

**Rethinking Job Creation and Employment Generation Strategies in  
Nigeria**

**Centre for the Study of the Economies of Africa (CSEA)**

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## Introduction

Recent achievements of robust economic growth accompanied by increasing rates of unemployment present an uncharted paradigm in the history of the Nigerian economy. Despite economic growth averaging 7 percent during 2004-2012, unemployment rose from 13.4 percent to 27.4 percent. In particular, youth unemployment rose from 29 percent to over 40 percent.

The experience becomes more paradoxical when the drivers of recent growth are brought under consideration. Over the period, non-oil sectors that are considered natural job creators – agriculture, commerce and distribution, and communications sectors – account for more than 80 percent of economic growth. While the increasing unemployment rate is in part due to expansion of the labor force due to influx of new entrants, it is more significantly a result of failure of economic growth to create substantial employment. At other times, especially during the financial crisis, economic growth was accompanied by net job destruction.

This paradox puts a dent to credibility of the “growth will create labour demand” hypothesis that has been the key doctrine of the Bretton Woods institution for decades, and has led to suggestions for rethinking labor market strategies. Realization of the need for growth to create employment and reduce poverty had given birth to the increasingly popular qualification of economic growth in terms of “inclusiveness” and “pro-poorness” in development circles. Indeed, there is a renewed emphasis on promoting growth in sectors with high rates of labor absorption, with the idea that expansion of those sectors will result in increased demand for labour, and as a consequence, increased employment rates.

However, the definition of what constitutes inclusive growth in the Nigerian context remains in a flux. There is a popular argument that it is agricultural growth on the strength of statistics showing that agriculture is the largest employer of labor.<sup>1</sup> But what is not being clarified is whether growth of agriculture will absorb more or less labor, given lessons from the history of developed countries. The argument for higher labor

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<sup>1</sup> Most of the time, part of what is counted as agricultural labor does not take part in agriculture but is counted on the basis of residence in agriculture area or household. In the absence of formal unemployment benefits and institutional support for the unemployed, agriculture is home to unemployed or residual labor in family agriculture settings.

absorption flies in the face of empirical data as well as stylized observations that agriculture growth actually leads to less labor absorption. Other ideas such as commodity-based industrialization expect inclusive growth to be driven by robust manufacturing activities. In Nigeria, the sector is hampered by a number of problems including huge infrastructure deficits that render it uncompetitive, coupled with external competition from low cost imports from China as well as internal competition from illegal and adulterated goods.

A different approach towards achieving inclusive growth, which is generating interest within the development community, is the idea of job creation as a **means** to economic growth, rather than the **end**. This innovative approach recognizes the fact that successive increases in value addition by economic agents and other factor inputs (conditional on taxes and subsidies) is the underpinning of economic growth; thus growth in employment of productive factors would lead to economic growth. Therefore attention is being shifted towards examining innovative ways of creating jobs and sectors that offer outstanding job potentials in order to achieve more inclusive economic growth.

This paper is written based on the simplifying assumption that individuals and agents are rational actors who are naturally responding to incentives. We have made deliberate efforts, to the fullest extent possible, to seek precise understanding of the set of incentives and constraints that are presented by the socio-political, institutional and material settings of the labor market. To make this practical, we made efforts to take a nationwide look at the subject by examining labor markets in different geopolitical zones of the country and harmonizing the findings.

To understand the microeconomic structure and issues affecting the local labor markets, we conducted interviews with actors on demand side (employers) and supply side (job seekers) as well as intermediating actors (recruitment agencies), and examined the institutional and material settings of the local economies. The report presented here includes a summary of the findings of the interviews and examinations.

