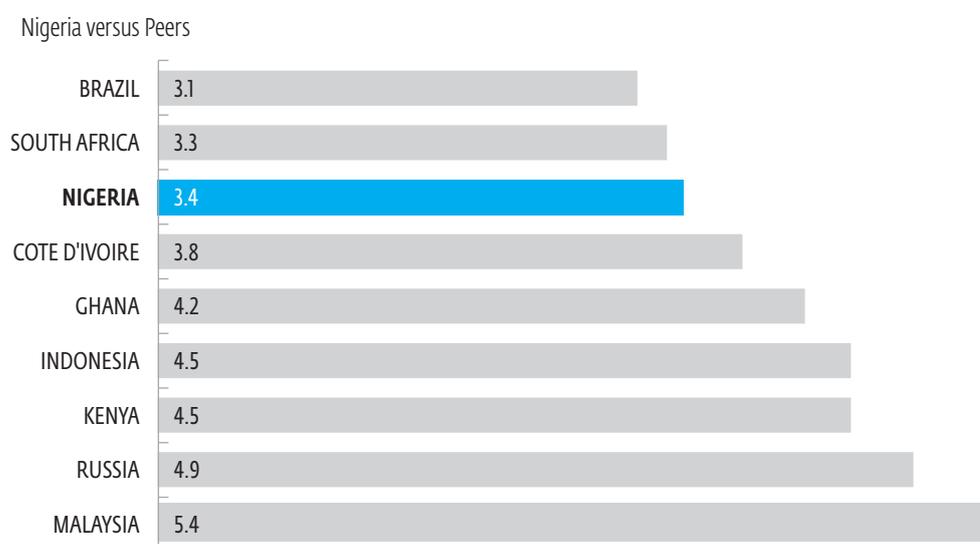
FIGURE 3.10 NIGERIA'S POOR HUMAN CAPITAL OUTCOMES, 2015

Source: World Development Indicators database.

Inadequate Skills and Education for Private Sector Jobs

Despite Nigeria's large population, there are not enough qualified workers for private sector jobs because many Nigerians lack the requisite skill sets and education. Adult literacy rates in Nigeria are low—only 62 percent of Nigerian adults can read or write, compared with 96 percent of Indonesian adults, 93 percent of Malaysian adults, and 79 percent of Ghanaians. Government expenditure on education—about 7.3 percent of total government expenditure in 2017—is the lowest compared with peers like Malaysia (21 percent), Ghana (20.1 percent), South Africa (18.7 percent), and Côte d'Ivoire (18.6 percent). The private sector is severely constrained by this uneducated and unqualified workforce. The agricultural sector has been plagued by a shortage of skilled workers because of high levels of migration from rural areas, while a shortage of qualified geologists, engineers, and technicians has affected the mining sector. Currently, there is only one tertiary institution that offers degrees in mining engineering and only one private institution (Laser Petroleum Geoscience) that provides training in automation and equipment operation. Nigeria lacks requisite skills for ICT (see figure 3.11), which not only hampers the growth of digital firms but also limits the extent to which the economy can deploy digital technologies to drive productivity and growth.

FIGURE 3.11 DIGITAL SKILLS AMONG POPULATION (1 –7 BEST):



Source: World Economic Forum Global Competitiveness Index 2019.

To fill these gaps, Nigeria should invest more in technical and vocational learning and encourage stronger partnerships between the private sector and technical colleges to ensure the relevant skills are developed. More funding and equipment are needed for current government technical colleges. In addition, partnerships between educational institutions and the private sector could ensure that the curriculum is relevant to present and future needs and provide an avenue for graduates to acquire hands-on training through internships and apprenticeships. In this regard, the Industrial Training Fund would be more effective with greater participation by the private sector. Equally important is broadening the scope of the National Skills Qualification Framework (NSQF). NSQF was developed in 2013 to ensure that training programs are responsive to the qualifications and competences needed in the labor market. The plan calls for the creation of Sector Skills Councils (SSCs), which are made up of both public and private representatives that are tasked with ensuring that skills development programs align with the competences required by industry. A few SSCs are now functional, however, more are needed to broaden the plan to include all sectors.

Weak Health Outcomes

The government’s low expenditure on health over the past two decades has limited the expansion of highly cost-effective interventions, stunting health outcomes and exposing a large share of the population to catastrophic health expenditures. Nigeria spends less on health than most of its peers. In 2016, government health expenditure was 0.6 percent of GDP versus 4 percent in South Africa and 2 percent in Côte d’Ivoire and Ghana. In the same year, per capita health expenditure was US\$213.70 in Nigeria, compared with US\$362.70 in Indonesia, US\$1,052.50 in Malaysia, and US\$1,071.35 in South Africa. Not surprisingly, Nigeria significantly underperforms on

key health outcomes, lagging peers on key maternal, nutrition, and child health service indicators. The COVID-19 pandemic will further test the system and its ability to minimize the spread of and fatality from the highly contagious virus. As Nigeria moves its health system toward Universal Health Coverage, policy makers must identify and ensure appropriate roles for private providers and health markets. Doing so will require the implementation of a deliberate policy and a strategic framework, a mutual understanding of the benefits of private sector engagement, and the capability to tailor solutions to local environments.

Key constraints to private sector participation in the health sector need to be addressed. These constraints include weak risk pooling mechanisms, the lack of enforceable quality standards, inadequate supply of health workers, the lack of affordable private financing, and a poorly regulated system. A fully funded Basic Health Care Provision Fund with prioritized implementation in rural local government areas and with the National Health Interview Survey gateway that includes accredited public and private providers to deliver the basic minimum package of health services will incentivize private investors to invest in the sector. PPPs can play an important role in the sector; however, additional resources will be needed for PPP transaction advisory services because many of the tasks required for the implementation of PPPs are cost and transaction intensive as well as highly specialized.

Poor Access to Land Because of Inefficient Land Administration

Land administration in Nigeria is ambiguous and not uniform, complicating the land tenure system and undermining land-based investments. Two pieces of legislation govern the use and development of land: (a) the Land Use Act (LUA) of 1978, which is incorporated into the 1999 constitution, governs land ownership rights and transactions; and, (b) the Urban and Regional Planning Act, Decree No. 88 of 1992, which provides a framework for land management. Despite the adoption of LUA about 40 years ago, the necessary regulations to further guide states and guarantee consistency in implementation of the law have not been enacted.⁷⁰ Additionally, customary and religious land practices coexist with these statutory land laws, which results in confusing land administration frameworks. A vibrant informal land market exists: “probably more than 70 percent of land transactions are informal mainly because land transfers require consent of the governor for a fee” (Butler 2012). The informality of land markets hinders states’ collection of revenue, precludes development of a modern cadaster and registration system, hinders land use planning efforts, limits access to finance, and undermines security of tenure. In this environment, the private sector faces significant hurdles in identifying land for investment, with uncertainty around ownership, and conflicts ensue before investments begin. Furthermore, without geographic systems and the data contained therein, investors and the state are unable to determine the best-suited locations for investment. Since the enactment of the LUA, many states have taken land for public and private development purposes, but few states have mapped the location of those parcels. This creates significant challenges for responsible investment in agriculture, housing, and industry (USAID 2016).⁷¹ The government of Nigeria needs to accelerate the implementation of systematic land titling and registration, focusing on areas in which investments are pending or likely.

However, even in the absence of legal reforms, new approaches can be (and have been) piloted to facilitate land acquisition for investments. For example, state governments, private investors, and local communities have created “tripartite” agreements to facilitate inclusive partnerships in key states. Some states have adopted innovative approaches that conform with international standards and good practices for responsible and inclusive land-based investments. Innovative instruments such as the Land Acquisition and Resettlement Framework (LARF), and the Framework for Responsible and Inclusive Land-Intensive Agriculture (FRILIA) have been considered or adopted by states such as Kaduna, Jigawa, and Ogun (see box 3.2). Although not fully implemented, these frameworks could provide more effective strategies for promoting private investment that better meet economic and social objectives, reduce conflict, and are more sustainable and inclusive for all Nigerians. Both LARF and FRILIA need strong political and financial support if they are to move beyond being expressions of intent to being rolled out more widely and with proper monitoring and supervision to ensure the best outcomes for all.

BOX 3.2 INNOVATIONS FOR BETTER LARGE-SCALE LAND INVESTMENT: FRILIA AND LARF

Among the more interesting innovations to address land-based investment challenges is Kaduna State’s adoption of the Framework for Responsible and Inclusive Land-Intensive Agriculture (FRILIA). The first of their kind in Nigeria, these principles are meant to guide the state’s efforts at attracting investments in agriculture that are inclusive and that ensure shared benefits among investors and the communities living in and around the site of an investment. More specifically, the principles are intended to help the government improve its regulatory and institutional systems in a manner that ensures balanced efforts at aggressively attracting private investors in the agricultural sector and minimizing environmental and social impacts.

FRILIA consists of 33 principles, including nine “overarching” principles, 15 principles related to land acquisition and resettlement, and nine principles related to environmental and social sustainability. The principles are derived from two internationally negotiated agreements on responsible land-based investments: (1) the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security; and (2) the United Nations Committee on World Food Security’s Principles for Responsible Investment in Agriculture and Food Systems.

Jigawa State adopted the Land Acquisition and Resettlement Framework (LARF) in April 2018. The framework provides principles and processes to govern investment approval and the state’s acquisition of land, including organizational and institutional delivery mechanisms; land identification

and acquisition, and payment of compensation to and restoration of livelihoods for affected populations; grievance redress mechanisms; resettlement; livelihoods restoration; identification and support to vulnerable households; and, monitoring and evaluation.

LARF is based on Nigeria’s Land Use Act, Jigawa State’s Fast Track Procedure for Allocation of Land to Investors, and the international Principles for Responsible Agricultural Investment. LARF takes substantial steps toward ensuring responsible investments by emphasizing the state acquisition of land with full compensation and resettlement requirements. However, there is room for improvement, particularly in terms of the absence of inclusive investment provisions.

With the adoption of LARF and its systematic land title registration (SLTR) pilot, Jigawa State appears to be moving toward a more sustainable revenue model, partly based on taxation and returns on large-scale investments. Such a model will allow the state to support its land governance system over the long term while simultaneously enhancing food security, reducing conflict, and promoting economic development.

Both LARF and FRILIA are important steps forward toward alternative, inclusive investment approaches that more closely comport with international standards and guidance. However, more work is needed to fully develop and test these innovations, improve and strengthen principles of inclusion, and apply them in a real-world example.

4. IDENTIFYING SECTOR OPPORTUNITIES

The agriculture/agribusiness, manufacturing, mining and quarrying, and ICT sectors present the greatest potential for driving economic diversity, growth, and job creation in Nigeria. Investments in the agriculture/agribusiness, mining and quarrying, ICT, and tourism sectors generate the largest impacts on GDP (table 4.1). Even with potential productivity gains, the job creation potential is greatest in agriculture/agribusiness, especially for women, who currently account for more than 60 percent of the sector's labor force.⁷² The manufacturing sector contributes both to GDP and job creation with a comparatively high labor intensity. Although the mining and quarrying sector has very low labor intensity, an estimated 2 to 4 million of informal mining workers should be weighed against the sector's significant economic potential. The tourism sector's labor intensity of 1.62 signals significant job creation potential; however, the lack of critical infrastructure and security issues have limited the growth of the sector (less than 1 percent of GDP).

TABLE 4.1 GDP AND LABOR INTENSITY OF SECTORS

SECTOR	SHARE OF GDP (%)	SHARE OF EMPLOYMENT (%)	GDP MULTIPLIERS	LABOR INTENSITY
Agribusiness	24.44	48.19	0.97	1.97
Mining and quarrying	11.17	0.17	0.98	0.02
Manufacturing	8.55	6.98	0.87	0.82
Tourism (hospitality, food)	0.84	1.36	0.98	1.62
ICT	8.69	0.55	0.92	0.06

Source: National Bureau of Statistics (2017b); IFC calculations.

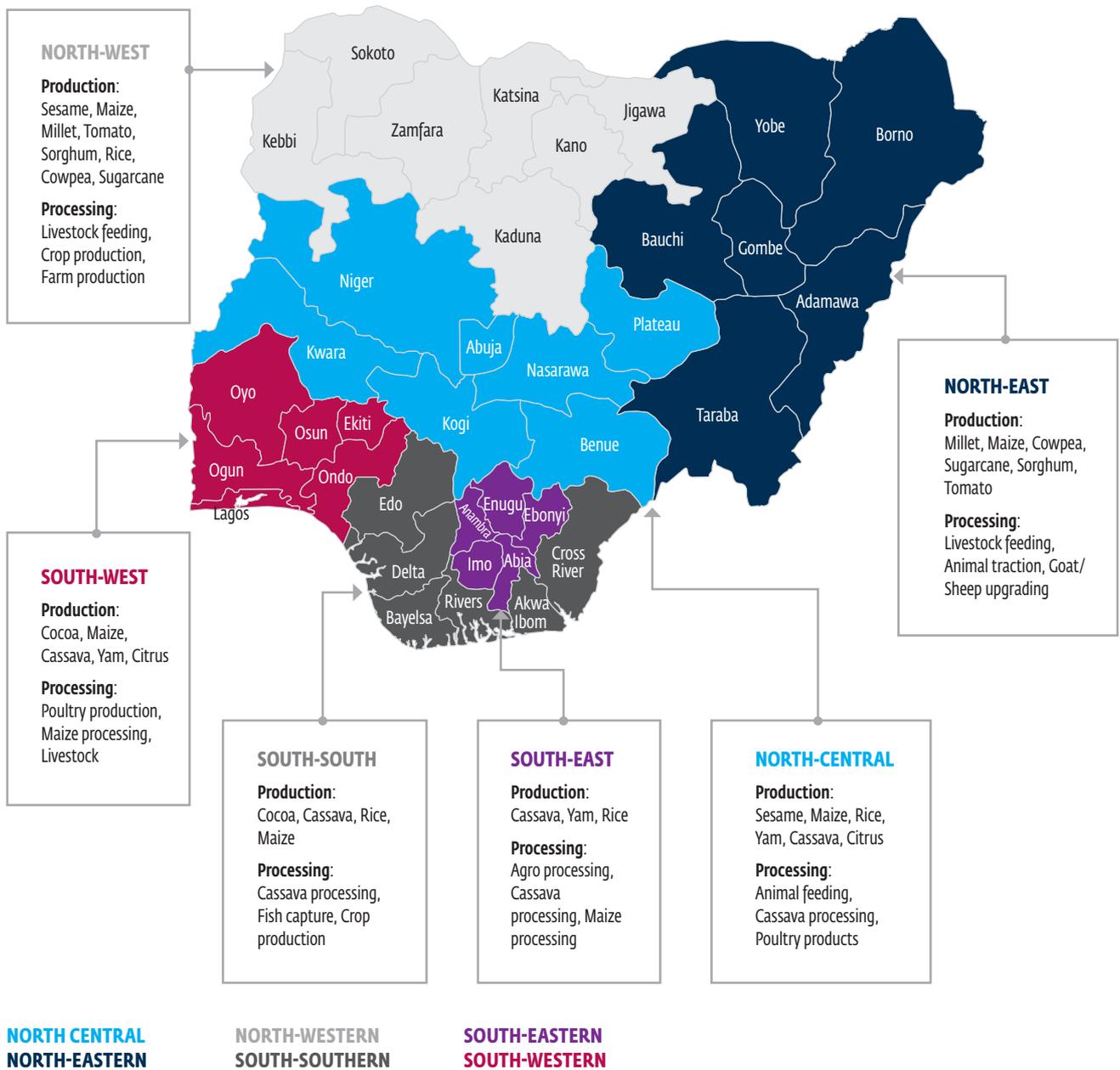
Agriculture/agribusiness, manufacturing, and mining and quarrying are also the sectors in which Nigeria has revealed comparative advantage (RCA) and production capabilities. Specifically, the top 20 products by revealed comparative advantage include petroleum products; agricultural products, such as cocoa, oil seeds, and spices; leather and raw hides; metals, such as lead and ores of base metals; and chemical products, including fertilizer and cement (see appendixes). Production capabilities or comparative ease of market entry is highest for fuels, agriculture, chemicals, metals, and hides and skin products (see appendixes). These products are also identified as having untapped potential by the International Trade Center.⁷³ In its export potential map, of the top 20 products identified, nine are agribusiness products, eight are hides and skin or other leather products, two are chemicals, and one is a mining product. The top five products include cocoa beans and sesame seeds, and the skins of sheep and lambs.

Finally, agribusiness, manufacturing, in particular leather, and mining were also found to have the largest national reach. The agribusiness and mining sectors cover a vast majority of Nigerian states, with significant presence in the northern part of the country. Likewise, the leather sector spans both the southern and northern regions of the country.

4.1 AGRIBUSINESS

Agribusiness can be transformative for Nigeria if the country can leverage its agricultural endowments efficiently. Nigeria's agricultural sector reached a value of US\$78.3 billion in 2017. Nigeria has 82 million hectares of arable land, out of which 34.4 million hectares (42 percent) are currently under cultivation. In addition, it has an abundance of water resources consisting of large bodies of surface water (268 billion cubic meters); underground water (58 billion cubic meters); and an extensive coastline, coupled with rainfall, which is in the range of 300–4,000 millimeters per year. Abundant rainfall—from 1,580 millimeters to 2,900 millimeters—means the country has 279 billion cubic meters of surface water and untapped irrigation potential with three of the eight major river systems in Africa, providing excellent agroclimatic conditions that allow the cultivation of a wide range of agricultural products across the various regions of the country (figure 4.1). However, Nigeria has not used these resources efficiently. For instance, the proportion of arable land in Nigeria—about 37.3 percent of total land area—exceeds those of peers like Ghana (20.7 percent), Côte d'Ivoire (9.1 percent), Kenya (10.2 percent), Indonesia (31.5 percent), and Malaysia (26.3 percent), according to the most recent United Nations Food and Agriculture Organization (FAO) data.⁷⁴ Meanwhile, Nigeria's crop yields are lower than those of all these peers⁷⁵—evidence of the Dutch disease that has plagued the economy since the discovery of crude oil.

