Nigeria's Socio-Economic Challenges

LESSONS FROM THE IMPLEMENTATIONS AND OUTCOMES OF STRUCTURAL ADJUSTMENT PROGRAMMES

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INTRODUCTION

Available statistics show that the Nigeria's economy has been in a weak state over many years.

This is occasioned largely by tepid growth, low total factor productivity, weak currency, rising prices, huge debt burdens and above all low quality of life

- The economy's continued reliance on oil has resulted in funding squeeze with unbearable debt service-revenue ratio amid structural weaknesses that has continued to limit sustainable development.
- The economy continues to battle with several deficits including infrastructure, fiscal, current account, capital market and institutional that necessitate bold structural reforms

- In response to these challenges, the government implemented key economic reforms, including the removal of fuel subsidies, unification of exchange rates, and efforts to promote private sector-led growth, aiming at stabilizing the economy and promote sustainable growth.
- The outcomes of these reforms are mixed, but the short-term economic adjustments include rising inflation that has further deteriorated purchasing power and continued public discontent.

- The economic realities, the key reforms and the short-term economic adjustments mirror the Nigerian economy during the pre-SAP and post-SAP experiences.
- Evidently, some of the policy choices during the SAP period include the adoption of market determined exchange rate, deregulation of petroleum prices and financial market liberalization.
- While evidence exists in Indonesia of the success story of the implementation of the SAP initiatives,
- Unfortunately, the outcomes of the policy initiatives in Nigeria came with mixed feelings among researchers and other industry experts.

INTRODUCTION

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- It is therefore imperative to analyse the memory of the SAP and the success story of Indonesia as rear mirrors to guide the current reforms in repositioning the Nigeria's economy for sustainable growth and transformation.
- The selection of Indonesia is also guided by other socio-characteristics that are similar to Nigeria apart from its success story.
- These include :
- its large demography, political history, sociocultural diversity, and natural resources endowment, and Nigeria adopted the SAP in 1980s.

- To better understand the impact of these current reforms, this presentation intends to :
- Examine the impact of the current reforms on the economy
- Analyze the current reforms using the SAP framework and the Indonesia experience
- Discuss the lessons and provide policy insights

- The analysis will focus on four selected economic threats to the economy:
- Macroeconomic stability
- Fiscal sustainability
- Food security
- Energy security
- To distill the lessons from the Structural Adjustment Program (SAP) reforms of the 1980s, this study will use Indonesia as a comparative case study.

CURRENT REFORMS

The Nigerian economy is faced with a number of challenges.

... and the government has recently implemented several reforms aimed at addressing these challenges, including:

Currency floatation: in June 2023, Nigeria initiated reforms to unify the country's multiple exchange rates by allowing the naira to trade more freely in the market.

Subsidy reform: the subsidy reform initiated in May 2023, aimed to eliminate the costly fuel subsidy, but its challenges surround its implementation.

Implication: For instance, in the fiscal area, while FX depreciation boosted revenue through exchange rate gains. Higher costs in terms of external debt servicing, energy and capital projects with FX exposure have ensued.

Key Areas for Consideration

- Macroeconomic Stability
- Fiscal Sustainability
- Food Security
- Energy Security

NIGERIAN ECONOMIC SOCIETY

MACROECONOMIC STABILITY

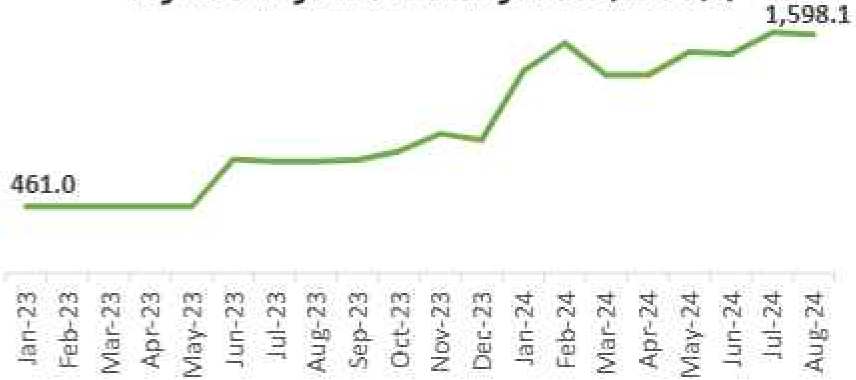
Figure 1. Nigeria: GDP Growth Rate (%)

Source: NBS

Figure 2. Nigeria's Inflation Rate (%)

Source: NBS

Figure 3. Nigeria's Exchange Rate (N/US$1)



Source: CBN

01 Nigeria's GDP growth rose to 3.19% in 2024'Q2 from 2.98% recorded in Q1.

02 Financial sector leads the growth trajectory, it grew by 28.79%, while the transportation & storage sector is the major growth dragger, declining by 13.53%. The real sectors: manufacturing, agriculture & mining grew by 1.28%, 1.41% & 7.79% respectively.