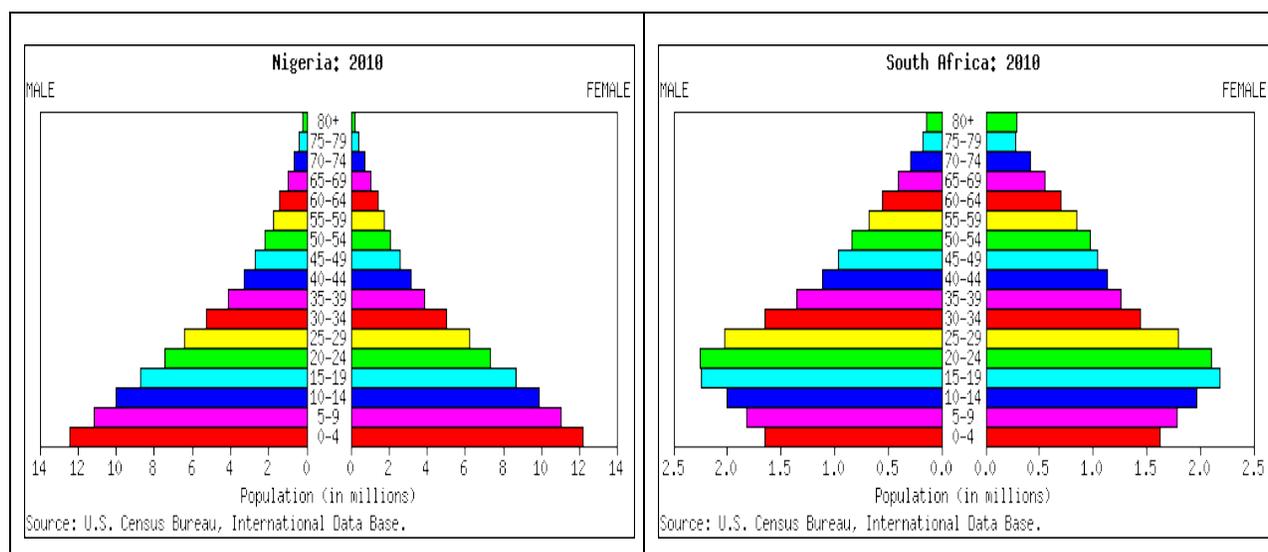
This paper is organized in four sections. Section 1 provides a macroeconomic analysis of output and employment while section 2 provides a microeconomic focus on demand and supply sides as well as the institutional setting of the labor market. Section 3

analyzes public sector interventions in job creation, while Section 4 provides a summary of lessons and actionable recommendations.