FIGURE 4.1 OPPORTUNITIES FOR AGRIBUSINESS ACROSS NIGERIA



Source: Euromonitor International 2018a.

Several crops offer significant opportunities for private investment based on value addition and intensity of processing, growth and job creation potential, and local and international market potential. These crops include cassava, citrus, cocoa, sesame, sugarcane, and tomato⁷⁶ and they provide the following opportunities:

- *Vast opportunities for adding value through additional processing and transformation within Nigeria can produce higher returns.* For example, FAO estimates that Nigeria's current levels of processed cocoa products (including cocoa butter, cocoa paste, and cocoa powder) account for only 18 percent of total cocoa exports (in volume terms), compared to competitors like Malaysia (86 percent) and Brazil (99 percent). At these low levels of processing, there is significant potential for businesses in the cocoa industry to add value. Nigeria's sesame seeds are also largely exported with very little processing despite the high value of sesame oil in international markets. Cassava is a versatile product, with derivatives being used for alcohol, animal feed, flour, fuel (ethanol), starch, sweeteners, and more. However, about 76 percent of domestic output currently processed in Nigeria⁷⁷ is for local food products like gari and fufu. The rest is processed into starch and products for animal feed, like cassava chips and pellets. Likewise, citrus and tomato production is focused predominantly on household consumption (85 percent and 65 percent, respectively). The rest is wasted. Similarly, data from FAO show that processing accounted for 38 percent of the country's sugarcane output in 2017, while 3 percent was consumed by households, 2 percent was used by farmers as seeds for the next planting season, and 57 percent was wasted. Because Nigeria imports more than US\$600 million of sugar and related products every year, there is tremendous potential for companies that can turn wasted sugarcane into sugar and other useful products.
- *Potential for significant multiplier effects on employment and wealth generation.* An assessment of the employment and wealth creation potential of cocoa and citrus fruits indicates higher labor-intensity compared with other crops like maize and sorghum. For instance, every ton of cocoa butter requires at least 10 workers to process. Labor usage for citrus crops (defined as the number of workers employed per planted hectare) is much higher than for maize crops.⁷⁸ Cash crops like citrus, cocoa, and sesame also provide cash incomes, thus increasing the levels of disposable income for Nigeria's poorest households and helping to improve food security.
- *Opportunities for exports.* Cocoa beans and sesame seeds are already two of Nigeria's top non-oil exports (representing 17 percent and 16 percent of non-oil exports, respectively, in 2017), and with further support could help Nigeria achieve its objective of export diversification. The cocoa market is also heavily focused on export activity, with total exports representing about 96 percent of the country's total cocoa output in 2017. Growing global demand for sesame seeds—underpinned by its positioning as a healthy product in Asian and European Union markets—presents export growth opportunities. Nigeria is the world's largest cassava producer—Nigeria is responsible for 36 percent of Africa's production of the plant and nearly 20 percent of the world's total cassava production (FAO 2018). Ethanol (from cassava) and other by-products also present strong export potential that is yet to be fully exploited. Nigeria already exports cassava chips to China for use in animal feeds and pharmaceuticals, although these exports have not progressed significantly.

TABLE 4.2 PRODUCTION LEVELS

CROP	2012		2017	
	Production levels (metric ton)	Share of global output (%)	Production levels (metric ton)	Share of global output (%)
Cassava	51 million	18.4	59.5 million	20.4
Cocoa beans	383,000	8.3	328,263	6.3
Citrus (nes)	3.9 million	n/a	4.1 million	n/a
Sesame seed	994,800	18.4	550,000	10
Tomatoes	2 million	1.3	4.1million	2.3
Sugarcane	1.1 million	0.06	1.5 million	0.08

Source: FAO 2018.

Note: For citrus, data on global output is not aggregated, nes = not elsewhere specified.

- *Opportunities for the North.* The northern region has a comparative advantage in the production of four of the six crops—namely, citrus, sesame, sugarcane, and tomato—given suitable climatic and soil conditions. The north central region produced 53.7 percent of total sesame output in 2017, followed by the north west (33.9 percent) and north east regions (10.7 percent). The northern regions are also the most important production and trade hubs for tomatoes, accounting for 85.7 percent, and for sugarcane and citrus, accounting for 95 percent and two-thirds of their production, respectively. The development of these four value chains would help support the development of the northern parts of Nigeria.
- *Opportunities for high rates of return on investment.* Cost structure analyses reveal that investors across the value chain would make positive returns (and in most cases above the risk-free rate of 15 to 16 percent) under current production and market conditions (table 4.3). These profits could be greatly enhanced with improvements in production and processing technology, reduction in transport costs, and access to export markets.

TABLE 4.3 PROFITABILITY OF AGRIBUSINESS VALUE CHAINS

CROP	FARMERS (%)	MIDDLEMEN/ PROCESSORS (%)	PROCESSORS/ EXPORTERS (%)
Cocoa	49–55 ^a up to 61 ^b	13–14 ^c 15–20 ^d	15–35
Cassava	30–39	5.1–11.3	48–50 ^e
Tomatoes	25–52 ^f	18–29	N/A
Sugarcane	18–20 ^g up to 31	16–17	N/A
Sesame	6–28 ^h 3 ^g –45 ⁱ	7–16	15–17 ^j up to 45 ^k
Citrus	20–40 ^l	2–3 ^m 18–19 ⁿ	Up to 1.5 times domestic

Source: Euromonitor International 2018a.

a. Selling directly to middlemen. b. Selling directly to processors. c. Selling to domestic market. d. Selling to exporters. e. This depends on large volumes of production. f. Depending on whether sales are to domestic retailers, middlemen, or processors. g. Sales to domestic retailers and middlemen. h. Depending on whether sold raw, cleaned, or dehulled. i. If sold directly to processors. j. Sold as raw seeds. k. Oil production and exporting. l. Depending on whether sales are directly to market or to processors. m. Sales to the domestic market. n. Sales to processors.

However, the agribusiness sector is plagued by a range of deficiencies and challenges, which limit productivity across value chains. Many of these challenges (including limited skills, inefficient land administration systems with weak property rights and title issues, lack of access to affordable finance for agriculture, infrastructure gaps, and an unpredictable policy environment) have already been discussed in preceding sections of this report. The specific sector constraints include the insufficient availability to farmers of improved inputs (seeds, fertilizers, and modern cultivation technologies) and a dearth of market information. The World Bank’s 2019 Doing Business of Agriculture report ranked Nigeria’s agribusiness ecosystem 71st out of 101 countries (behind peers South Africa, Côte D’Ivoire, and Malaysia) on the basis of inadequate policies and legislative frameworks for seed, fertilizer, farm machinery, financing, markets, transport, water, and ICT. Conflict and variability in climate (including frequent droughts and floods) are leading to rising uncertainties in rain-fed agriculture.

Business models based on smallholder farmers are providing a way to address these challenges, and are presenting opportunities for creating jobs and reducing poverty, especially in the North. Community-based farming is becoming prominent, especially in security-challenged states in the northern part of Nigeria. Enterprises such as Inter-products (based in Kano State but operating in Borno, Jigawa, Niger, and so on) and Alluvial (see box 4.1) are practicing community block farming—a

scalable and innovative business model that de-risks investment opportunities by offering comprehensive support to smallholder farmers within contiguous farms in community blocks, and also within specific value chains. These enterprises usually sign memoranda of understanding with community leaders (and in some cases state governments) to develop farming projects in areas with large arable land (a minimum of 1,000 hectares). Typically, each member of the farming community is assigned a hectare of land on which to cultivate the target crop. The enterprise then provides support in the form of training (on cultivation techniques), technology and information sharing, land preparation, irrigation, input supplies (improved seeds and fertilizers), and market access. Funding to provide such large-scale support is usually sourced from various financial institutions (including the CBN's Anchor Borrower Program) and in some cases with government guarantee. Each farmer repays the loan post-harvest, by committing to sell the output to the enterprise at an agreed price. Constraints to this successful model include the high cost of services provided, particularly the cost of equipment; scarcity of funding; and lack of irrigation, given the rising incidence of droughts, especially in the North. Developing the insurance sector, especially agri-insurance products, can help address these issues (see box 4.2).

BOX 4.1 COMMUNITY BLOCK FARMING

Alluvial's business model: The business is a hybrid of both smallholder and commercial farm models that benefits from the management expertise and economies of scale of a large-scale commercial model but has the optimized land usage and productivity incentives of smallholdings. Project funding is implemented through a blended finance model that brings together resources from food and beverage companies, equipment manufacturers, aid agencies, development finance institutions, impact funds, governments, community groups, and private equity. Their goal is to garner financial support and synergistic partnerships to scale up and support 100,000+ farmers cultivating 100,000+ hectares over the next four to five years. The Alluvial community block farming initiative has been active in primary production (especially of rice), commodities trading, and tractor hire over the past six years and currently has a presence, including in equipment and storage facilities, in Adamawa, Akwa Ibom, Benue, Cross River, Delta, Edo, Kaduna, Kwara, Niger, and Taraba states.

Value proposition: Alluvial helps smallholder farmers address obstacles to increasing production, while assuring payback. The approach lowers the cost of production for smallholders by bringing scale to increase capacity use of tractors and group procurement to reduce the cost of input. With the Alluvial approach, agtech helps to increase yield by optimizing agronomical practices to site-specific conditions and a customized farm management and supply chain software links smallholder farmers

to markets. The company works with insurance companies that offer index yield insurance to protect farmers' income in case of adverse weather conditions. With Alluvial's approach, smallholders do not have to use their property to secure the capital they need—a major obstacle to smallholders without formal land tenure rights or central registry for titles of deed. **Community block farming with this comprehensive approach is boosting incomes, at least fourfold for smallholders, and helping them to transition from below the poverty line.** It is increasing job creation (both farming and nonfarming jobs through increased purchases and economic activities). Alluvial estimates to have created thousands of jobs and worked with more than 9,000 farmers in 2018 and more than 15,000 farmers in 2019. The enterprise is targeting a reach of 100,000 hectares under cultivation and projected revenues of US\$312 million a year, which would produce US\$83.5 million of direct annual income for smallholders.

The benefits of community block farming can be far reaching. Community block farming seeks to (a) promote inclusive community development, such as bridging gender gaps; (b) increase land use efficiency and conserve forestlands using irrigation and modern farming practices; (c) create economic opportunities for youth that are viable alternatives to engaging in illegal activities; and (d) build the capacity of local farmers and provide additional income for them to invest in health care, education, and other aspects of socioeconomic advancement.

BOX 4.2 REPOSITIONING NIGERIA'S INSURANCE INDUSTRY TO DE-RISK KEY SECTORS LIKE AGRIBUSINESS

Nigeria's insurance sector remains largely underdeveloped. Insurance penetration (measured by insurance gross premium as a proportion of GDP) is among the lowest in Africa at 0.4 percent, compared to 2.8 percent, and 14.7 percent in Kenya and South Africa, respectively. Similarly, the sector's density (measured by gross premium per capita)—at US\$6.20 in Nigeria—is also one of the lowest in the region with South Africa (US\$762.50), and Kenya (US\$40.50). The insurance market remains largely fragmented—with 57 insurance companies including 14 life insurance, 27 general insurance, and two reinsurance companies—but a few players have dominant positions in the most profitable product segments. More than 90 percent of premiums are generated from public and private institutional accounts rather than from individual accounts.

The development of insurance products is critical for key sectors like agribusiness and mining, in which output can be affected by climate change and other exogenous events. Agriculture yield is dependent on weather variations and is affected by natural catastrophes (floods, droughts, etc.) and climate change, which can severely affect farmers and other players in the agribusiness value chain. Climate change alone is estimated to reduce yield of crops by 50 percent. In the same vein, above ground and underground mining operations are subject to risks of severe weather events, and risks to the health of artisan miners. About 24 percent of Nigeria's population is said to be living in high climate exposure areas (USAID 2018). However, the insurance sector is not well positioned to mitigate these risks. The belief by insurers that agricultural risk is too volatile, and that the market for agri-insurance is too small and therefore difficult to insure, has curtailed the development of suitable products.

The insurance industry faces a number of challenges in Nigeria. Major constraints to developing the insurance industry include (a) a weak regulatory framework and market fragmentation because the current Insurance Act (2003) is no longer effective, and does not allow the regulator adequate flexibility to supervise and manage distressed entities; (b) the weak enforcement of existing regulations (including mandatory insurance

and redress and claims management), which has resulted in the Nigerian insurance industry's very poor public perception and extreme disillusionment by policyholders whose claims have either remained unpaid, delayed, or unfairly handled; (c) inadequate awareness and limited insurance literacy within the populace; (d) dearth of actuarial skills; and, (e) poor product innovation.

Steps are being taken by the government and regulators to address some of these issues.

A new framework law, the draft consolidated Insurance Bill, has been in the offing since 2015 but no significant progress has been made with its enactment. In May 2019, the insurance regulator issued a directive increasing the minimum share capital that insurance and reinsurance companies are required to hold to ensure that they are well capitalized and capable of taking on bigger risks. The deadline for compliance is June 2020, and companies are working toward raising their capital in the intervening period. Through the technical assistance program, the World Bank Group is working with partners (for example, Africa-Re, a pan-African reinsurance company) to support agricultural index insurance underwriting.

Several policy measures are needed to support the development of Nigeria's nascent insurance sector. These policy measures include (a) upgrading the solvency framework and related processes, through enactment of a new framework law; (b) enforcing existing mandatory regulations on insurance for public and private sectors; (c) automation of NAICOM's regulatory functions (use modern software) including the development of a NAICOM-managed portal for regulatory data; (d) the establishment of an appropriate framework for actuarial capacity development, which may include sponsorship of willing young graduates to obtain professional actuarial certification; (e) deepening insurance products (for example, support the development of agriculture insurance as well as distribution channels/bundling opportunities; in this regard, Nigeria can learn from the successes of other Africa countries, like Kenya); and (f) NAICOM taking over claims management and policy holders' complaints redress.

Digital technologies can offer solutions to many of the key challenges to the transformation of the agriculture/agribusiness sector. Increasingly, transformative technologies are creating attractive opportunities for investments in agriculture because (a) lean agritech startups have lower capital requirements than traditional agriculture projects; (b) they can optimize entire value chains of otherwise fragmented input providers, producers, and processors and offer access to huge national (or even global) agriculture markets; and (c) they have high growth potential, given that the agritech market is still nascent, and early investors can reap rewards (Deloitte 2016). Some critical opportunities for technology in agribusiness that specialized service providers and end-to-end business models are leveraging include the following:

- **Advisory and information services to address knowledge and skill gaps:** These services help farmers with agricultural and natural resource management planning by providing digital information on best agronomical practices, market prices, climate change, and pests and diseases. For example, Wefarm is an enterprise in Kenya, Tanzania, Uganda, and the United Kingdom that provides peer-to-peer services that enable farmers to share information via text message, without the internet and without having to leave their farm. Farmers ask questions and receive crowd-sourced answers from other farmers around the world in minutes, allowing them to increase yields, tackle the effects of climate change, source the best seeds, and gain insight into pricing. About 660,000 farmers in Kenya and Uganda use the service and there are plans to expand to other African countries. Farmerline, based in Ghana, is another enterprise that provides a mobile platform for farmers to access farm inputs, water, solar energy, and financial services. It enables farmers to increase productivity, build credit history, and connect with markets and it provides a data-driven communication platform for businesses to communicate with customers. Farmerline provides market-driven solutions that have benefitted more than 200,000 farmers in different countries. Nigeria has a huge database of about 12.5 million farmers across the country developed under the Agricultural Transformation Agenda (ATA) that could be leveraged for digital agriculture.
- **Farmer financial inclusion with digital financial services (DFS) such as micro-loans, payments, credits, insurance, and savings:** Digitizing payments along value chains could increase farmers' income by eliminating high commissions of intermediaries, who transport cash, and by reducing theft. DFS ecosystems can be developed around value chains to link farmers with input suppliers and agricultural buyers to facilitate transactions with faster payments for harvest, access to savings and lending products to pay for inputs and machines, and the provision of crop insurance to farmers, to help them not only to manage risk and protect their investments but also to decrease credit risk to lenders and expand access to credit.

Digital financial platforms that serve farmers include Crowdfunding platforms, payment solutions, agriwallets and saving systems, credit systems, and insurance platforms. For example, Farmcrowdy raises finance for African farmers (including in Nigeria) to buy land and expand production. It provides a platform for investors to select the kind of farms they want to sponsor. Using the raised funding, land is secured, the farmer is engaged, both the farm and farmers are insured, and the full farming cycle is completed including logistics to sell the harvest. Since starting operations in 2016, Farmcrowdy has supported 11,124 farmers linking them with 2,132 farm sponsors. Another platform is FarmDrive, a Kenyan enterprise, which connects unbanked and underserved smallholder farmers to credit, while helping financial institutions cost-effectively increase their agricultural loan portfolios.

