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Toward Inclusive Growth in Nigeria

Osita Ogbu
Visiting Fellow
Africa Growth Initiative
The Brookings Institution

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The Brookings Institution
1775 Massachusetts Ave., NW
Washington, DC 20036

Introduction

The arguments for a growth-centered model for lifting millions in developing countries out of poverty appear unassailable until we are confronted with the case of Nigeria.

Nigeria has been growing at a fairly decent rate at around 6 percent for the past six years. However, the country's poverty rate—measured by those living on less than $1 a day—has risen from 52 percent in 2004 to 61 percent in 2010. Income inequality has widened in every region in the country. [1] According to the National Bureau of Statistics, "the top 10 percent income earners were responsible for about 43 percent of total consumption expenditure."

Jagdish Bhagwati recently argued that growing the economy was the sure way, if not the only way, to lift people out of poverty. According to Bhagwati, "growth would pull the poor into gainful employment, thereby helping to lift them out of poverty…and that higher incomes would enable them to increase their personal spending on education and health."[2] Yet, economic growth in Nigeria has not created meaningful employment, as many of the country's youth, including those with university degrees, are currently unemployed. In addition, incomes of the majority of Nigerians have not risen, and while access to education and health may have improved in the country, its quality has declined significantly.

Redistribution has also not increased the assets of the poor, calling into question the effectiveness of the many poverty alleviation programs, including the country's National Program for the Eradication of Poverty (NAPEP), which the government has spent hundreds of millions of dollars funding. Therefore, the question policy makers should ask is not whether they should implement growth or redistributionist goals, but what type of growth is needed to alleviate poverty.

Nigeria's Economy and its Manufacturing Gap

Nigeria's economic growth is driven, in part, by rising global oil prices. However, the country's oil industry is not a major source of employment, and its benefit to the other sectors in the economy is limited since the government has not adequately developed the capacity to pursue the more value-added activities of the petrochemical value chain. As a result, the oil industry does not allow for any agglomeration or technological spillover effects.

The growth of the country's non-oil economy has been significant (between 7-8 percent), driven largely by the agricultural sector which contributed over 50 percent to non-oil GDP between 2004-2009.[3] But one major problem is that the country's agricultural sector is largely subsistence-based, low-tech and of low productivity. The government has not pushed a real transformation agenda for it, one that would lead to specialization, scal-

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ing-up, commercialization, value addition and linkages to the manufacturing sector. (Consequently, Nigeria now spends about $8 million a day importing food.) The government's involvement in the sector has mainly been limited to the input side and has been riddled with corruption. For example, imported fertilizers distributed through government channels have profited everyone involved but the farmers themselves. Those same farmers have seen their real incomes fall as inflation has increased into the mid- to upper-double digits. This is extremely problematic given that most of the country's farmers are net purchasers of food. Under these circumstances, it is not difficult to imagine this cohort reducing their real expenditures on health and education.

Nigeria's service sector has also been growing, especially in the telecommunications, wholesale and retail trade, and financial sectors. Unfortunately, wholesale and retail trade do not provide wage employment; and the finance and telecommunications require specialized skills and have a narrow wage employment base. As these sectors were expanding, wage employment was declining.[4]

In order to understand Nigeria's growth and rising poverty levels, one needs to understand the economic constraints imposed by the absence of a real manufacturing sector. Currently, Nigeria's manufacturing sector only represents 4 percent of its GDP. Compare that to the strong manufacturing sectors in other emerging economies, where structural change has already occurred and where millions have been lifted out of poverty as a result: manufacturing contributes 20 percent of GDP in Brazil, 34 percent in China, 30 percent in Malaysia, 35 percent in Thailand and 28 percent in Indonesia. This is the crux of the matter. No other sector is more important than manufacturing in developing an economy, providing quality employment and wages, and reducing poverty.