03 Inflation rate rose from 21.82% in Jan-2023 to 34.19% in Jun-2024 and declined slightly to 33.40% in Jul-2024

04 Naira has depreciated by 71.15% between January 2023 and August 2024, rising from N461/US$1 to N1,598.1/US$

NIGERIAN ECONOMIC SOCIETY

FISCAL SUSTAINABILITY

Figure 4: FGN Revenue, Expenditure and Deficit

Source: OAGF, CBN and estimates

Nigeria fiscal performance benefitted form the foreign exchange liberalization in 2023, but the country still suffer a revenue problem and could remain among the bottom 10 countries with the lowest revenue in the medium-term.

01 Rising rigid expenditure, especially debt servicing and personnel costs, undermines the potential for capital investment, constraining fiscal space and hindering long-term economic growth.

02 The fiscal deficit surpassed established limits, triggering concerns about fiscal management.

03 The public debt stock surged to 42.3 % of GDP in 2023, driven by escalating borrowing to cover the widening fiscal deficit, posing significant risks to fiscal sustainability and future economic stability.

04 Nigeria's revenue challenges are exacerbated by widespread inefficiencies in revenue collection, and reliance on volatile oil revenues.

05 On the expenditure side, Nigeria's expenditure is marked by high levels of spending on subsidies and debt servicing, limiting investments in critical infrastructure.

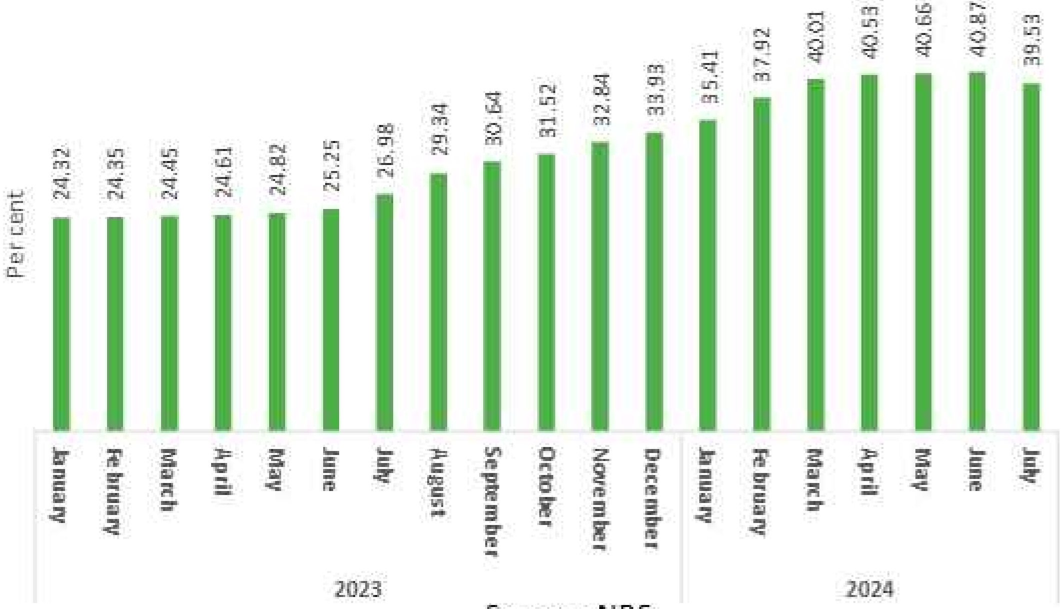
06 Rising public debt burden raises concerns on its sustainability.