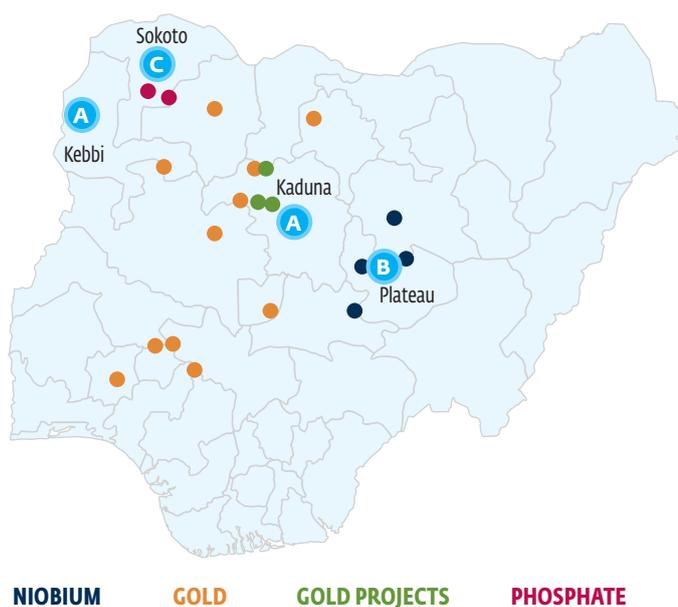
- **Supply chain management:** There is a need to ensure traceability, planning, quality, and logistics to help reduce post-harvest losses, improve the income of farmers, and increase efficiency within the sector. Relevant inputs include cold storage facilities, warehousing, cold storage transportation systems for perishables, solar energy systems, and blockchain technology. For example, iProcure is an agricultural supply chain platform that covers rural regions. It provides procurement and distribution services, and business intelligence and data-driven stock management across the supply chains, delivering value to both suppliers and farmers. Post COVID-19, the industry may increase value chain integration with supply chain digitalization to ensure uninterrupted access to raw materials, such as rice, palm oil, sugar, and fresh milk.
- **Data analytics and agricultural intelligence:** Gathering and disseminating data on farmers, farm coordinates, and markets can provide insightful information for potential investors, government, policy makers, extension agents, agronomists, and farmers. UjuziKilimo, a Kenyan start-up, uses big data and analytics to provide precision insights to farmers. Zenvus, a Nigerian start-up, is another platform that uses proprietary electronic sensors and cloud server to collect and analyze soil data to guide farmers on irrigation and fertilizer usage. It also uses special spectral cameras to build crop health indices to help detect drought stress, pests, and diseases (Ekekwe 2017).
- **Market links:** There is need for linking smallholder farmers to high-quality inputs such as seeds, fertilizers, pesticides, and herbicides; for digitally connecting farmers to production and post-harvest machinery (such as tractors, ploughs, harvesters, irrigation); and, for linking farmers to input suppliers, aggregators, or end consumers. For example, M-Farm in Kenya and AgroSpaces in Cameroon are start-ups that provide pricing data to remove price asymmetry between farmers and buyers, making it possible for farmers to earn more (Ekekwe 2017).
- **E-commerce:** The COVID-19 pandemic may shift consumer behavior to e-commerce, as shopping in large, crowded markets declines because of the risk of infection, and create opportunities for direct-to-consumer models with online platforms and third-party delivery.

4.2 MINING

Nigeria has an abundance of mineral resources with potential to contribute to economic activity and employment. More than 40 minerals exist across 500 locations in Nigeria. Key mineral deposits, including clay and kaolin, coal, gold, gypsum, iron ore, lead and zinc, phosphate, and tin, among others, can potentially generate billions of dollars in revenues.⁷⁹ Bitumen, gold, iron ore, and limestone are some of the most highly valued minerals in the country. Presently, quarrying dominates the mining sector's output, accounting for more than 90 percent of its output. Products such as granite, gravel, marble, sand, and other construction materials are in high demand locally due to a combination of a growing housing deficit and infrastructure development projects. The metal ores subsector, which accounts for less than 10 percent of output, is growing very fast, recording a growth rate of 22.8 percent between 2016 and 2018.

There are also numerous opportunities for mining in Nigeria, and states can directly benefit from these opportunities (see appendixes). These opportunities include gold in Birnin Gwari (Kaduna) and Bin Yauri (Kebbi), and niobium—used in the manufacturing of high-grade steel—in Jos Plateau (figure 4.2). Nigeria is currently among the world’s largest exporters of niobium, with three attractive deposits (Columbite, Coltan, and Pyrochlore) across Kano and Plateau states. Despite high capital expenses and processing costs, niobium remains a great prospect because of its extremely high commercial value (around seven times higher than the price of copper). Another high potential prospect is cheap-to-explore phosphate in Chancha, Kogogo, Kware, and Salame (all in Sokoto); phosphate can be applied directly as fertilizer in Nigeria’s acidic soil. Although mining is on the exclusive list like oil and gas, state governments have more power in the mining sector because a Community Development Agreement (CDA)⁸⁰ must be executed before a mining lease is granted. The Land Use Act also confers responsibility and powers on state governors with regard to land ownership. Furthermore, like oil and gas, government revenues from solid minerals are subject to the derivation sharing formula. However, states can also set up special purpose vehicles that can directly own mining licenses in conjunction with private sector investors.

FIGURE 4.2 MINING OPPORTUNITIES IN THE NORTH OF NIGERIA



A. Birnin Gwari (Kebbi) and Birnin Yauri (Kaduna), Gold Project

Potential: Assuming 6 million oz reserve (4.2g/t), supporting six medium-size mines each generating 100,000 oz p.a. for 10 years

Financial benefits: Each mine producing average annual revenues of US\$106 million to US\$200 million over 10 years, at 3 to 5 percent royalties yield avg. US\$4 million p.a. profit

Economic impact: 9,000–28,000 direct and indirect jobs

B. Jos Plateau, Niobium Project

Potential: Nigeria reportedly has 14,000 metric tons of reserves, assuming life of mine of 10 years at 1,400 metric tons p/a

Financial benefits: Average annual revenues of US\$47 million+ to US\$88 million+ over 10 years

Economic impact: 580–1,800 direct and indirect jobs

C. Sokoto, Phosphate Project

Potential: Assumes reserves of 4 million metric tons, this could support a mine with a production of 400,000 metric tons p.a.

Financial benefits: Each mine generates average annual revenues of US\$31 million to US\$58 million

Economic impact: 580–1,800 direct and indirect jobs

Source: Solid Minerals Development Fund (SMDF) Nigeria.

Despite its high potential, the formal mining sector makes minimal contributions to GDP and exports. Officially, solid minerals contributed 0.2 percent of nominal GDP in 2018 and exports were valued at about US\$180 million—equivalent to 0.3 percent of total exports and 5.4 percent of non-oil exports. According to data from the Solid Minerals Development Fund (SMDF), there are 652 legal or formal companies that are engaged in the mining sector employing about 130,000 workers (or 0.3 percent of the labor force). Three large companies generate about 52 percent of all royalties, 19 intermediate-size companies generate 25 percent of royalties, and 630 small companies generate the rest.⁸¹

Informal mining of several minerals deprives the country of revenues. Informal mining is largely artisanal with an estimated 95 percent of the sector’s players—some 2 to 4 million people—limiting royalties and value optimization. For instance, Malaysia’s official records show that the country imported 9,286 tons of tin from Nigeria in 2018 (worth about US\$128 million), whereas official production data in 2018 reports Nigeria’s total production at about 6,000 tons in 2018. On the basis of import values to Malaysia alone, Nigeria should be the seventh largest producer of tin in the world. Also, about 21 tons of gold (valued at US\$1.3 billion) was exported from Nigeria to the United Arab Emirates alone in 2016 (see box 4.3), yet official records put Nigeria’s total gold production in 2016 at 7.9 metric tons.⁸² Royalty losses from informal exports were estimated at US\$65 million in 2016 and 2017, according to SMDF.

BOX 4.3 INFORMAL MINING IN THE GOLD SUBSECTOR

The gold mining subsector has been hard-hit by illegal mining. The Solid Minerals Development Fund (SMDF) estimates that illegal exports of gold to the United Arab Emirates alone was about US\$1.3 billion in 2016 and 2017, resulting in at least US\$40 million in lost royalties. The government of Nigeria hopes to drive formalization through a national gold purchase program. This program would incentivize formalization by mandating that miners are registered to take part in the program.

UAE GOLD IMPORTS FROM NIGERIA, US\$, MILLION



Sources: SMDF; United Nations comtrade data.

Note: UAE = United Arab Emirates.

he program will have three points of participation between government and artisanal miners:

1. **Buying centers**, which will be equipped with primary processing capabilities, and in which unprocessed gold ore will be purchased from miners at between 65 and 75 percent of the London Metals Exchange (LME) price.
2. **Processing centers** with centralized processing stations to produce gold ore bars from flakes purchased for 80 to 85 percent of the LME price, inclusive of royalties and processing fees.
3. A **refinery stage** in which the SMDF and partners buy the bars and ship them out of Nigeria for further processing into 99.9 percent international certified gold bullion bars.

It is estimated that this will lead to an increase in the daily income of miners from about US\$16 to US\$92 per day. Additionally, company income tax will be boosted by US\$51 million and royalties by US\$16 million, according to SMDF. There is an estimated 200 million metric tons of gold resources in Nigeria and approximately 60 million metric tons of reserves with a total value of about US\$56 billion to US\$80 billion. Gold has also been identified as a priority metal by the government of Nigeria with target locations including the Kaduna and Kebbi states in the north. There are currently exploration projects in Kaduna and Kebbi. Assuming a US\$6 million reserve, these sites could support six medium-size mines, each generating 100,000 ounces per year for 10 years, which should result in US\$130 million in annual revenues and create about 10,000–20,000 direct and indirect jobs.

Several factors limit the growth of the mining sector. Aside from the cross-cutting constraints such as poor infrastructure (especially power and transport), the lack of geological and geophysical data is a major challenge for potential investors. The absence of reliable geosciences data not only increases the risks of commercial exploration for potential investors but also hinders access to finance from formal money markets. Generation of geoscience data for public good is a continuous process that requires adequate financing; however, government funding for related activities has been low. Efforts are being made, including (a) upgrades to the National Geosciences Laboratories in Kaduna to enable it to meet international standards, (b) memorandums of understanding with China, South Africa, the United Kingdom, and others to develop staff capacity and transfer technology, and (c) the Nigerian Geological Survey Agency’s ongoing National Integrated Mineral Exploration Project (NIMEP), which is exploring for various minerals across the country to improve geoscience data. Another factor limiting the growth of the mining sector is that mining technology in Nigeria is outdated—artisanal miners use rudimentary technology and techniques to produce a large proportion of the sector’s output. Most miners cannot access affordable financing required for purchasing modern equipment and technology to optimize production. Compounding the challenges to the sector is weak government oversight, smuggling, and intermittent civil unrest.

De-risking of the mining sector is critical for private sector participation and for development of the sector. SMDF was established to help de-risk activities in the sector and to boost investments in exploration, production, and the rest of the value chain. De-risking the sector requires government’s investments in geosciences to make it easier for intending investors to identify areas of favorable mineral potential and prevent duplication of efforts by private companies. Specifically, this also requires

reviving brownfield assets and generating new discoveries/targets in Greenfield exploration areas to strengthen geological knowledge to support investment decisions. The way forward should include the following measures:

- **Develop geodata through partnerships with the private sector** and define policy and data protocols to support the transparent use and dissemination of the geodata.
- **Need for a financing ecosystem with a broad range of instruments for each stage of the mining value chain.** Although de-risking is expected to address the investment risks at early stage exploration and reduce challenges to foreign investment and domestic financing, corresponding developments in the financial sector are needed to provide the needed capital. To this end, Nigeria must leverage its opportunities in the leasing sector (see box 4.4).
- **Address the challenges of illegal and artisanal mining and introduce market reforms.** Given the risk of mounting conflicts between investors and illegal miners, government efforts in incentivizing the formalization of illegal mining has become imperative. Incentives such as access to credit and government purchase programs should help to incentivize formalization. In addition, formal trading markets should be established to minimize smuggling and create access to markets for miners.
- **Operationalize the Community Development Agreement (CDA) of the Mining Act to minimize hostilities and the disruption of mineral exploration.** Although the Mining Act has a clear framework for host community involvement in the licensing process and also provides for benefit sharing by the communities for the host communities, there is currently no clarity to support its operationalization. As a result, hostility between companies and communities is rising.

BOX 4.4 DEVELOPING THE LEASING SECTOR: OPPORTUNITY FOR EQUIPMENT FINANCING FOR SMALL PRODUCERS

Micro, small, and medium enterprises (MSMEs) that identify access to finance as a major issue need medium-term (greater than 12 months) financing on flexible terms reflecting their revenue flows, mainly to finance equipment.

However, given the dominance of production in key sectors (for example, agriculture and mining) by small-scale farmers and miners, who cannot predict production size and timing, their requirements for equipment are difficult to finance through conventional sources like banks because of the stringent formality and collateral requirements. This leaves these small producers in a perpetual vicious cycle of low productivity and profitability. Therefore, it will be necessary for Nigerian financial institutions to use repayment structures that match the cashflows of lessees to reflect the seasonal and uncertain nature of both the agricultural and mining industries, including (a) seasonal payments

(for example, reduced payments during pre-harvest period); (b) skipped payments, which are similar to seasonal payments, but also allow more flexibility in repayment; and (c) stepped payments, which are payments that start out low in the early part of the term, and increase thereafter, as the business grows.

Leasing is a viable option for financing small-scale producers and can help break the vicious cycle and provide a suitable repayment structure. It remains critical to develop a vibrant leasing industry because leasing fosters economic development and job creation by providing access to financing to MSMEs that often cannot access other forms of financing. In Nigeria, leasing volumes currently estimated at ₦1.68 trillion (approximately US\$4.6 billion) have grown between 11 to 27 percent annually over the past five years (2014–18), according to the Equipment Leasing Association of Nigeria (ELAN). Two opportunities to

expand leasing in Nigeria are offered by (a) a very attractive tax environment for leasing, including depreciation allowances for tax purposes; initial one-off allowance; annual allowance; and significant exemptions from VAT, including those listed in the First Schedule of the Value Added Tax Act of 1993; and (b) the physical presence of major suppliers of industrial equipment, which enables them to carry an inventory and avoid having to take a foreign exchange risk that would result from importing equipment directly from abroad. Suppliers are also able to provide warranty work, which reduces the risk of default resulting from equipment failure and, in turn, supports the relatively extensive use of operating leases.

Examples of leasing models that may be favorable for small-scale operations include (a) a usage lease, which is a transaction in which the lease payments are based, in all or in part, on the usage of the leased asset, as opposed to fixed payments; (b) leasing to a cooperative, which is primarily used for financing assets, used directly by the cooperative, as opposed to one, or more, cooperative members; (c) leasing to an agriculture or mining service provider or farming/mining cooperative—primarily farming, or mining equipment used by the members, in which there is a measurable economic benefit from the equipment. In this case, farmers can access equipment on a “fee for service” basis, in which the agro-service provider acts as the lessee or borrower, and the leasing company or even the bank acts as the lessor.

To successfully extend leasing credit to small-scale producers, it is necessary, among other factors, for Nigerian financial institutions to have

(a) targeted lease products that are both attractive to the lessee and protect the interests of the lessor; (b) credit policies and procedures that document the lessee's ability to repay the lease obligation; (c) underwriting policies, defined as including terms and conditions that reflect the credit risks in a specific transaction, as well as risk management policies designed to evaluate the risks of the portfolio; (d) loan/credit officers able to support prospective lessees; (e) branch presence and resulting branch credit authority, to more efficiently extend credit to prospective lessees who are either small farmers or artisanal miners; and (f) lessees, such as associations or cooperatives, that are organized in a manner in which officers and directors have the legal authority to act on behalf of the members/beneficiaries.

Moving the leasing sector forward in Nigeria requires

(a) 'Reconciliation of (any) inconsistencies in the roles and functions of the Leasing Registration Authority provided for by the Equipment and Leasing Act of 2015 (“The Act”), the Central Bank under the Central Bank Act and BOFIA, and the National Collateral Registry (for movable assets) established under the Secured Transactions in Movable Asset Act (STMA)' and (b) technical assistance to regulators, lessors, and lessees, to improve capacity to regulate, extend, or obtain leasing credit to enterprises.

- **Operationalize the Mineral Resources and Environmental Management Committee (MIREMCO) to improve coordination.** MIREMCO was established to support federal, state, and local government coordination in mining within each state of the federation. It is meant to facilitate matters relating to granting of mining titles, compensation, pollution and land degradation, mineral resources development, and supervision of mineral exploitation. Other matters include implementation of environmental and social protection measures plans, and conflict resolution. Operationalization will help abate tensions arising from multiple regulatory overlaps and conflicts at the federal, state, and local government level related to land acquisition, community relations, and double taxation.

4.3 MANUFACTURING

Nigeria's industrial competitiveness ranks below those of competitor countries and regional peers and there is low in-country capacity utilization. Nigeria ranked 83rd in competitive industrial performance—below peers such as South Africa (44), Morocco (67), and Egypt (70). Also, the sector is heavily import dependent, with the level of localization falling over time, from 71 percent in 2010 to 58 percent in 2012 (NBS 2014). The food and beverages subsector had the lowest levels of localization (highest share of imported raw materials, with about 60 percent of raw materials in this sector being sourced internationally), followed by the plastics and rubber subsectors. Therefore, government import bans and foreign exchange restrictions have a detrimental effect on these sectors.