Unlike agriculture, manufacturing can generate huge positive externalities.[5] The diffusion of technology, the creation of high value-added products, greater linkages in the economy, a wider employment base, and rising incomes are all associated with a robust manufacturing sector. Its importance has been attested to by a number of scholars. Writing on India's industrial policy, Niranjan Rajadhyaksha notes that "the Asian experience tells us that no country can banish mass poverty unless it creates millions of new jobs a year in manufacturing and services."[6] World Bank Chief Economist Justin Lin argues that industrial and technological upgrading are the "key characteristics of sustained economic growth," and countries that are "less successful at industrial upgrading" are less successful at poverty reduction.[7] The message is clear, and born out in history: the more recent experiences of the East and Southeast Asian economic transformations demonstrate that diversification into manufacturing and industrial production facilitated by what Arthur Lewis calls the "intelligent governments" are critical to poverty reduction. However, Nigeria has no effective industrial policy that promotes manufacturing—at least not in the sense of policy which provides practical solutions to the difficulties encountered by incipient entrepreneurs or emerging manufacturing firms. Creating such policy is especially important in minimizing the risks associated with "self-discovery" or what Justin Lin refers to as "the first-mover disadvantage" that inhibits diversification.

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Development, according to Dani Rodrik, is "fundamentally about structural change."[8] It is not enough for an economy to be growing. Growth must come from a diversified production structure. But diversification "is not a natural process."[9] Unfortunately, government officials in Nigeria have overlooked this. They often bemoan the absence of diversification, but have treated it as if it requires no concerted government intervention. In addition, many officials use the huge infrastructural deficit in Nigeria as an excuse for doing nothing, concluding that once every piece of the puzzle is in place (every road has been built, etc.), diversification will occur. However, they fail to see that there are promising opportunities and benefits for concentrating assets around manufacturing activities now, especially around existing business clusters, and that governments have a role in resolving complex innovation challenges, which are often beyond the capacity of an individual entrepreneur.

The Problem with Nigeria's Federalism

Another reason for Nigeria's growth without poverty reduction is the absence of "competitive federalism" and poor government accountability at the state and local level. With very few exceptions, Nigeria's states depend on the allocation of federally collected revenues that are distributed monthly. Because of this dependence, state governments often act as if they have no responsibility for any economic activity at the state level. Governors are not judged on the number of jobs they have created, the quality of the schools and the health care system, or the poverty rate within the state. As a result, states in Nigeria have not served as "engines of national prosperity" or "centers of economic and policy innovation" in the way American states have, as described by Bruce Katz.[10]

Nigeria's federalism needs to be reformed. Immediately after independence, the country's states were actually quite competitive in social service delivery and economic activity—each exploiting its comparative advantage and contributing to national prosperity. However, with the success of Nigeria's oil industry, the states have become dependent on government revenues from the oil sector. As a consequence, the sense of competition among Nigeria's states dissipated. This needs to change. The federal government must take a leadership role and use its resources to promote good political and economic governance at the state and local level. It has to create a new incentive structure and a platform for performance evaluation without being hamstrung by the constitutional separation of powers. Additionally, each state's potential for economic diversification must be supported. The states should be encouraged to work with the private sector toward the resolution of the many factors that inhibit diversification and towards the establishment of a manufacturing base around a particular product or commodity, i.e. "clusters." In some states, these clusters already exist, making it easier to address their needs. This is where future intervention by the international community, coordinated by the Nigerian government, should be directed. Eventually, they can be used to provide a strong platform for linking the agricultural transformation agenda and the industrial diversification agenda.

Another reason why Nigeria's states play a critical role in reducing poverty is because they are the entities responsible for primary and secondary education. Unfortunately, corruption is more prevalent at this level, which translates into a higher cost in terms of falling education standards. Public schools in Nigeria are often of poor quality and unable to provide youth with the necessary skills for future employment. Consequently, many parents, if they can afford it, decide against sending their children to them—which widens the country's inequality gap, as the children of the rich and the middle class become better educated outside the public system and ultimately are better able to exploit future economic opportunities as they arise.