NIGERIAN ECONOMIC SOCIETY

FOOD SECURITY

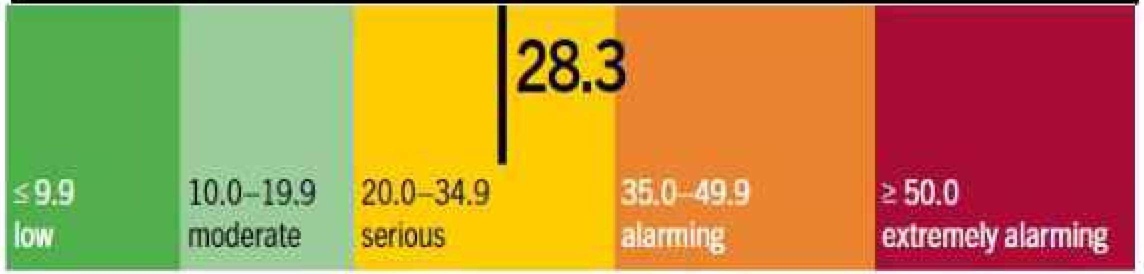
- In Nigeria, food prices have risen faster than incomes, eroding purchasing power, particularly among low-income households.
- Thus, food inflation remains a significant driver of overall headline inflation, in the country.
    - Nigeria has been experiencing a persistent rise in food inflation over the past several years, with the food inflation rate reaching alarming levels (22.25% in June 2023 to 39.53% in July 2024), with attendant significant consequences.
- In the 2023 Global Hunger Index (GHI), Nigeria ranks 109th out of the 125 countries with sufficient data to calculate 2023 GHI scores. With a score of 28.3 in the 2023 Global Hunger Index, Nigeria was adjudged to have a level of hunger that is serious (Figure 2).
- In 2022, Nigeria ranks 107th out of 113 countries in the Global Food Security index (GFSI) and 25th out of the 28 Sub-Saharan African countries, with an overall GFSI score of 42 (GFSI, 2023).
- As at 2021, the percentage of people in the population who live in households classified as severely food insecure has been on increase from 15.1% in 2015 to 21.3% in 2021, which is the latest statistics (World Bank, 2021).

Figure 5: Food Inflation in Nigeria (%)



Source: NBS

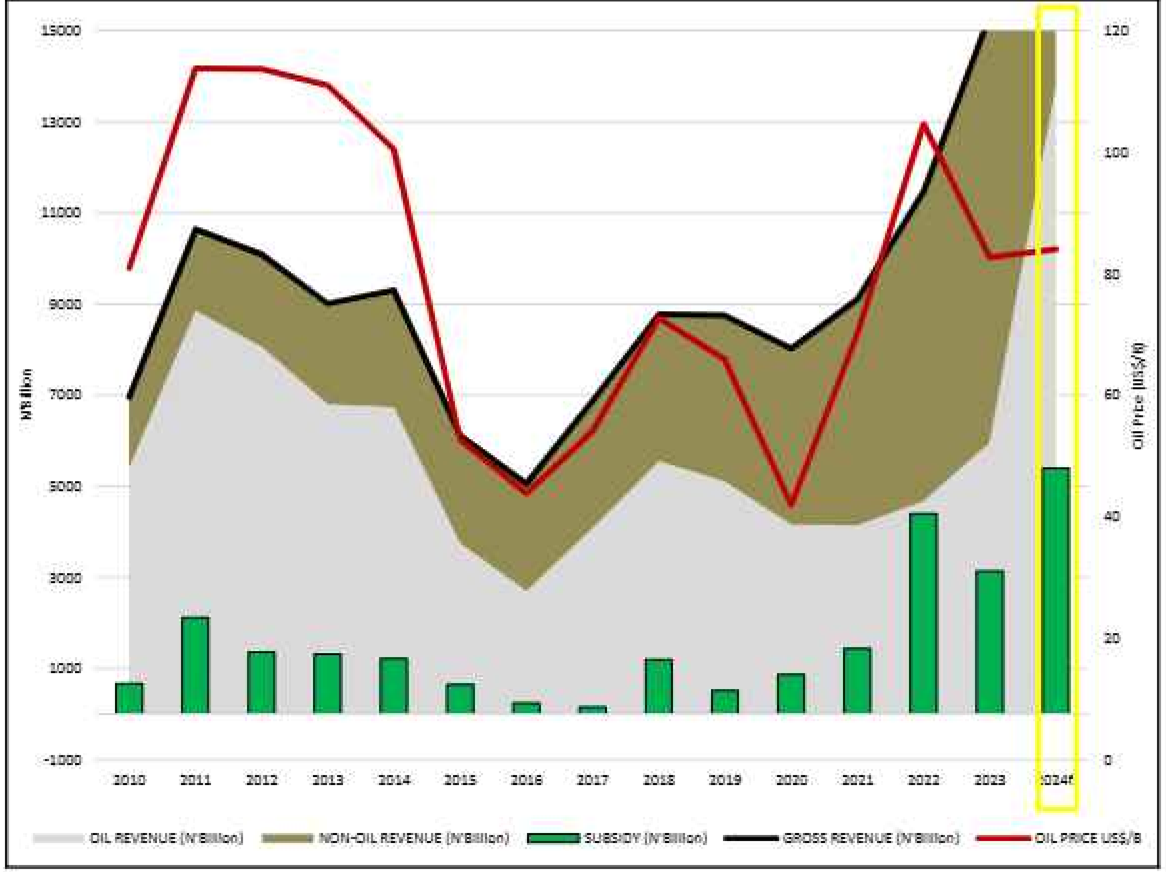
Figure 6: 2023 Global Hunger Index Score for Nigeria