Nigeria must begin to increase the complexity of its production basket and strengthen already existing value chains while leveraging free zones/special economic zones (FZs/SEZs) (see box 4.5) to build more regionally competitive firms. The majority of the manufacturing activity in Nigeria currently occurs in low-skilled, labor-intensive, tradeable, and commodity-based regional and domestic processing. There is a strong positive correlation between GDP per capita in a country and the level of economic complexity of the country's export basket (figure 4.3). Currently, Nigeria has a relatively low level of economic complexity at -1.68 . Nigeria should aim to increase its production of capital-intensive, regionally processed goods, such as chemicals and chemical products, and medium-skill, globally innovative goods, such as machinery, transportation, and electrical products (figure 4.4). Developing existing FZs/SEZs will offer Nigeria tremendous opportunities to produce more sophisticated goods and to build more regionally and globally competitive firms.

BOX 4.5 DEVELOPING FREE ZONES/SPECIAL ECONOMIC ZONES: OPPORTUNITY FOR NIGERIA

A plethora of empirical studies show that free zones/special economic zones (FZs/SEZs)—when correctly located, designed, financed, constructed, developed, managed, and regulated—can trigger dynamic transformational and structural change on a targeted basis. FZs/SEZs are seen as incubators of (a) improved legal, regulatory, institutional and social safeguards that can overcome market, government-regulatory, and coordination failures; (b) trial-and-error testing of catalytic reforms that spawn economywide advances; (c) skills development of the local workforce; (d) knowledge-accumulation programs to advance local know-how and technology transfers; (e) production and export diversification/upgrading; (f) enhanced production, supply, and logistics efficiencies achieved by domestic firms; (g) integration with the domestic economy; (h) industry cluster formation; and (i) integration into regional and global value chains and dynamic structural change including increased

industrialization and market openness (Aggarwal 2019; Farole 2011; Warr and Menon 2015). The FZ/SEZ success story of China (with more than 1,500 FZs/SEZs) has triggered a multitude of well-performing FZs/SEZs around the world. Several other economies (for example, Bangladesh, Costa Rica, Ethiopia, Gabon, United Arab Emirates, and Vietnam) have experienced relative success by virtue of the economic zone model as a strategic industrial policy tool to jump start transformational and structural reforms in their countries. Today, approximately 5,400 FZs/SEZs operate in nearly 147 countries and have created about 66 million jobs.

The FZ/SEZ success story has not been uniformly replicated in Nigeria (and in Africa generally) even though the country has long recognized that FZs/SEZs provide a pathway to industrialization and diversification of the economy. Almost 30 years ago, a Nigerian government decree (Decree No. 63, 1992) created the regulatory agency Nigerian Export Processing

Zones Authority (NEPZA) for FZs/SEZs. Today there are almost 40 FZs/SEZs that have been recognized and licensed by NEPZA, but most of these are yet to realize their full impact. The question remains why so few have been successful. Nigeria's FZ/SEZ framework is outdated, falls short of international good practice, and contravenes Chapter 14 of the legally binding ECOWAS Investment Policy that establishes the ECOWAS community-wide FZ/SEZ policy. Other constraints to FZ/SEZ progress in Nigeria include (a) poor or inadequate infrastructure (b) the absence of local economy links; (c) the lack of criteria to select the optimal FZ/SEZ site or the suitable developer or a lack of adherence to existing criteria; (d) the absence of a memorandum of understanding mechanism to facilitate administrative coordination; (e) the absence of a strategic plan and smart incentives to attract investors; (f) the lack of customs provisions that fully adhere to global standards; and (g) the absence of

modern land-use, environment, immigration, and labor standards.

Despite the perceived shortcomings, FZs/SEZs, when properly established, present to Nigeria a viable and credible pathway toward its strong desire of addressing its economic diversification and job creation objectives. More important, FZs/SEZs as a tool for industrialization can be used to address the country's growing spatial inequities from the coastal southern part of Nigeria to the central and northern regions by creating specific styled FZs/SEZs (that is, economic and technological development zones, high-tech industrial development zones, specialized industrial zones, staple crop processing zones, and export processing zones) based on the availability of factor endowment to support them.

FIGURE 4.3 ECONOMIC COMPLEXITY

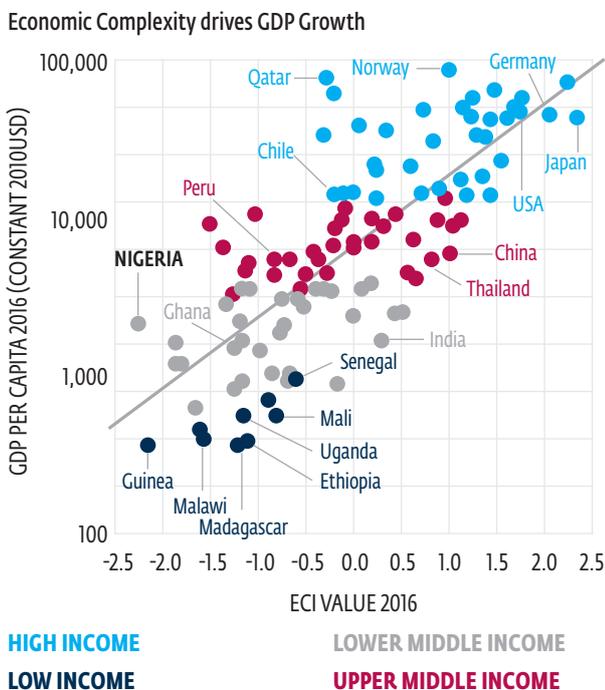
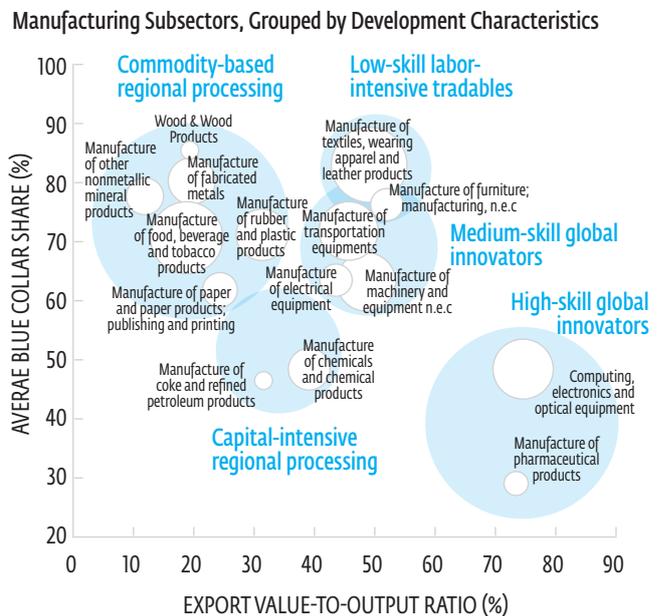


FIGURE 4.4 MANUFACTURING SUBSECTORS BY DEVELOPMENT CHARACTERISTICS



Potential High-Growth Subsectors

Chemicals

The chemicals sector presents opportunities for private investment, given significant demand and the availability of raw materials. Chemicals—including medicaments, polymers of ethylene and propylene, pneumatic tires of rubber, insecticides and fungicides, mixtures of odiferous substances and mixed fertilizers—accounted for 9.5 percent (or about US\$3 billion) of Nigeria's imports in 2017. These chemicals can be produced in Nigeria because several of them are products of petroleum or natural gas, which Nigeria has in abundance. For example, natural gas is crucial to produce ammonia, a key nitrogenous fertilizer, whereas plastics are a product of olefins, which are products of either petroleum or natural gas. With its large proven gas reserves, Nigeria has the potential to meet both high domestic demand as well as growing regional demand. In 2017, chemical imports into Sub-Saharan Africa grew by 12 percent to about US\$24 billion.

Expanding the chemicals sector can also yield substantial value addition, and create employment and opportunities in other sectors. There are opportunities for value addition on produced polyethylene and polypropylene. Polyethylene can be converted into key plastic products such as tubes, pipes and fittings for construction (a market growing at 3 percent), or floor coverings of plastics in the form of rolls or tiles (a market growing at 13 percent), which will increase the availability of key construction materials. Additionally, according to the most recent data from NBS, the chemicals subsector in Nigeria employs the largest share (47 percent) of formal manufacturing workers, so expanding the sector will create job opportunities, especially in the North. Although chemical production predominantly occurs in the southern regions of the country, the opportunities to engage in the production of mixed fertilizers, which Nigeria still imports, are largely in the northern regions of the country (figure 4.5).

FIGURE 4.5 BLENDING PLANTS FOR BATCHES 1 AND 2 OF THE PRESIDENTIAL FERTILIZER INITIATIVE

BLENDING PLANTS	LOCATION	CAPACITY (MT)
Superphosphate Fertilizers & Chemicals	Kaduna	200,000
Fertilizers & Chemicals Limited	Kaduna	300,000
Morris Nigeria Limited	Niger	300,000
Funtua Fertilizers & Chemicals Limited	Katsina	108,000
Golden Fertilizers Company Limited	Lagos	200,000
Kano Agricultural Supply Company	Kano	300,000
Bauchi Fertilizers Company	Bauchi	120,000
Ebonyi State Fertilizers & Chemical Co	Ebonyi	115,000
MFB Fertilizer & Chemical Co	Kaduna	100,000
Aliyuma Fertilizer & Chemical Coy Ltd	Kano	200,000
BE JAFTA Group Nigeria	Jos	200,000
TOTAL CAPACITY		2,143,000

Source: Nigeria Sovereign Investment Authority.

Note: MT = metric ton.

Policy inconsistency is a major challenge to the industry and is a deterrent to potential international and domestic investments. For instance, the petrochemicals sector has a gas pricing policy problem. Nigeria's natural gas pricing policies have consistently set prices too low to provide a sufficient return on investment, strongly discouraging firms from entering the market. In addition, despite its publication, the National Gas Policy is not being followed. The regulated prices for petrochemicals are supposed to be much higher than those for power, whereas today power prices are 150 percent higher than petrochemicals prices. Tariff schedules and regulations for various categories of producers are rarely published, and in some cases they are not communicated to gas suppliers in writing. Contrary to the spirit of the National Domestic Gas and Pricing Regulations, pseudo-regulated sectors such as methanol and fertilizer production have received prices far below those received by producers supplying the power sector. A number of reforms can support and facilitate further investments in the sector including the phased elimination of import bans on mixed fertilizers and foreign exchange controls on polymers importation; the establishment of a separate regulatory agency for the midstream and downstream gas sector; the implementation of policies that support the consistent supply of gas and feedstock, such as the gas flare prohibition and punishment bill; and the development of clearly defined rules and regulations to facilitate nondiscriminatory third-party access to gas pipelines.

Construction Materials

High population growth and increasing urbanization are fueling the demand for construction materials. With a population growth rate of 2.6 percent a year, demand for affordable housing in Nigeria is increasing, resulting in a housing gap of an estimated 17 million units. An annual production of 850,000 housing units will be needed to close this gap over the next 20 years. At a cost of US\$25,750 per unit, an annual spend of US\$22 billion would be required (Federal Republic of Nigeria 2019). Low affordability in this industry is heavily influenced by the high cost of construction materials, including cement, cement products, steel, ceramic, and land. With construction material accounting for between 35 percent and 80 percent of total construction costs and 97 percent of intermediate goods consumed in the construction sector, affordable housing will require cost-effective construction material inputs.

Since 2015, the federal government and the Central Bank have focused on import substitution policies as a means of boosting the domestic production of construction materials. For example, importers of certain construction materials, including cement and steel, are excluded from accessing foreign currency to discourage imports and encourage local production of these items (Central Bank of Nigeria 2015). Additionally, the Backward Integration Policy, instituted in 2002, requires that cement import licenses be granted only to importers who show proof of building factories for local cement manufacturing in Nigeria. Consenting importers were also given incentives to invest in the country, which included the complete waiver of value-added tax and customs duties for importation of cement production equipment (Ohimain 2014).

These policies resulted in the increase in local production of some of these construction materials. Local production of cement began to increase in 2003 and has continued on this upward trend. As a result, Nigeria became self-sufficient in cement production in 2016 and became an exporter in 2017. Additionally, this has also been met by an increase in the number of functioning steel mills in the country with the number increasing to 21 in 2015 from less than 5 in previous years. However, these policies have also encouraged uncompetitive pricing. The retail price of cement in Nigeria ranges from 2,550 to 2,800 (about US\$ 6.70–\$7.50) per 50-kilogram bag, higher than prices in comparator producer countries such as India (US\$3.30–\$5.50 per 50-kilogram bag), South Africa (US\$5.00–\$6.20), and Malaysia (US\$2.20–3.80).⁸³

Additionally, the quality of locally produced construction materials is low.

Construction professionals highlight challenges, such as limited durability, limited reusability and renewability, inferior aesthetic properties, poor sound insulation, embodied energy capacity, and poor air quality and water reduction properties of locally produced construction materials. Among dealers and marketers of building materials, the most important factors driving importation are production standards and specifications, advanced production technology abroad, perception of superior quality, unavailability of raw materials in Nigeria, the high cost of local production, and market visibility.

To effectively meet the local and export demand in the construction market, several challenges must be addressed. They include anticompetitive practices, raw material unavailability, poor standards, skill shortages, and technological capacity gaps. Policies to support local production in existing segments could include (a) pro-competition policies, such as mining lease transparency for cement production; (b) improving technical capabilities through education at vocational training centers, technical colleges, and polytechnics; and (c) the enforcement of standards in production systems. In parallel, Nigeria should develop its value chain for alternative, locally available building materials that are more environmentally friendly and can be used for the construction of superstructures. Some of these technologies, such as expanded polystyrene panels or cement reinforced mud blocks, can speed up the construction process, reduce costs, and mobilize a larger number of workers.

Leather Industry

The leather industry in Nigeria is a top foreign currency earner and a critical job creator. The industry generated US\$240 million in exports in 2015 and is projected to generate up to US\$1 billion by 2025. Excluding logistics, the industry's value chain provides an estimated 750,000 jobs (Nigerian Economic Summit Group 2017). Nigeria has the largest source of raw materials for the leather industry in Africa. The country produces skins in excess of 45 million pieces and trades an estimated 40 million goat and sheep skins annually across borders (Federal Government of Nigeria 2018). Export destinations include China, India, Italy, and other European countries.

The primary (raw skins) segment is dispersed across the country and remains uncoordinated and unregulated. The raw skin segment commences from the point of flaying the animals and includes the initial grading, salting, transportation, storage, and regrading of hides and skins. Actors in this segment include a network of skin collectors, traders and their intermediaries, and dealers. The segment is highly informal and dispersed across the country, leaving little room for economies of scale in skin collection. The best opportunities for substantial aggregation benefits exist in the dense network across the northern part of the country.

The tanning segment is also increasingly characterized by MSMEs as the number of large, but powerful, industrial tanneries continues to shrink. From approximately 40 prior to 2000, the number of functional industrial tanneries dropped to 18 in 2017. Several industrial tanneries exited because of shortages in raw materials due to illicit cross-border trade and the high demand for consumable hides and skin "ponmo," poor access to foreign exchange, and high import costs of both tanning chemicals and raw materials. The tanning segment is now increasingly home to operators that are predominantly informal and use traditional technologies. However, the available large-scale tanners continue to exert significant power through advance payments to skin dealers to set prices (and quantities), capturing surplus from the primary skin dealers. At the same time, they benefit from growing exports thanks to access to foreign currency and export expansion grants provided by the government.

The finished leather products (FLP) segment is limited and exhibits low levels of competitiveness. Most FLP manufacturers are artisans and small-scale manufacturers. Although the FLP segment has made some gains in exporting, it is limited in scale and directed toward neighboring West African countries; and it remains relatively uncompetitive in the global market. Some of the challenges to those manufacturers include the inability to access locally produced hides, which tanneries are incentivized to export, and the limited technological innovation, which affects the quality and quantity of production. Local FLP manufacturers are left to import or purchase leather from smaller tanneries at higher cost and struggle to compete with cheaper Chinese products.

Producing at scale and the use of improved technologies would enable the country to make cost gains and compete effectively globally. China currently dominates the global leather market from primary raw materials production up to FLPs. To gain global competitiveness, Nigeria should focus on encouraging consolidation and formalization to increase scale and efficiency. Additionally, the increased focus on quality and environmental safety adherence is influencing demand in the leather industry and creating alternative market segments with premium pricing. It is important to note that value in this industry starts with the raw material because the raw hides and skins represent 50 percent to 60 percent of the cost of producing a piece of leather (Mahi Leather n.d.) Given this, international tanners are now buying from specialized leather producers that focus on specific types of quality leather. As a result, some primary producers opt to focus on specialized leather segments that require increased sophistication and offer higher profit margins. Nigeria should explore supporting specialized leather producers as the sector continues to develop scale. Priority actions to increase private investment in the sector should also include business environment regulations that ease the formalization of tanning and primary hide producing companies, and support for building technical capacity and standards in the sector.