Economic development not only raises incomes, but it also raises the voice of citizens, their political participation, and their ability to demand government accountability. Poverty weakens citizen participation, which in turn exacerbates poverty. Nowhere in Nigeria is this lack of voice more evident than in the relationship between citizens and their state and local governments. Thus, diversification through manufacturing would not only raise incomes, it would hopefully lead to more civic participation and demand for accountability. In pursuing what may appear as essentially an economic agenda, policy makers should realize that it has political and civic dimensions which themselves have huge implications for poverty reduction.

Policy Recommendations

Like many economies in Africa that are growing rapidly due to rising prices in commodities and natural resources, growth in Nigeria is fragile. The following policy recommendations would move the country toward a more robust, inclusive growth model that reduces poverty and inequality:

- Nigeria's oil sector should do more to spur employment and improve incomes. This will require the oil industry to be more effectively regulated, so that supply chain linkages are encouraged and that quality concerns regarding local inputs are addressed. The Petroleum Technology Development Fund (PTDF), an agency of the federal government financed by special taxes paid by the oil companies to build the industry's capacity, must redirect some of its resources towards supporting emerging entrepreneurs that can improve local inputs.
- The transformation of Nigeria's agricultural industry is imperative. This will require addressing risk and profitability issues that may inhibit the supply and demand for technological inputs, and will likely necessitate using subsidies to incentivize the private sector to strengthen the supply and value chains. The institutional void left by the abolition of marketing boards also needs to be filled by the creation of a new institution. This should be managed independently to reduce transaction costs, to improve access to quality inputs, and to ensure a fair price for agricultural goods and commodities.
- The link between Nigeria's Ministry of Agriculture and its Ministry of Industry needs to be strengthened. Effective economic diversification for poverty reduction requires not just interagency collaboration, but strong coordination of institutions and resources—all of which should aim towards a common industrial trajectory. This needs to be the mandate of Nigeria's economic team and needs to be prioritized urgently.
- Economic diversification is also imperative for poverty reduction. Nigeria's government must work with the private sector to resolve market failures by assisting entrepreneurial risk-takers and by

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removing obstacles to innovation. The diversification of the economy requires appropriate public institutions (such as the Small and Medium Enterprise Development Agency, Raw Material Research and Development Council, National Agency for Science and Engineering Infrastructure, etc.) be mobilized and repositioned to support emerging industrial clusters. In addition, although many of the agencies required to support the diversification agenda are in the Ministry of Science and Technology, the minister for the agency is not currently part of Nigeria's economic team. This significant omission should be corrected.

- More intellectual capital needs to be directed to Nigeria's industrial sector. The current "industrial partnership"[11] program that is being promoted by the Nigerian Ministry of Trade and Investment is a step in the right direction; but it is ad-hoc, does not tap into the country's resource strengths, and lacks the robustness to create sustainable structural change. Diversification is beyond the agenda of one ministry; the President must prioritize it across the whole government.
- Poverty reduction is also a matter for Nigeria's state governments. For this to happen, the Nigeria's federal system needs a makeover. States must become competitive again in delivering social services and in promoting economic activity. They should become innovation hubs around a particular product, commodity or industry. Where necessary, states in each of the country's six geo-political zones can ban together to form industrial hubs, so that the states could pool resources together to resolve the infrastructural and coordination problems that their enterprises face.
- The federal government should work with the international community to introduce performance and evaluation platforms that increase the accountability of states in areas such as job creation, education, health delivery, citizen participation and poverty reduction. There should also be a concerted effort to introduce meritocracy into Nigeria's political process.
- All major contracts of the federal and state governments should demonstrate and include linkages to the wider economy of Nigeria (be they related to employment, skills upgrading, technology, innovation and knowledge transfer.) This should be a critical component for evaluating and scoring projects, and for being sent to the federal and state cabinets (executive councils) for approval. If government has to create incentives in the form of tax rebates or tax cuts tied to the number of new hires to achieve these goals, it would be worth the sacrifice.

Economic growth with poverty reduction is achievable in Nigeria. But it requires an innovative state and a competitive federation willing to partner with the private sector. And it requires bold and practical action from the top of Nigeria's leadership.

Endnotes

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