ENERGY SECURITY

- The 2023 removal of fuel subsidies marks a significant shift in Nigeria's energy and economic space.
- Fuel subsidies were intended to keep consumer prices low but became economically unsustainable, contributing to fiscal deficits and stifling investment in the energy sector.
- Fuel subsidies have since been controversial in Nigeria, as some see it as inequitable.
- Economic theory provides a robust framework for understanding the implications of energy sector reforms, such as fuel subsidy removal.
- There is always a trade-off between efficiency and equity.
    - Subsidy removal enhances market efficiency and fiscal stability, but increases inequality disproportionately
    - hence the need for compensatory measures, such as targeted social safety nets.
    - In the context of energy security, theory suggests that reducing subsidies can lead to higher energy prices and increasing costs for consumers and industries.
    - It would encourage energy efficiency and the development of alternative energy sources enhancing long-term energy security.

Figure 7: Trend of Oil Price Subsidy Payment and Federal Government Revenue (2010-2023 and 2024f.)



Source: OAGF, CBN and NBS

REFORMS EVALUATION IN THE REAR MIRROR OF SAP

Many of Nigeria's macroeconomic indicators are showing similar patterns as observed during the implementation of the Structural Adjustment Programme of 1986.

Naira evaluation improved the incentive structures for most of the country's export crops during SAP, but

- It negatively impacted production of food crops
- Besides, the withdrawal of subsidies on fertilizer hampered farming activities, especially smallholder farmers.
- Recently, the Minister of Agriculture was seen lamenting that food export and smuggling to neighbouring countries around Nigeria was affecting food supply in the country

For instance, Inflation rose in the immediate post SAP period in Nigeria

- Specifically, the Pre-SAP average inflation was 16.16%, similar to the Pre-2023 reforms average inflation is 16.35%.
- Moreover, in the immediate post-SAP period, average inflation stood at 38.76%.
    - This is similar to the 33.40% current inflation rate.

- The introduction of Foreign Exchange Market (FEM) in late Sept. 1986, led to surge in imported raw materials, increased cost of production and consequently prices of domestic goods.
- Two years after the implementation of SAP, naira had lost 48.5% of its value
- This is similar to the present case, where naira has lost much more, i.e. 71.15%.

How Others Benefitted from Similar Economic Reforms

Leveraging the conditions for improved impact

NIGERIAN ECONOMIC SOCIETY

MACROECONOMIC STABILITY

The productive structure of an economy in an important input into reform process and outcomes

The Industrial Sector Matters

- Manufacturing is the largest economic sector in Indonesia, contributed 18.67% to GDP in 2023
- Top-5 sectors of the Indonesian economy: Manufacturing, Trade, Agriculture, Mining & Quarrying and Construction
- Top-5 sectors in Nigeria: Agriculture, ICT, Trade, Manufacturing, Financial and Insurance

Improved products and environment are necessary

- Export trade in electronics, textiles and automotive.
- Huge investment in the transportation and storage sector.
- Effective Implementation and Monitoring Team (manned by seasoned Economists and Professionals
- Transparency in Privatization and social safety nets

Currency depreciation is not always the problem

- Around 1986 SAP, Nigeria's currency was devalued at 48.5% and Indonesia at 61.7%.
- Between then and now, the two countries' currencies have depreciated by 91.7% and 99.9% respectively.

FISCAL SUSTAINABILITY

Differences in SAP implementation - Indonesia VS Nigeria

Some key characteristics make Indonesia to have better results from its economic reforms than Nigeria's

Initial key economic conditions: Indonesia: Indonesia had more diversified non-oil economy and high growth path before SAP. Also, the country had a more robust real GDP per capita growth before implementing SAP.

Approach to implementation: Indonesia: SAP implementation was relatively gradual and practical as the government selectively adopted SAP recommendations to fit the existing economic and political context. Currency devaluation and trade liberalization were done gradually to minimize economic shocks.