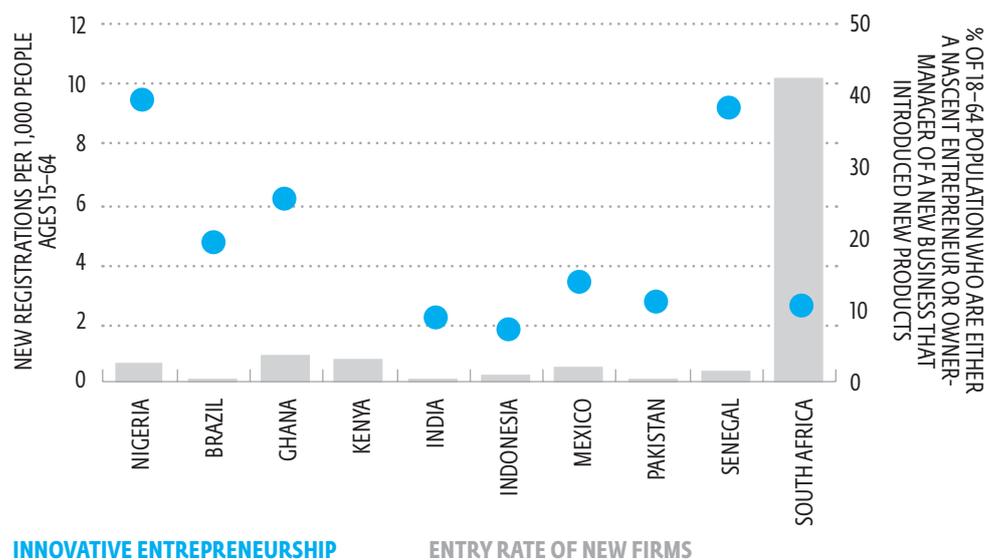
4.4 ICT AND THE DIGITAL ECONOMY

The benefits to Nigeria of harnessing the digital economy are significant with the potential to accelerate the pace and inclusiveness of economic activity in the country. According to the Nigeria Digital Economy Diagnostic Report (Lixi, Zottel, and Neto 2019), Nigeria is currently capturing only a fraction of digital-enabled growth and needs to strategically invest in the foundational elements of its digital economy to keep pace. There are opportunities to virtually connect people and things and to facilitate digital transactions and interactions, including the exchange of information, goods, and services through digital platforms. Nigeria is well advanced in the use of digital platforms with one of the biggest e-commerce markets in Africa—estimated at US\$12 billion—provided, among others, by 87 Nigerian platforms, and employing 2.9 million people in the country. The COVID-19 pandemic has highlighted the ability of telecommunications and digital technologies to be game changers in times of crisis. The opportunities to leverage technology for each sector is described throughout this document, including digitizing agricultural value chains and providing technology-enabled solutions to MSMEs. Although the opportunities for digital are infinite,

COVID-19 will likely have the largest impact on financial services (DFS), retail (e-commerce), and adult education (e-learning), with the potential to transform them. DFS, especially through Payment Service Banks (once fully licensed) and fintechs, could offer significant benefits through enhanced financial inclusion, especially in rural areas, and digital entrepreneurship. (Refer to Addendum to the CPSD for description of emerging digital opportunities from COVID-19.)

With a large, young entrepreneurial population, Nigeria is also well-positioned to accelerate its economic transformation with digital entrepreneurship. Digital entrepreneurship ecosystems are already developing and growing in the urban centers of Nigeria, although limited in rural areas and among small and medium enterprises. Nigeria scores high on the level of new firm innovation, compared with regional and global peers (figure 4.6). About 40 percent of new or early-stage Nigerian firms introduced a new product or service into the market, followed by Senegal (38.5 percent) and Ghana (28.5 percent).

FIGURE 4.6 ENTRY RATE OF NEW FIRMS AND INNOVATION AMONG NEW FIRMS (2012–17)



Source: World Bank 2015.

However, fully harnessing the potential of the digital economy in Nigeria will require improvements in digital infrastructure and connectivity as well as digital skills and literacy. Digital infrastructure is central to improving efficiency and bridging the digital divide, but Nigeria lags its peers, such as Kenya and South Africa, despite some progress. For instance, Nigeria's score (45.9) in the 2017 GSMA Mobile Connectivity Index is low relative to regional peers, Kenya (51) and South Africa (59.9). One of the core challenges to the growth in this industry is the inadequate quality of both direct and enabling infrastructure, which leads to poor industry outcomes. Nigeria does not have a national network to extend internet connectivity across the entire country. Fixed broadband penetration in Nigeria is very low, with a household penetration rate of 0.04 percent at the end of 2018, below the African regional average (0.6 percent) and well below the world average (13.6 percent). There is a heavy reliance on mobile broadband to access the internet but the lack of affordability of broadband-enabled devices for the bottom of the pyramid is a major barrier to access in Nigeria. Mobile penetration rates in Nigeria—at 75.9 percent in 2017—are also lower than peers such as Kenya and South Africa, where penetration rates are 78.2 percent and 156.7 percent, respectively. According to World Bank data, there is a declining trend in the availability of secure internet servers in Nigeria.⁸⁴ There were only 74 secure internet servers per million people in 2019, falling from 184 and 222 per million people in 2018 and 2017, respectively. This is well below the average of 841 per million people for Sub-Saharan Africa.

The development and expansion of digital infrastructure is constrained by the complex institutional setup (given overlapping responsibilities of regulatory agencies) and the legacy of operators investing in proprietary network deployments. It is compounded by the high costs of infrastructure deployment and low revenues. Regulatory instability (mobile telecommunication company fines, fiberco licensing, and so on) and macroeconomic uncertainty discourage long-term investments, making expansion difficult. The size of the country and the size of the rural population (50.6 percent) call for wholesale, carrier neutral, shared infrastructure to help bridge the emerging divide. Access to electricity also remains a core challenge for the sector. This results in the low performance as evidenced by the internet data speed—estimated at 3.9 Mbps, which is relatively low when compared to the global acceptable standard of 7.2 Mbps. Although the prepaid mobile cellular tariffs are relatively affordable at US\$0.13 per minute, broadband internet tariffs are relatively high at an average of US\$71 per month, higher than the minimum monthly salary, which is currently at US\$67 per month. Also, 3G internet coverage and mobile broadband connectivity are inadequate, at 67.2 percent and 32.2 percent, respectively. Lack of skills and access to financing also restrict investment in the sector.

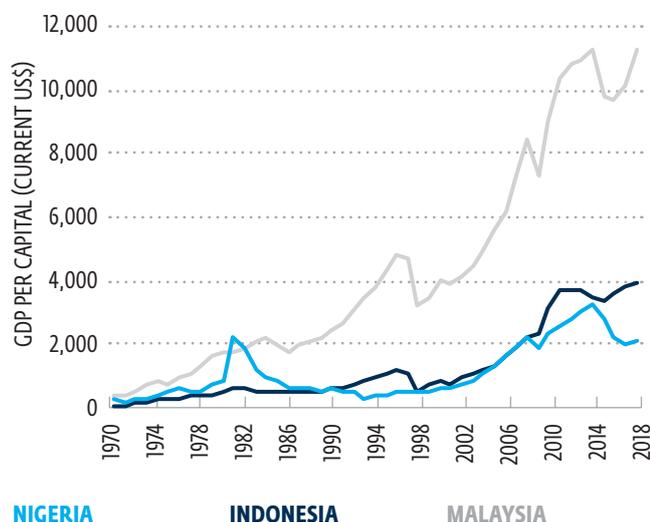
In addition, investors have faced issues with being granted right of way (RoW) to lay fiber in state-owned land because of lack of legislation on RoW or policy consistency. State governors have control over the approval of RoW and can demand whatever fees they desire from telecommunication operators deploying infrastructure in their states. There is no harmonized RoW charge, which raises uncertainty. This issue has to be resolved to encourage investment in the sector.⁸⁵ In addition, spectrum management appears suboptimal in a number of areas. The regulator needs to review spectrum policy to ensure more optimal coexistence of licensed and unlicensed spectrum. Licensed spectrum is required for the evolution of existing services and needs to be assigned at a competitively determined price to ensure the efficient build-out of capital-intensive networks. Nationally allocated spectrum not in use in remote areas should be available for free or low-cost use by community-based or not-for-profit micro-networks. Other key recommendations for advancing digital development include (a) implementing the Strategic Roadmap for a Digital ID System in Nigeria; (b) continuing to prioritize the digitization of government payments, social transfers, and tax collections; (c) revising regulations on agent networks to incentivize investments for access points in financially excluded communities; (d) removing overlap of responsibilities between different government entities regulating the ICT sector; and (e) advancing digital literacy for youth and adults.

APPENDIXES

APPENDIX A: CHOICE OF PEERS: SELECTING COMPARATOR COUNTRIES

On the basis of the 2019 Systematic Country Diagnostic, this CPSD used comparator countries from three groups to benchmark Nigeria's economic and development outcomes: (a) **regional comparators** are geographically close countries that exhibit similar economic characteristics (Angola, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Senegal); (b) **structural peers** include countries that resemble Nigeria in the key economic structure and performance indicators: these are lower-middle-income countries with nominal income per capita of at least 50 percent of that of Nigeria's, and/or upper-middle-income countries with nominal income per capita less than double that of Nigeria's, with natural resource share in total exports of 20 percent or more and large populations (Algeria, Egypt, India, Indonesia, and Iran); and (c) **aspirational peers** are countries that Nigeria can potentially improve to match their economic performance: upper-middle-income countries with nominal income per capita at least double that of Nigeria's, with natural resource share in total exports of 20 percent or more, and a population of more than 30 million (Brazil, Colombia, Malaysia, Mexico, Russian Federation, and South Africa).

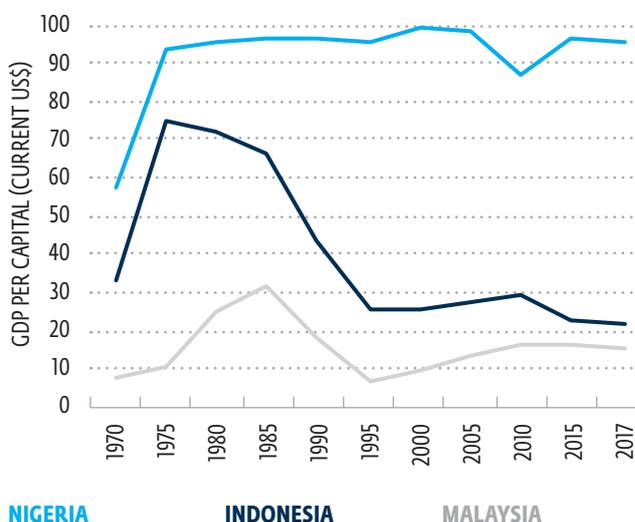
Malaysia and Indonesia are two very useful case studies for Nigeria (figure A.1). Both countries, like Nigeria, are advantaged with a diversified resource endowment (including crude oil), good agroclimatic conditions, an abundant, low-cost labor supply, good geographic location, and deep-water ports. The figures below show that these two countries were comparable (based on living standards) to Nigeria in the early 1970s, but over the years, there has been a divergence in economic performance, especially in the case of Malaysia. While fuels (from primary commodities like oil) dominated merchandise exports in the three countries up until the mid-1980s, their contribution to exports fell by nearly half in Malaysia and Indonesia in the years after, whereas in Nigeria their contribution remained very high. Likewise, oil rents—the difference between the value of crude oil production at world prices and total costs of production—have declined considerably in Malaysia and Indonesia, from 12 percent and 24 percent (of GDP), respectively, in 1980, to 2.4 percent and 0.8 percent, respectively, in 2017, whereas in Nigeria they remain high, at more than 6 percent.

FIGURE A.1 COMPARISONS WITH INDONESIA AND MALAYSIA**A. Standards of Living in Indonesia, Malaysia, and Nigeria (1970–2018)**

NIGERIA

INDONESIA

MALAYSIA

B. Fuels Exports in Indonesia, Malaysia, and Nigeria

NIGERIA

INDONESIA

MALAYSIA

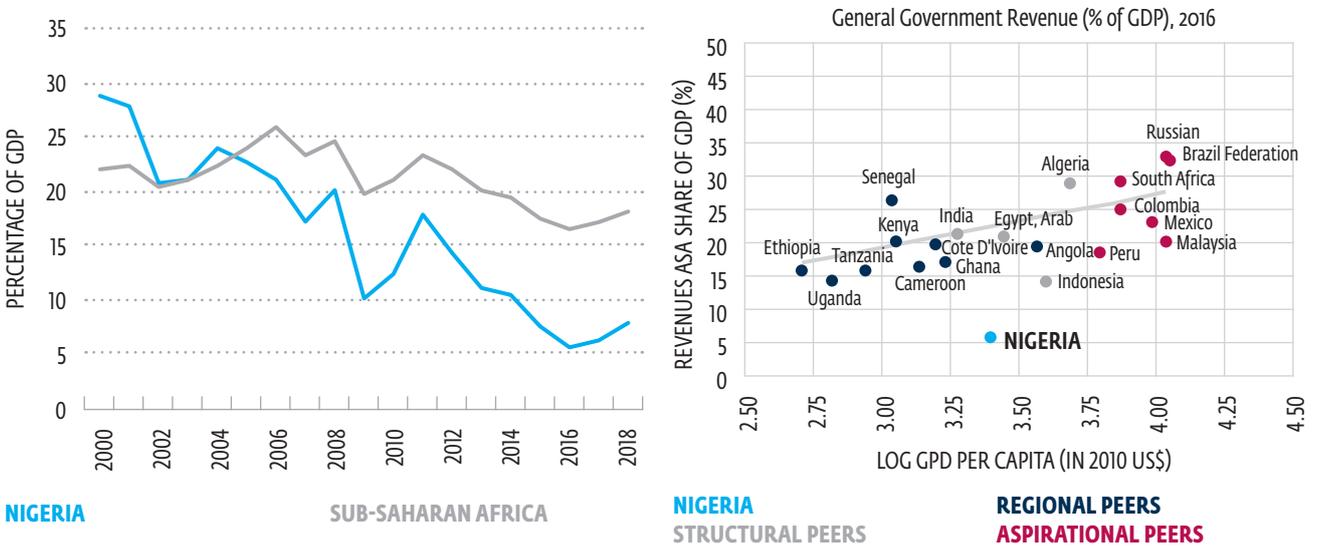
Source: World Development Indicators database.

Malaysia and Indonesia pursued economic diversification proactively through well-designed industrial policies. In Malaysia, the Industry Masterplan 1 (1986–95), laid the foundation of manufacturing industries and promoted the processing of natural resources with a careful focus on sectors with import reduction, high export potential, and higher value-added activities (including petrochemicals, refined petroleum, palm oil, rubber gloves, tires, and prophylactics products) while reducing the overconcentration in upstream commodities. Two subsequent Masterplans also helped strengthen industrialization, supported by the provision of adequate infrastructure while the openness to foreign labor kept current and expected labor costs in check. As a result, the manufacturing sector's contribution surged from only 22 percent of total exports in 1980 to around 80 percent by 2015, while the primary sector declined from 77 percent to 19 percent and its share in GDP almost halved to 18 percent. Since the late 1970s, the Indonesian government has pursued active policies to encourage agriculture (for example, disease-resistant and high-yield rice varieties), while supporting low-wage manufacturing by accelerating the process of industrialization through extensive public investment (using oil income) mainly in capital-intensive import substituting industries like natural gas resources for domestic fertilizer production and for export. As a result, the role of primary commodities in exports and revenues has declined. Oil exports, which accounted for 75 percent of total exports in 1975, now (as of 2017) account for only 22 percent. Likewise, oil revenues (as a percentage of GDP) have dropped from 30 percent in 1979 to less than 1 percent in 2017.

APPENDIX B: A DISCUSSION OF THE 2014–16 OIL PRICE SHOCK IN NIGERIA

The recent oil price crash (between 2014 and 2016) that devastated Nigeria’s public finances and precipitated the recession in 2016 is strong evidence of Nigeria’s high sensitivity to the boom and bust cycle of oil prices and policy responses that have created economic uncertainty that stymies investment. A lack of adequate buffers⁸⁶ and low non-oil revenues made counter-cyclical fiscal adjustments difficult. As oil revenues (and total government revenues) tumbled and became considerably low relative to peers (figure B.1), government borrowing increased to fill its financing gap. General government gross debt rose from about 13 percent of GDP in 2014 to nearly 19 percent by the end of 2018 (figure B.2). As a result, interest payments on federal government debt are consuming about 60 percent of the federal government’s retained revenues (or 1.7 percent of GDP in 2018) and exceeded federal government capital spending (at 1.3 percent of GDP). During the recession, the Central Bank of Nigeria (CBN) introduced foreign exchange and capital controls that limited access to foreign currency for investors and businesses seeking to repatriate funds, which widened the gap between the official (interbank rate) and the more widely available bureau de change (BDC) rate (figure B.3). A raise in the CBN’s monetary policy rate by one percentage point (to 14 percent) to curb inflationary pressures also pushed maximum lending rates from 27 percent in October 2015 to 31.4 percent by October 2017, crowding out private sector borrowing.

FIGURE B.1 EVOLUTION OF GOVERNMENT REVENUES AND COMPARISONS WITH INTERNATIONAL PEERS



Sources: World Development Indicators database; World Bank staff calculations.

FIGURE B.2 OIL PRICE SHOCK AND FISCAL INDICATORS



BONNY LIGHT CRUDE OIL PRICE
GENERAL GOVT GROSS DEBT (% GDP)

Sources: Central Bank of Nigeria; International Monetary Fund; World Development Indicators.

FIGURE B.3 OIL PRICE SHOCK AND MONETARY INDICATORS



FOREIGN RESERVES (EP) **DOLLAR RATES (BDC)**
BONNY LIGHT CRUDE OIL PRICE **DOLLAR RATES (INTER-BANK)**

APPENDIX C: OPPORTUNITIES FOR NIGERIA: GIFF METHODOLOGY

FIGURE C.1 POTENTIAL OPPORTUNITIES BASED ON GROWTH IDENTIFICATION AND FACILITATION FRAMEWORK FOR NIGERIA

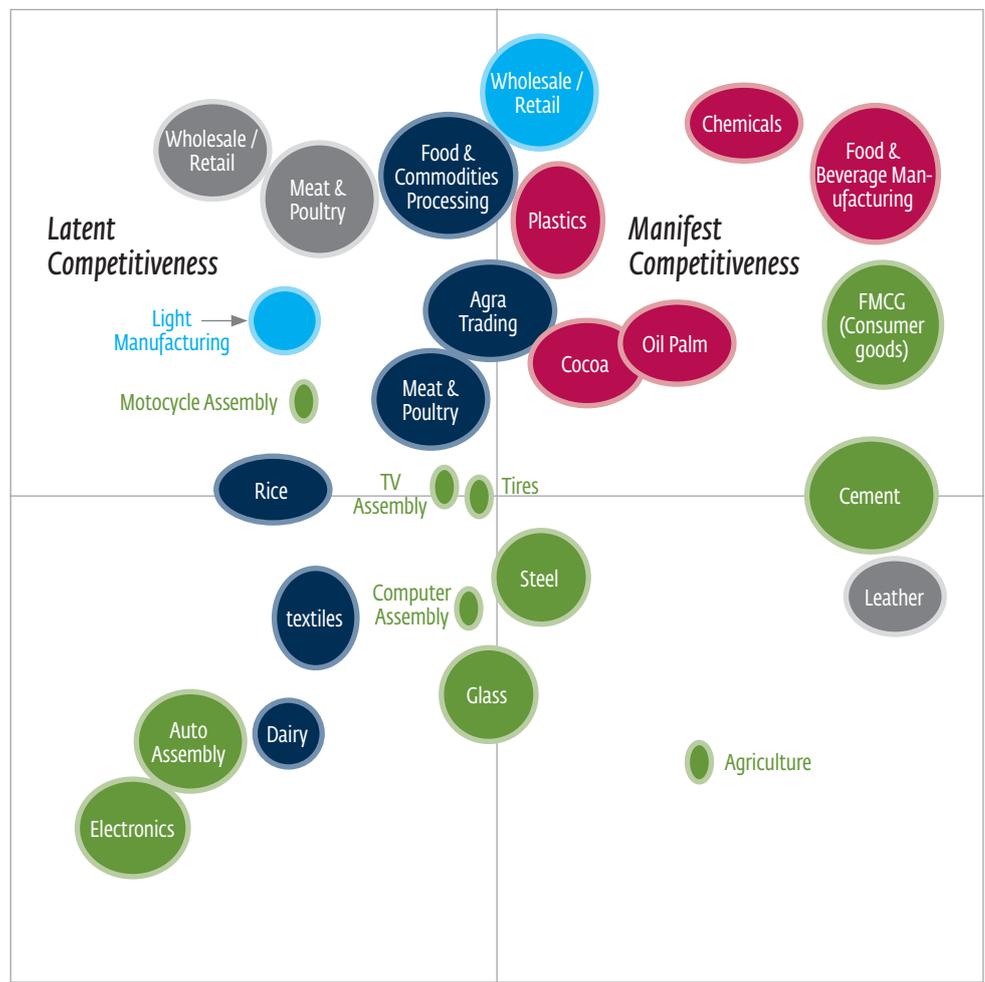
UPSIDE POTENTIAL

- Growth
- Employment
- Spillovers

SECTOR FEASIBILITY

- Existing endowments
- Ability to bridge competitiveness gaps
- Likelihood of policy reform

HIGH



LOW

HIGH

LAGOS
KANO

KADUNA
SOUTHERN NIGERIA

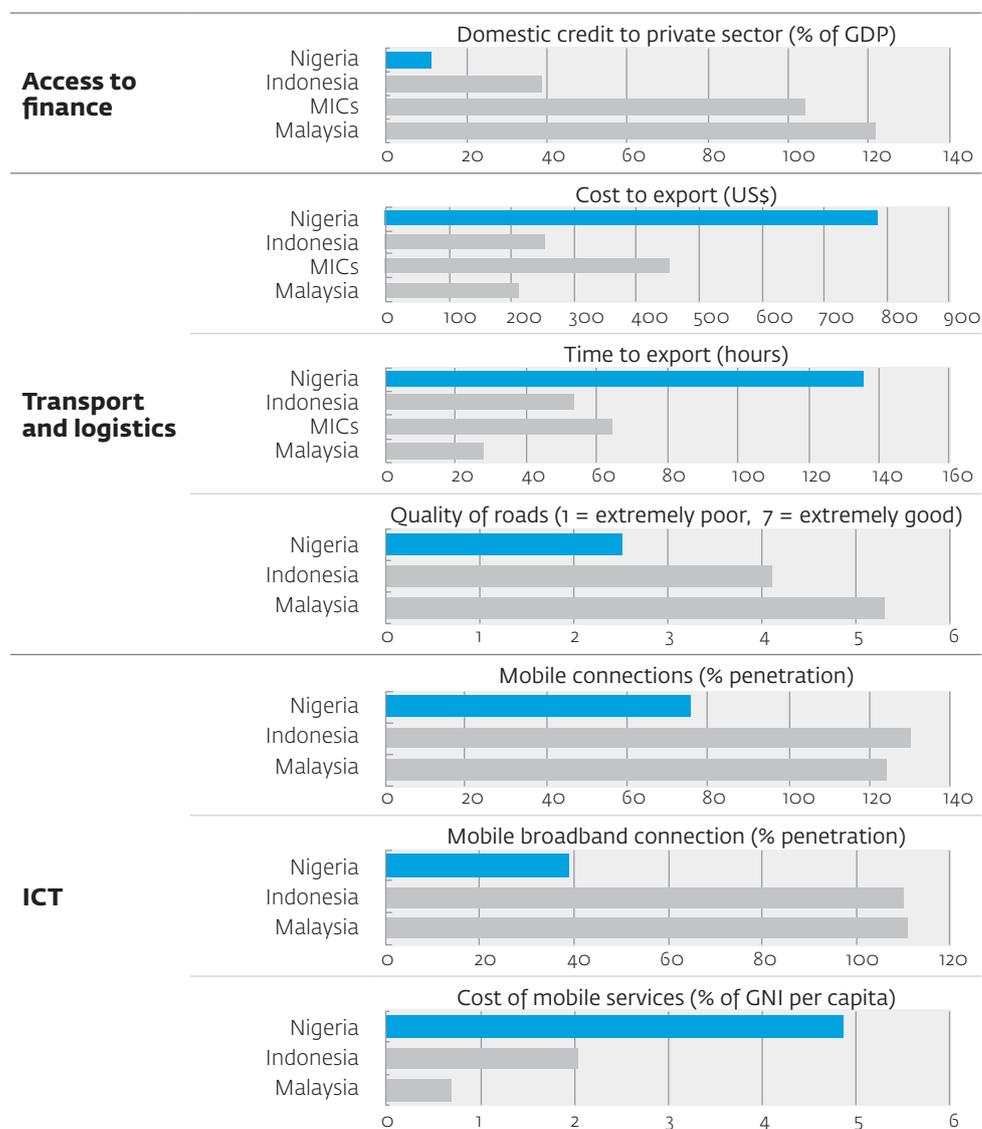
MULTIPLE REGIONS
Size of circle indicates current importance to economy

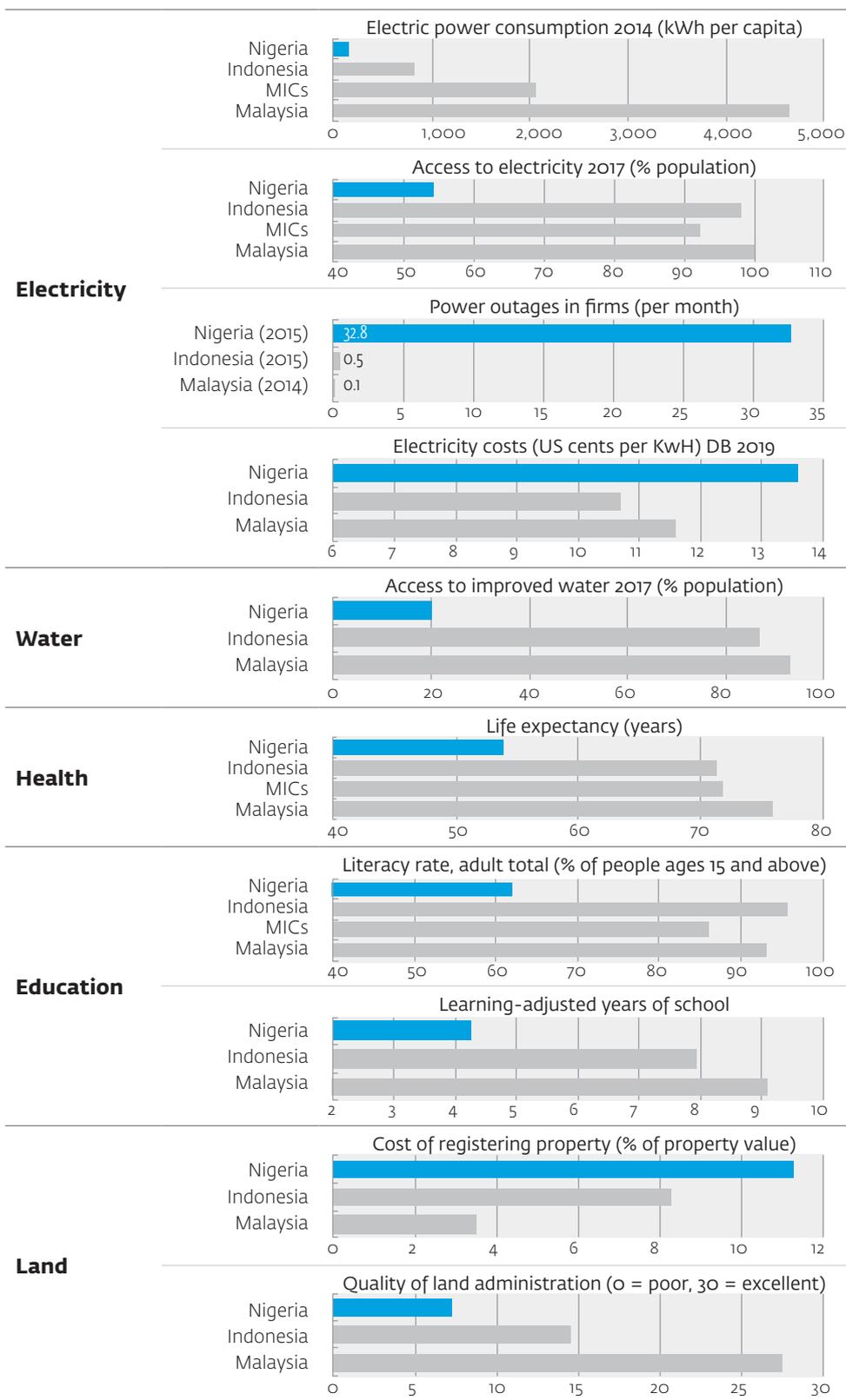
Source: Based on IFC staff calculations.

Note: Growth Identification and Facilitation Framework

APPENDIX D: IDENTIFYING CONSTRAINTS IN ENABLING SECTORS: NIGERIA VERSUS PEERS

FIGURE D.1 THE STATE OF BUSINESS ENVIRONMENT “ENABLERS”: NIGERIA VERSUS PEERS





Note: DB 2019 = World Bank Doing Business index 2019; ICT = information and communication technology; MICs = middle-income countries.

APPENDIX E: PUBLIC-PRIVATE PARTNERSHIP OPPORTUNITIES IN INFRASTRUCTURE

TABLE E.1 PUBLIC-PRIVATE PARTNERSHIP OPPORTUNITIES IN INFRASTRUCTURE

Sector	INVESTMENT NEEDS [% OF GDP]	RATIONALE	PPP TARGET AREAS
Power (electricity)	1.5	<ul style="list-style-type: none"> • Generation capacity is no longer a constraint, but the grid requires expansions to increase electricity access from currently 58 to 95 percent in the next 20 years. The system is riddled by limited gas availability, historically poor maintenance of infrastructure, and limited ability to manage flow. • The deficient grid system leads to commercial and technical losses suggesting private participation in this area. Meters need to be deployed to ensure revenue collection efficiency. • The Economic Recovery and Growth Plan (ERGP) aims at reaching financial close on the 15 solar plants that have recently signed power purchase agreements (PPAs) (ERGP 2014–20). Given that most renewable PPPs in Sub-Saharan Africa were in South Africa and Kenya, Nigeria may likely be a potential future market for renewables going forward. 	<ul style="list-style-type: none"> ✓ Transmission grid ✓ Renewables/solar ✓ Off grid/decentralized generation
Roads/mass transit	1.2	<ul style="list-style-type: none"> • Although there are overall high investment needs, many of those investments would involve increasing paved roads' length from 30,000 km to 260,000 km over the next 20 years, most of which would be for rural roads construction or increasing road quality (paving). Many of these roads will, however, have insufficient/unstable traffic frequency to create a business case for PPPs. • PPP opportunities may therefore be found in the expansion and refurbishing of highways or peri-urban expressways as well as mass transit (rail and BRT), given Nigeria's soaring urbanization and population density. 	<ul style="list-style-type: none"> ✓ Highways and expressways in urban and peri-urban areas ✓ Rail mass transit ✓ BRT
Ports	0.4	<ul style="list-style-type: none"> • Marine traffic rose 42 percent between 2007 and 2012, but congestion is an issue. The system requires further improvement and expansion to accommodate Nigeria's growth. Ports investment is estimated to have been substantially higher in Nigeria than in other African countries since 2007, boosted by the government's Port Reform Programme, which proved successful in attracting private investment to address limitations in the country's ports sector. 	<ul style="list-style-type: none"> ✓ Sea port construction ✓ Inland waterway construction

Telecom	0.6	<ul style="list-style-type: none"> Following a successful deregulation effort, the telecommunications sector has been growing rapidly. Further investment is needed to address huge demand, which often can overwhelm existing infrastructure. Nigeria ranks 112th out of 144 nations in the overall readiness of its information and communications technology network, according to the World Economic Forum. There is also much potential to expand access. 	
Airports	0.1	<ul style="list-style-type: none"> The air transportation infrastructure consists of five international and 19 domestic airports. Substantial investment is needed to bring them in line with international standards. They particularly need improved passenger facilities, increased capacity, and business hubs around the major airports. 	<ul style="list-style-type: none"> ✓ Upgrade and expand existing airport (renovate 11 airports and upgrade 8)
Rail	0.1	<ul style="list-style-type: none"> Rehabilitation of existing railway lines and building of additional railway lines to even economic development. 	<ul style="list-style-type: none"> ✓ Rail linkages to economically important sites (Tincan, Onne, Apapa port)
Agriculture	n.a.	<ul style="list-style-type: none"> Smallholder Nigerian farmers lose more than 40 percent of harvests of certain crops to spoilage and waste because of lack of access to markets and affordable storage. 	<ul style="list-style-type: none"> ✓ Silos/storage/warehouses ✓ Irrigation systems
Health	n.a.	<ul style="list-style-type: none"> The government policy on PPPs in health recognize that a central aspect of sector reform is “to mobilize and harness all resources across both public and private sectors”—endorsing the PPP concept. 	<ul style="list-style-type: none"> ✓ Secondary and tertiary health care providers
Housing	n.a.	<ul style="list-style-type: none"> Nigeria has an estimated 200 million m2 of real estate, of which 160 million are residential, 30 million are commercial space, and 10 million are industrial. On a per capita basis, these levels are one-third to one-sixth the levels in Indonesia. 	

Sources: Oxford Economics and Global Infrastructure Hub 2017; McKinsey 2014; IFC analysis.

Note: PPP = public-private partnership; n.a. = not applicable.

APPENDIX F: KEY COMPETITION RESTRICTIONS IDENTIFIED IN VARIOUS SECTORS

TABLE F.1 GOVERNMENT INTERVENTIONS THAT AFFECT COMPETITION

SECTOR	SUBSECTOR	GOVERNMENT INTERVENTIONS THAT AFFECT COMPETITION
Agriculture	Fertilizers	<ul style="list-style-type: none"> • In 2019, the Central Bank of Nigeria (CBN) imposed a ban on nitrogen, phosphorus, and potassium imports (through foreign exchange restrictions) to protect the blending industry, which is likely to raise prices for consumers. • At the same time, distortionary import tariffs put domestic blending firms at a disadvantage against international suppliers of straight fertilizers.^a • Other fertilizer imports are routinely delayed because of the requirement that all imports undergo laboratory testing. • Despite positive reform of the fertilizer distribution system, challenges remain. The introduction of demand-side subsidies (in part digitally delivered) about five to seven years ago allowed for more consumer choice and the development of private sector agrodealer networks. However, some challenges remain with this plan including: <ul style="list-style-type: none"> — Competition between suppliers under the plan is subdued because the federal government had granted regional monopolies to certain suppliers. — The plan has also suffered from delayed payments from government to agrodealers, which has led to late deliveries; a lack of coordination between federal and state governments, which has led to some states withdrawing; and poor ICT network coverage.^b

<p>Seeds</p>	<ul style="list-style-type: none"> • Insufficient seed multipliers and large scope of subsidies: Government involvement in the seed market contributes to the lack of improved varieties/strains. Private firms compete on an unlevel playing field with public sector institutions, including Agricultural Development Projects (ADPs). <ul style="list-style-type: none"> — The release of free seed (including through ADPs) has dampened incentives for commercial multipliers to enter the market. Meanwhile, ADPs have been considered ineffective, partly because of a lack of effective complementary extension activities. — New Rice for Africa (NERICA) and International Institute of Tropical Agriculture (IITA) cannot produce enough new material because they do not operate commercially and cannot cover costs. • Silos for seed and plantlets of improved varieties are not located in all growing areas, meaning some farmers cannot access them. Some report that the positioning of silos is politically motivated.
<p>Agri-finance</p>	<ul style="list-style-type: none"> • Intervention funds from the CBN are reportedly not awarded on a level playing field and provide advantages to certain connected firms.^c • The cap on the amount of concessional funding from Bank of Industry/Bank of Agriculture is considered insufficient to plant one hectare of land, which makes it impractical to use effectively.
<p>Agri-digital platforms</p>	<ul style="list-style-type: none"> • Several promising tech platforms are emerging as connectors of value chains, and alternatives to traditional intermediaries, bringing together farmers, off-takers, and service providers. • Given the propensity of such platforms to tip toward market dominance, to exclude rivals from the market, to allow for leveraging of market power between markets (for example, because of access to data), and to favor farmers with some scale, the government may want to consider monitoring the effects of such platforms on the market closely and to consider whether any form of regulation or safeguards would be useful in the medium term.