Institutional capacity: Indonesia: Indonesia had a relatively stronger institution and governance structure which allowed the country to successfully implement some SAP recommendations.

FOOD SECURITY

- Indonesia had a special focus on the rice sector resulting in significant rice production.
- Lifted tax on rice producers .
- In the First and Second REPELITA (Five Year Development Plan), between 1969 to 1978, the national priority of development were focused on building strong agriculture sector, especially foods.
- Overall public expenditure restraint was coordinated with the formulation of the fourth five-year development plan (REPELITA IV, covering 1984-85 through 1988-89).
- The plan shifts investment priorities in favour of the social sectors and increased shares of agriculture.
- A major aspect of the SAP reforms in Indonesia was the increase in social expenditures.

Table 1: Food (Excluding Fish) Export Value Base Quantity (1000 USD)

	Indonesia	Nigeria
Pre-SAP	24,518,319.33	1,125,389.67
SAP	24,133,680.00	1,026,585.00
Post-SAP	23,638,472.33	797,409.67
2020-2022	33,830,668.00	909,469.33
2023	32,764,992.20	835,708.07
2024-2026	34,481,559.58	785,614.20

- Indonesia and Nigeria are large developing countries with significant agricultural sectors and similar levels of economic development.
- Indonesia has successfully reduced food insecurity through effective policy implementation.

ENERGY SECURITY

Economic Stability:

- Indonesia's SAP resulted in initial economic stabilization, improved fiscal discipline, and reduced inflation.
- The liberalization of the energy market attracted foreign investment, in the oil and gas sector, contributing to domestic energy security and economic resilience.

Social Impact

- Indonesia's phased approach to subsidy removal, coupled with targeted social safety nets, mitigated the immediate adverse effects on the poor.
- Despite initial unrest, this approach eventually stabilized social conditions.

Energy Security

- Indonesia's energy reforms enhanced energy availability and infrastructure resilience, reducing the likelihood of shortages and contributing to a more stable energy supply.
- Nigeria's 2023 reforms, while aiming for similar outcomes, have faced challenges in ensuring immediate energy security.
- The subsidy removal led to price volatility and concerns about energy affordability, revealing the complexities of balancing economic imperatives with social and energy security considerations.

This therefore, shows that:

- Energy reforms work best, when certain conditions are in place:
  - Domestic refining value chain
  - Critical infrastructure for transportation and logistics
  - Complimentary policies and mechanisms to cushion the short-term social costs

Policy Recommendations

Making the Best of the Situation

NIGERIAN ECONOMIC SOCIETY

Macroeconomic Stability

- Institutionalise an economic governance structure
- Establishment of Presidential Economic Council to be headed by a renowned academic professor of economics as in the case of US
- Enhanced policy coordination within and across fiscal and monetary authorities with no compromise to monetary authority independence.
- Declaration of some ministries as economic ministries, e.g, Budget and Planning, Finance, Investment, Trade, with qualified economists and allied professionals.
- Use of analytical macroeconomic models to analyse impacts of policies and assess alternative scenarios

Fiscal Sustainability

- Implement export-led growth strategies, promoting value-added exports, and incentives for export-oriented industries.
- Urgently introduce the adoption of e-procurement system to enhance financial transparency
- Full operationalization of the central portal for accessing government services, and M&E
- Adoption of prudent fiscal management framework
- Channeling gains on subsidy removal to cushion short term effect on rising prices and invest in productive projects with long-term benefits
- Strengthen institutions and governance structure to safeguard policy reform gains

Food Security

- Like Indonesia and India, modernize agriculture, provide access to technology, inputs and irrigation
- Prioritize agro-allied industries through various incentives, and infrastructure.
- Improve security in farming communities
- Invest in modern storage facilities.
- Leverage inter-government and collaborative efforts boost food production

Energy Security

- Bold reforms are best implemented in a phased model with proper communication to minimise welfare cost and retain public buy-in
- Improving domestic refining capacity must be prioritized to reduce dependency on imports to eliminate exchange rate pressure and stabilize prices.
- The implementation of targeted subsidies or social safety nets is crucial to cushion vulnerable populations against the immediate impacts of reforms.
- Transparently manage the short-term subsidy savings, with a clear and accountable plan for reinvestment in critical infrastructure and social services.
- An all-encompassing and transparent PPP framework to attract capital to overhaul both generation and distribution infrastructures along the energy sector value chain is equally imperative

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