Manufacturing and construction inputs	Cement	<ul style="list-style-type: none"> • Incumbents claim transport costs are the main reason that Nigerian cement prices are higher than prices in other countries in the region, although it is likely that a lack of competitive pressure between incumbents, lack of threat from entry, a ban on imports, and consequent high margins for domestic firms (reportedly around 40 percent margin), play a large role, especially given Nigeria’s relatively low cost of production. • Despite claims of a glut in the market by incumbents, potential entrants do not believe the market is saturated, especially given demand that could come from housing needs (with cement making up around 30 to 40 percent of the cost of affordable housing). • However, the following factors hinder new entry and competition in the sector: <ul style="list-style-type: none"> — Incumbents developed large positions with great scale because of informal and formal advantages provided (access to state assets, tax holidays, and so on). — Access to licenses for exploration is difficult given that existing companies have rights over very large geographic areas and “lose it or use it” provisions in licenses are not the norm. Also, there are long-term exclusivity rights over mines and limestone resources in favor of the incumbent firms that prevent the entry of other firms. — There is an intention by the Nigeria Geological Agency to map areas available for exploration/quarrying, but financing is needed to do this. — Restrictions on the issuance of import licenses and on foreign exchange for cement limit competitive pressure on domestic producers.^e
	Automotive	<ul style="list-style-type: none"> • The sector incentive defined by the Automotive Development Council includes local content to stimulate demand for plastic parts and windscreens.

<p>Electronic communication</p>	<p>Digital financial services (DFS)</p>	<ul style="list-style-type: none"> • The Mobile Telecommunication Company (MTN) has been given a license to operate as a payment service banking provider, allowing it to compete directly with banks. This is positive given CBN previously required mobile network operators (MNOs) to provide mobile money only in partnership with banks. • However, to open up the market for DFS further, challenges for third parties accessing MNOs' USSD/SMS (texting) channels for DFS would need to be addressed. These challenges include the following: <ul style="list-style-type: none"> — Third parties claim that current MNO pricing of its USSD/SMS channels leads to margin squeeze. — MNOs will not commit to quality of service, which is problematic because MNOs bill for failed transactions. — MNOs can access the data of third-party providers like Interswitch because USSD is transferred in clear text. • MTN is now subject to regulation from CBN to provide access to its USSD/SMS channels to third parties on nondiscriminatory terms, although enforcement of the provision has not yet been seen.
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Telecommunications and broadband rollout	<p>Broadband rollout:</p> <ul style="list-style-type: none"> • Fiber backbone coverage in Nigeria is significant,^f however the last mile network is sparser.^g The government’s main focus now is on fiber rollout outside major cities. • NCC has tendered one license to roll out fiber for each of seven designated zones—essentially creating local monopolies and bottlenecks. It is not clear why such an approach would be necessary in areas where rollout is commercially viable, such as Lagos. To mitigate competition issues arising here, these networks should be regulated on an open access basis. • Subsidies available for rollout post-delivery under the National Broadband Plan (government set to contribute 40 percent of the total rollout cost) do not consider competitive neutrality principles, which would safeguard against distortions from the advantages provided to subsidy recipients. • Investors have faced issues with being granted right of way (RoW) to lay fiber in state-owned land because of the lack of legislation on RoW. State governors refused the approval of RoW to—or demanded high fees from—telecommunications operators deploying infrastructure in their states until the Nigerian Communication Commission intervened on behalf of operators.^h And in the North-Central Zone, IHS returned its license to rollout because it could not secure RoW. <ul style="list-style-type: none"> — In this regard, one positive step forward in rollout was an agreement between state governors on a harmonized RoW charge; however, this remains as an informal agreement and may benefit from being formally regulated to increase certainty. <p>Regulation of the market:</p> <ul style="list-style-type: none"> • NCC has put in place some promising procompetition rules (especially in the voice market) including issuing guidelines for interconnectivity, making a determination of dominance on MTN and issuing directives to MTN regarding on-net/off-net calls; and implementing a mobile number portability scheme. • However, it has imposed minimum retail prices for data services in the recent past—which raises prices for consumers—and it is now considering reimposing a retail tariff regulation.
Value-added services (VAS)	<ul style="list-style-type: none"> • Introduction of a new category of “VAS Aggregator” license by the NCC has meant that aggregators that were previously licensed under a “VAS Content” license could be “prohibited” from operating because aggregators such as VAS Content license holders are not eligible to apply for a VAS Aggregator license.

<p>Transport</p>	<p>Shipping/ports</p>	<ul style="list-style-type: none"> • The Nigerian Shippers' Council (NSC), historically the representation body for shippers, was appointed the economic regulator for Nigeria's seaports in 2015, leading to the potential for conflicts of interest in certain aspects of its role (for example, the NSC is now putting in place fixed shipping charges).ⁱ
<p>Energy</p>	<p>Oil and gas</p>	<ul style="list-style-type: none"> • Nigerian independent operators will be given first consideration in the award of oil projects in Nigeria. In addition, multinational companies working through Nigerian subsidiaries must demonstrate that a minimum of 50 percent of the equipment used is owned by Nigerian subsidiaries.^j <ul style="list-style-type: none"> — The government participates both as regulator and player on various markets along the value chain, which dampens competition between public and private firms. — The Petroleum Act explicitly permits the Minister of Petroleum Resources to fix the price at which petroleum and petroleum-related products may be sold, suppressing market signals.
	<p>Electricity</p>	<ul style="list-style-type: none"> • The recent introduction of "eligible customer regulation" is an opportunity for commercial business and can improve the competitiveness of the power distribution market, however: <ul style="list-style-type: none"> — Despite regulatory changes, buyers are not allowed to buy directly from generation/transmission companies, but instead they are required to negotiate with and buy from a distributor. This obligation has been seen as compensation to the distribution companies. — There have been delays in approving eligible customer agreements potentially to protect distributors. For example, five members of the Manufacturers Association of Nigeria entered into agreements with distribution companies (those that already had connection infrastructure) but another 40 members are currently waiting to receive approval/licenses from the authority.

Financial services	Payments systems	<ul style="list-style-type: none"> • Several competition concerns have been raised with the central switch (the Nigeria Inter-Bank Settlement System or NIBSS), which is owned by a group of banks and the CBN. <ul style="list-style-type: none"> — NIBSS now acts as the sole Payment Terminal Service Aggregator. This allows the banks to exclude other players from the payment systems market. Initially, regulation prohibited NIBSS from retail activity, but this regulation has recently changed, which could pose a conflict of interest and lead to a greater risk of exclusionary behavior. — Moreover, all banks have been requested by CBN to use the transfer services of NIBSS, and CBN has in the past asked all actors to send all data to NIBSS, which would have provided banks with a stake in NIBSS with an obvious advantage. — Finally, roll out of a unique bank verification number (BVN) has been championed by NIBSS. However, NIBSS refused to give access to the BVN to smaller players, which has delayed the rollout of certain innovations because of the lack of access to the BVN (for example, credit scoring, direct cards, onboarding/know-your-customer [KYC] innovations). • CBN sets the merchant service commission at 7.5 percent. This prevents providers from competing on price. • A recent CBN circular on licenses for payment systems providers caused uncertainty by dividing licenses into tiers with different requirements. It was unclear whether existing licenses would be revoked and whether an operator who conducts multiple different services would have to reapply for a license for each one. • KYC requirements set by the CBN are based on traditional bank-model approach to KYC but this does not take into account the needs/models of digital technologies. Moreover, larger players say that smaller players are at an informal advantage because they are not under scrutiny on KYC requirements from CBN.
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- a. Zero percent duty and VAT charged on final fertilizer imports, but 5 percent VAT charged for fertilizers that have been blended within the country.
- b. See for example: https://acta.mendelu.cz/media/pdf/actaun_2018066030781.pdf.
- c. Note that Nigerian firms believe they are at a natural disadvantage versus international firms because of the higher cost of access to capital and differential access to foreign exchange.
- d. Dangote holds the Mining Lease Agreement (MLA) for the limestone quarry feeding Sub-Saharan Africa's largest plant, the Obajana plant, and at least six Exclusive Prospecting Licenses (EPL) for limestone resources.
- e. See <https://www.export.gov/article?id=Nigeria-Prohibited-and-Restricted-Imports>.
- f. With five or six submarine fiber international connections.
- g. Ninety-nine percent of last-mile coverage is through mobile networks.
- h. See <https://www.thisdaylive.com/index.php/2018/06/28/half-year-telecoms-sector-trudges-on/>; <https://www.thisdaylive.com/index.php/2018/08/24/telcos-incursion-stifles-internet-service-providers/>.
- i. See <https://www.shipperscouncil.gov.ng/port-legal-framework>.
- j. Nigerian Oil and Gas Industry Content Development Act of 2010: <https://www.export.gov/article?id=Nigeria-Market-Overview>.

APPENDIX G: IDENTIFYING OPPORTUNITIES: SECTORS

TABLE G.1 TOP 20 PRODUCTS BY REVEALED COMPARATIVE ADVANTAGE

CATEGORY	PRODUCT	RCA 2017	% CHANGE IN RCA (2013-17)	% CHANGE IN WORLD DEMAND	% CHANGE IN NIGERIAN EXPORTS
Fuels	Petroleum oils, oils from bitumen, materials, crude	16.4	4.4	-4	-15
	Petroleum gases, other gaseous hydrocarbons, n.e.s	15.6	0.6	-4	-10
Agriculture	Cocoa	9.8	-0.2	1	0
	Wood in the rough or roughly squared	8.7	15.8	-2	85
Fuels	Natural gas, whether or not liquefied	8.4	0.9	-2	
	Fuel wood (excluding wood waste) and wood charcoal	8.4	0.6	5	-62
Agriculture	Oil seeds and oleaginous fruits (includes flour, n.e.s)	5.2	11.4	NA	NA
Fuels	Liquefied propane and butane	4.9	1	NA	NA
Hides and skin	Hides and skins (except fur skins), raw	3.8	50	-9	-36
	Leather	2.9	0.0	3	0
Metals	Ores and concentrate of base metals, n.e.s	2.5	3.0	NA	NA
	Lead	1.9	0.3	7	-14
	Nonferrous base metal waste and scrap, n.e.s	1.6	1.1	NA	NA
Chemicals	Natural rubber and similar gums, in primary forms	1.6	-0.7	-2	-15
Agriculture	Spices	1.3	0	4	-28
	Oil seeds and oleaginous fruits (excluding flour)	1.1	0.3	NA	NA
	Tobacco, manufactured	1.1	1.3	2	-6
Chemicals	Fertilizers (other than those of group 272)	1.1	15.9	-3	150
	Lime, cement, fabricated construction material (excluding glass)	0.9	11.4	-3	96
Fuels	Residual petroleum products, n.e.s, related matter	0.8	80.3	NA	NA

Source: U.N. Conference on Trade and Development.

Note: RCA = revealed comparative advantage; n.e.s. = not elsewhere specified; NA = not available.

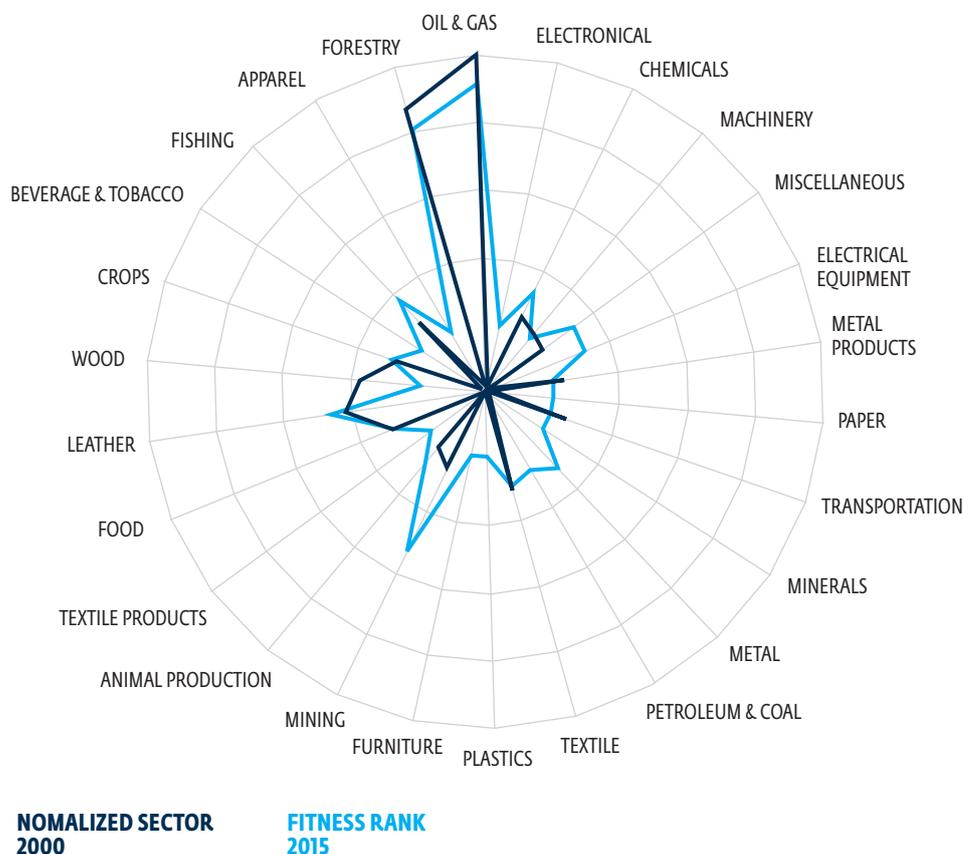
TABLE G.2 DISTANCE INDEX BY PRODUCT

CATEGORY	PRODUCT	DISTANCE INDEX	PRODUCT COMPLEXITY
Mining	Gold	0.904	-2.45
Agribusiness	Cotton	0.913	-2.47
Chemicals	Cyanate	0.915	-1.67
Mining	Manganese	0.920	-2.49
Agribusiness	Peanuts	0.921	-2.64
	Tobacco	0.921	-1.81
	Avocado, pineapples, and mango	0.922	-1.97
Mining	Aluminum ore	0.924	-0.09
Agribusiness	Bananas and plantain	0.924	-1.78
	Sugarcane and sucrose	0.923	-1.63
	Molasses	0.925	-1.65
	Palm oil	0.926	-2.09
	Tubers	0.926	-1.91
	Hides and skin	Raw hides	0.927
Agribusiness	Vegetable production	0.927	-1.89
	Coffee	0.927	-1.80
	Frozen fish	0.928	-1.66
	Legumes	0.929	-1.77
Mining	Chromite ore	0.930	-3.00
Agribusiness	Pepper	0.931	-1.89

Source: Harvard University.

Potential Opportunities on the Basis of Sector Fitness Analysis

FIGURE G.1 SECTOR FITNESS ANALYSIS



Source: IFC staff analysis.

TABLE G.3 POTENTIAL OPPORTUNITIES ON THE BASIS OF SECTOR FITNESS

SECTOR	LARGE BASE	OTHER FAST GROWING	GREEN SHOOTS
	(opportunities with large export volumes)	(other competitive exports that are growing above the global average)	(goods and services that are not yet exported competitively, but that are growing quickly)
Agribusiness (including animal products and forestry)	Plants for pharmaceutical and insecticides use Animal products (tanned lamb skins) Tropical wood in the rough	Soups/broths, cocoa paste	Bovine leather
Mining/ extractives	Aluminum, lead, petroleum gas	Tungsten ores, zirconium ores, and metal ash	Aluminum waste, iron/steel masts, lead ores
Manufacturing		Synthetic wigs/beards	Machinery and transportation equipment (motorcycles, motor vehicles, parts for gas turbines, hand working tools, and electric generating sets) Chemicals (polypropylene and polyethylene in primary forms); toothpaste
Services	Transport, finance		

Source: World Bank Group staff analysis.

APPENDIX H: OPPORTUNITIES FOR KEY MINERALS IN NIGERIA

TABLE H.1 OPPORTUNITIES FOR KEY MINERALS IN NIGERIA

MINERALS OF INTEREST	OPPORTUNITIES IN NIGERIA
Gold	<ul style="list-style-type: none"> • About 200 million metric tons of estimated resources; it is a high-value mineral with a historical track record of increasing prices. • Easy to mine and process post exploration. • Ongoing exploration by Tropical Mines Nigeria Ltd., with plans to commence full exploitation by 2020. • KiansmithTrade Co. Ltd., which has about 25 exploration licenses, recently secured the first gold refinery license in Nigeria for production in the Mowe District of Ogun State. • A national gold development policy is currently being fleshed out alongside the establishment of a federal gold reserve plan. Under the proposed plan, the Central Bank will purchase gold from local refineries to grow the country's gold reserves based on international conventions. • Although gold is currently exported as a raw material, the upcoming developments in gold refining are expected to change the structure of production and exports.
Iron ore	<ul style="list-style-type: none"> • Estimated resources of 10 billion metric tons and reserves of three billion metric tons • Nigeria has high-grade iron ore (60 percent Fe) that could be used for domestic steel production.
Lead and zinc	<ul style="list-style-type: none"> • An estimated 10 million tons of lead and zinc spread over eight states of Nigeria. • Proven reserves and prospects in the East-Central area of 5 million tons. • Strong demand for lead and zinc ores in international markets. • Already existing Chinese and domestic players with ready markets in China and Hong Kong SAR, China.
Limestone	<ul style="list-style-type: none"> • Nigeria has the richest limestone deposit in West Africa, with commercial reserves found in 11 states, namely Abia, Akwa-Ibom, Anambra, Benue, Borno, Cross River, Ebonyi, Edo, Ogun, Ondo, and Sokoto. • It is commonly used in the production of concrete, agricultural products, and cement. • The main large operators include Ashaka Cement Plc. operating in Gombe State; Lafarge operating in Ogun State; and Dangote operating in Kogi State.

Tungsten	<ul style="list-style-type: none"> • Exists in commercial quantities in the North-East and North-Central geopolitical zones of Nigeria especially in the states of Bauchi, Cross River, Kaduna, Kano, Niger, and Plateau, as well as Nasarawa and Zamfara. • Major mining companies include Divamen Ventures Ltd., operating in Nasarawa, and Babakiyawa Investment Company Ltd. in Zamfara State. Temcore International Ltd. is partnering with an international company to explore tungsten in Cross River State.
Zirconium	<ul style="list-style-type: none"> • The largest and the purest zirconium ore is found in the North. Quantities of zirconium exist in the states of Adamawa, Kano, and Plateau. • AyeI Miners Multipurpose Cooperative is the major operator in the field, but a community of artisanal miners currently numbering about 2,000 exists. • Most of the ore produced is sold to Senteng International Company Ltd., a Chinese company.
Granite	<ul style="list-style-type: none"> • Granite is a major resource in road construction and building. • Granite is found in all of the states of the federation, but occurs in larger quantities in Abuja (Federal Capital Territory), Cross River, and Ekiti states.
Marble	<ul style="list-style-type: none"> • The economic viability of marble mining has resulted in the establishment of numerous quarry sites and processing plants. • Freedom Group of Company Ltd. and Geo-works International Ltd. have established processing plants for marble in Edo State and employ about 500 people.
Copper	<ul style="list-style-type: none"> • About 30 million tons of copper deposits in six states including Bauchi, Gombe, Kano, Nasarawa, Plateau, and Zamfara • About 70 percent of local production is used in the domestic production of cables and wires, while the remaining 30 percent is exported to China. • Nigerian cable is rated as one of the best cables in the world.
Sand	<ul style="list-style-type: none"> • Sand and gravel are found almost everywhere in Nigeria. • Large construction companies in the dredging and exploitation of sand and gravel include Gloss Nig. Ltd., operating in Epe, Lagos State; Sokab Nig. Ltd., operating in Sagamu, Ogun State; and Julius Berger Sand Quarry, operating in Uyo, Akwa Ibom State.

Source: Solid Minerals Development Fund Nigeria.

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NOTES

- 1 According to *The Changing Wealth of Nations* (Lange, Wodon, and Carey 2018), about 56 percent of Nigeria's total wealth per capita of US\$37,408 comes from its human capital, whereas produced capital and natural capital contribute 10.3 percent and 34.5 percent, respectively.
- 2 See the appendixes for further discussion on choice of peers.
- 3 This is based on a projection by the world poverty clock (compiled by the Brookings Institution) using internationally comparable poverty measures (that is, international purchasing power parity adjusted US\$1.90 per capita per day).
- 4 See the world poverty clock.
- 5 These reforms include: (a) debt relief from Paris Club creditors, which created room for expansionary fiscal policy; (b) the introduction of an oil-based fiscal rule, which allowed the creation of the Excess Crude Account, and enhanced counter-cyclical fiscal capacity; (c) civil service and governance reforms, which included the creation of two institutions to fight corruption—the Independent Corrupt Practices Commission (ICPC) and the Economic and Financial Crimes Commission (EFCC); (d) privatization of several inefficient state-owned enterprises, which had consumed about US\$3 billion annually in direct and indirect subsidies; (e) banking sector reforms, which consolidated the number of banks from 89 to 25, and helped to double credit to the private sector between 2005 and 2010; and (f) liberalization of the telecommunications industry, which laid the foundation for a strong digital economy, among other improvements (see Okonjo-Iweala 2012).
- 6 An estimated 80 percent of the economic growth over this period was driven by increases in total factor productivity as opposed to the accumulation of physical and human capital (see World Bank 2019a).
- 7 Recently, Nigeria's ranking on the World Bank's Economic Fitness Index, which measures the level of economic diversification in countries, has further deteriorated—from 126th in 2013 to 137th out of 149 countries in 2015.
- 8 According to the petroleum ministry, the delay in the passage of the Petroleum Industry Bill is estimated to have stalled investment by up to US\$15 billion per year, and about US\$100 billion during the past few years (Financial Times 2015).
- 9 See Woodroof (2019).
- 10 See Flowers (2018).
- 11 The International Energy Agency suggests that by 2050, the world will have to rely on biofuels for about 25 percent of all transport fuels if it does not want global temperatures to rise more than two degrees.
- 12 The World Bank's 2019 *Doing Business of Agriculture* report ranked Nigeria's agribusiness ecosystem 71st out of 101 countries, on the basis of inadequate policies and legislative frameworks.
- 13 A 2017 survey conducted by NOI Polls—a country-specific polling service in the West African region in technical partnership with Gallup (USA)—showed that 44 percent of manufacturing firms identified policy inconsistency as a major challenge to the industry and that it is a deterrent to potential international and domestic investments.
- 14 The social contract refers to the understanding between citizens and the state about their respective roles and responsibilities.
- 15 Nigeria lags behind its peers and Sub-Saharan African countries in many governance indicators (World Bank 2019b).
- 16 An interministerial Presidential Enabling Business Environment Council (PEBEC) was set up by the government in 2016 to remove bureaucratic constraints from doing business in Nigeria. The PEBEC's efforts helped Nigeria move up 38 places on the World Bank Group's *Doing Business* rankings between 2017 and 2020. In fact, for the 2020 rankings, Nigeria is one of the top 10 reformers in the world.
- 17 The shadow economy is comprised of "all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid payment of income, value-added, or other taxes; to avoid payment of social security contributions; having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, etc.; and complying with certain administrative procedures, such as completing statistical questionnaires or administrative forms" (Schneider 2019).
- 18 A few manufacturing subsectors are promising, based on the Growth Identification and Facilitation Framework (GIFF)—a methodology for identifying sectors where the country may have a latent comparative advantage and removing binding constraints to facilitate private firms' entry into those industries. These industries include chemicals, plastics, food processing and beverages, fast-moving consumer goods, transportation assembly, and light manufacturing. See appendixes for more on GIFF.
- 19 The World Development Report 2009 advises countries that are in a similar situation as Nigeria to promote regional integration to scale up their supply capacities and to promote global integration to scale up the demand they face. Non-oil exports to regional and global markets will help anchor Nigeria's growth in a job-creating private sector.

- 20 Per existing official classification: **micro enterprises** (less than 10 employees, less than N10 million in assets); **small enterprises** (10 to 49 employees, N10 million–N100 million in assets); **medium-size enterprises** (50 to 199 employees, N100 million–N1,000 million in assets). **Large enterprises** exceed these thresholds. Assets exclude land and buildings. If there are conflicts between employment and assets criteria, employment criterion takes precedence (SMEDAN and NBS,2017).
- 21 See Loayza (1997).
- 22 World Development Report 2013 (World Bank 2012).
- 23 See World Bank Enterprise Survey 2014.
- 24 See IMF Public Investment Management Assessment (forthcoming).
- 25 IMF Article IV, April 2019.
- 26 Interviews with agribusiness exporters (for example, sesame seed producers) suggest that exchange rate uncertainty has limited exports.
- 27 A significant number of Nigerians, especially in the Gulf Cooperation Council countries and in South Africa, are in irregular status, and likely to use irregular channels for sending remittances. Such remittances sent through informal channels are not reflected in the official statistics.
- 28 Studies such as Dollar and Kraay (2004) posited the positive correlation between trade openness and growth. Both works of Bernard and Jensen (1997) and Bernard and others (2004) concluded that exporting firms are more productive than nonexporters due to learning by exporting. Goldberg and Pavcnik (2007) also find that firms in developing countries that import machinery from developed economies are more productive. Restricted access to foreign currency and raw material imports raised costs for domestic manufacturers and forced some to close business or to move.
- 29 Nigerian Oil and Gas Industry Content Development Act of 2010.
- 30 For example, Ghanaian manufacturers believe that the key barriers to trade with Nigeria include substantial informal payments and delays, transit charges, and excessive requirements for product registration (Hoppe and Aidoo 2012).
- 31 See the write-up of the Deloitte and the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture (NACCIMA) workshop: <https://guardian.ng/features/tax-discourse/the-ecowas-trade-liberalization-scheme-myth-or-reality/>.
- 32 See World Development Indicators Database.
- 33 Recent data published by Enhancing Financial Innovation and Access Program (EFINA) indicate that financial inclusion rate in Nigeria seems to have improved from of 63.2 percent in 2018 compared with 53.7 percent in 2010; (accessible at: <https://www.efina.org.ng/our-work/research/access/>)
- 34 The CBN reported that the LDR policy resulted in a significant growth in credit to various sectors from N15.57 trillion to N19.33 trillion between end-May 2019 and end-August 2020, an increase of N3.77 trillion
- 35 Doing Business Report, 2020
- 36 As part of the Ease of Doing Business reforms driven by the Presidential Enabling Business Environment Council (PEBEC), small claims courts have launched in four states (Lagos, Kano, Edo, and Ogun) to allow expeditious adjudication of commercial disputes.
- 37 The new CAMA 2020 became law with the assent of the president on August 11, 2020.
- 38 The tiered new requirements were due to come into effect on April 1, 2020, and were set at ₦200 million for unit MFBS, ₦1 billion for state MFBS, and ₦5 billion for national MFBS.
- 39 The revisions included splitting Unit MFBS into two sub-Tiers: i) sub-Tier 1 MFBS operating in urban, high density banked areas of society saw no change in minimum capital; and ii) sub-Tier 2 MFBS operating only in rural, unbanked or underbanked areas saw a reduction in minimum capital to just 25% of the level of sub-Tier 1.
- 40 Tier 1 Unit MFBS, State and National MFB have much larger minimum capital requirements- N200 million, N1 billion and N5 billion.
- 41 See World Bank (2011).
- 42 See McKinsey Global Institute (2014).
- 43 See World Bank and UKAID (2016).
- 44 Information retrieved from the World Bank World Development Indicators database.
- 45 According to the GSMA Mobile Connectivity Index 2018 at https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2018/09/GSMA_Mobile-Connectivity-Index-SSA-Focus.pdf.
- 46 The gravity of this problem for firms was fully corroborated by stakeholder consultations undertaken across Nigeria between March and April 2019.
- 47 A study suggests that generator-derived power (at US\$0.32–\$0.49/kWh or more in 2016) is significantly more expensive, compared with the cost of power from the national grid (at US\$0.13–\$0.19/kWh). See Euromonitor International (2018b).
- 48 The cost of production in Nigeria has been estimated to be about nine times higher than the cost of production in China. See Aliyu, Ramli, and Saleh (2013).
- 49 Three of the five thermal generation companies powered by gas were sold to new owners, while private operators received concessions for managing three hydropower plants.
- 50 One notable issue affecting transmission derives from the historical coexistence of 330kV and 132kV lines, for which the transmission system requires investment at transformation from 330/132kV and 132/330kV.

- 51 See the article "Power Sector Risks Bankruptcy as Financial Crisis Hits ₦4 Trillion," *Guardian*, March 3, 2019. According to distribution companies, the nonreview of the Multiyear Tariff Order since February 2016 has resulted in the accumulation of more than ₦1.4 trillion shortfall in the nation's electricity market (Edeh 2019).
- 52 See Association of Nigerian Electricity Distributors, n.d.
- 53 For a detailed list of the interventions, see Federal Republic of Nigeria 2018, 8–10.
- 54 Although a majority of off-grid solutions in the country are solar, the market is suitable for other solutions including hydro, battery powerpack, and biomass electricity solutions. These solutions can provide reliable power to underserved power consumers and unserved communities.
- 55 It is noteworthy to mention that the government – through the Rural Electrification Agency (REA) – provides a grant of 100 percent of duty waiver for equipment to private investors in off-grid power in rural areas.
- 56 See the National Integrated Infrastructure Master Plan (NIIMP 2014–2043) for accelerating infrastructure development in the country. The Master Plan is aimed at raising our stock of infrastructure from the current 35 to 40 percent of GDP to 70 percent by 2043.
- 57 See World Bank (2018c).
- 58 This is based on an assessment by the World Bank PPP team.
- 59 This arrangement will ensure that federal projects will go through a rigorous appraisal as to their economic and financial viability before the project begins a competitive and transparent procurement process, and that the project business case is approved by the government's Economic Management Team or other relevant authority. The Federal Executive Council will formally approve all PPP projects prior to the award of a contract. The Infrastructure Concession and Regulatory Commission will issue regulations that specify a value threshold below which these requirements will not apply.
- 60 Currently, NP4 focuses on concession contracts to the neglect of other PPP options. Even then, "concession" is not defined in any useful way. It is broadly defined that any contract related to infrastructure can be designated a concession. Infrastructure also is not defined. NP4 does not make provision for unsolicited bids or inherited legacy PPP projects, and it shows a lack of clarity regarding the commission's role as facilitator, as well as regulator of PPPs in Nigeria.
- 61 Based on peer countries used in the Nigeria Systemic Country Diagnostic (World Bank 2019b).
- 62 NIPCAC focuses on the following priority areas: (a) infrastructure (broadband, power, and roads); (b) finance; (c) trade and market access; (d) policy and regulation; (e) technology; and (f) skills.
- 63 The PSI is a tax holiday that grants companies full income tax relief for profits made from engaging in eligible activities for an initial period of three years, extendable for one or two additional years.
- 64 Another example of the policy influence of domestic firms can be found in the Introduction of the Product Accreditation Mark (PAM). PAM was introduced at the request of foreign investors who say counterfeiting is a major disincentive to investing in Nigeria; however, the program was ultimately halted as a result of complaints by domestic manufacturers to the Federal Ministry of Industry, Trade, and Investment about the additional cost of the scheme.
- 65 This is based on World Bank staff calculations.
- 66 The Fragile States Index (formerly the Failed States Index) is an annual report published by Fund for Peace, a U.S. think tank, and the American magazine *Foreign Policy* since 2005.
- 67 The primary purpose of this classification is to ensure that the World Bank Group's strategic and programmatic focus in countries affected by fragile and conflict-affected situations is adopted and tailored to the diverse challenges faced by the countries. Such classification will help the World Bank Group strengthen its impact and operational effectiveness in these countries.
- 68 This is based on statistics generated from the West Africa Network for Peacebuilding Nigeria's National Early Warning System (2018).
- 69 See Mauro (1995); Wei (2000).
- 70 LUA, section 46.
- 71 For best practices, see USAID (2016).
- 72 Food and Agriculture Organization (FAO) country gender assessment for Nigeria, FAO and ECOWAS Commission (2018).
- 73 The export potential identifies the potential export value for any exporter in a given product and target market based on an economic model that combines the exporter's supply with the target market's demand and market access conditions. For existing export products, supply is measured through historical information on export performance. Potential export values can be compared with actual export values to find exporters, products, and markets with room for growth.
- 74 Agricultural land refers to the share of land area that is arable, under permanent crops, and under permanent pastures. Arable land (that is, land capable of being ploughed and used to grow crops) includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow.
- 75 See FAOSTAT, a database of food and agriculture statistics, at <http://www.fao.org/faostat/en/#home>.
- 76 See Euromonitor International (2018a).
- 77 Estimates based on data from FAO.
- 78 See Euromonitor International (2018a).

- 79 This is according to recent analysis (2019) by the Solid Minerals Development Fund (SMDF).
- 80 A CDA entails the commitment of all parties to developing a positive relationship, which recognizes the need for all stakeholders to commonly benefit and co-exist through a process of mutual respect, ongoing dialogue, and regular interaction. The parties agreed to work together to realize the objectives of understanding each other's needs and values, committing to fair and balanced negotiations, and dealing with each other in an open, honest, transparent, and fair manner.
- 81 Based on the Nigerian Extractive Industry Transparency Initiative (NEITI) classification of companies, by royalties payment as follows: > ₦50 million = large enterprises; ₦10–50 million = intermediate enterprises; < ₦10 million = small enterprises.
- 82 This is per the U.S. Geological Survey database.
- 83 This is based on an online survey of retail prices of 50-kg cement bags in the various countries.
- 84 Secure internet servers refers to distinct, publicly trusted TLS/SSL certificates found in the Netcraft Secure Server Survey—that is, servers using encryption technology in internet transactions. Data are available in the World Bank's World Development Indicators database.
- 85 It is noteworthy to mention that a few states—Ekiti, Kaduna, Kwara, and Imo—have either significantly reduced the RoW charges (since 2018) or have eliminated them.
- 86 In 2007, the availability of savings of about US\$17 billion in the Excess Crude Account allowed the government to introduce a fiscal stimulus to the economy equivalent to 0.5 percent of GDP during the global financial crisis of 2007–08, when oil prices fell to below US\$40 a barrel from highs of US\$146. The account was not replenished and had been depleted to around US\$2 billion at the time of the most recent crisis in 2014–15.

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