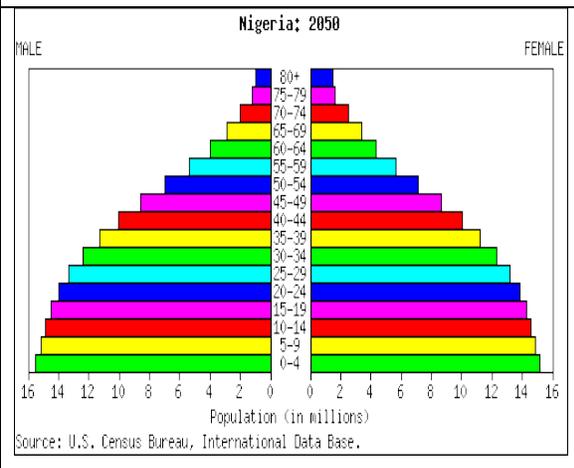
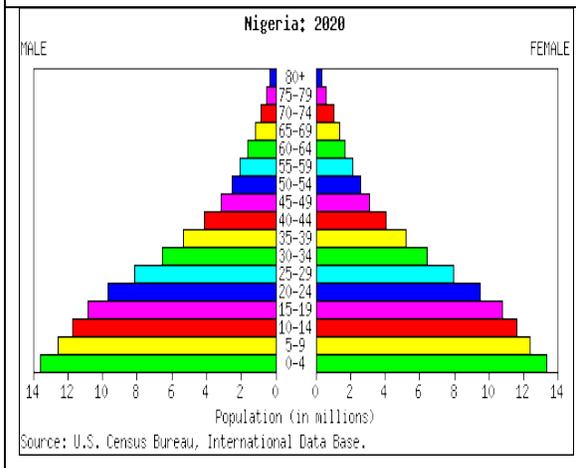
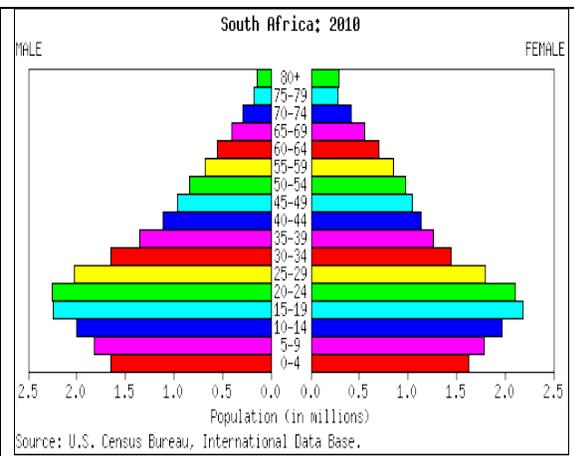
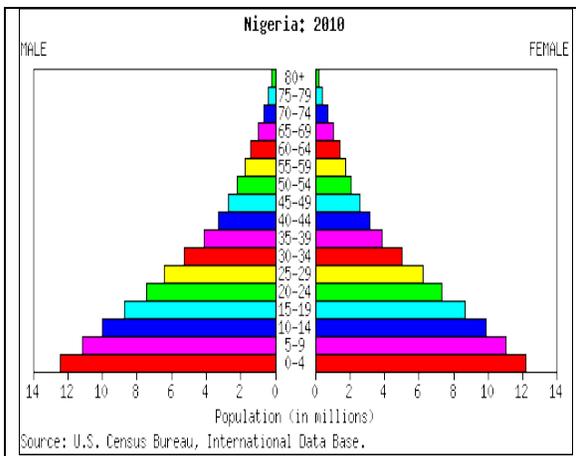
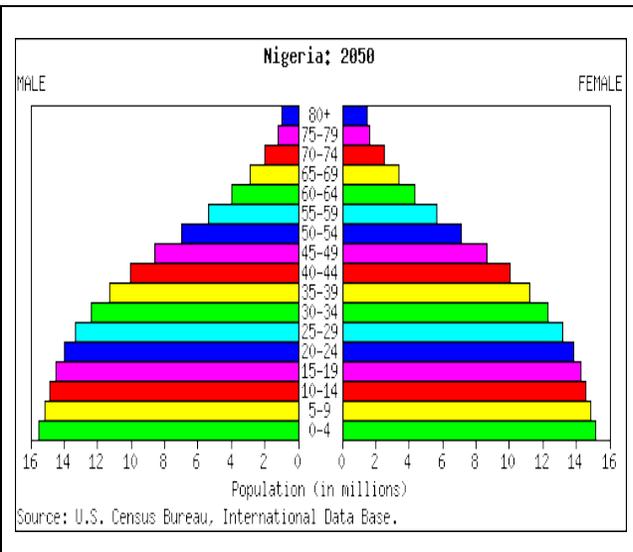
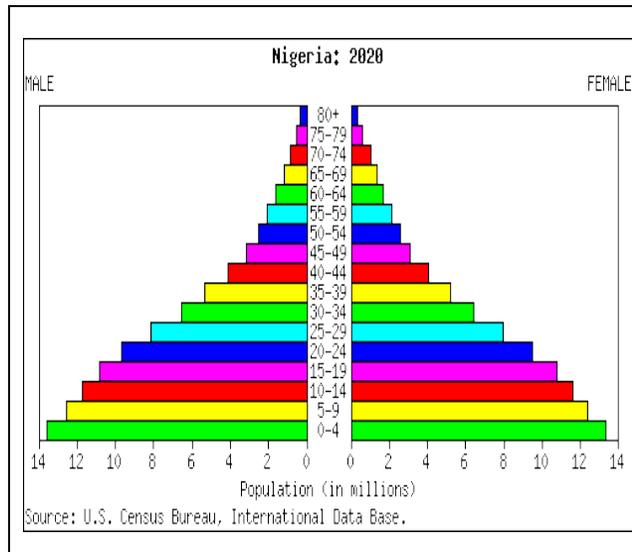
## PART 1: MACROECONOMIC ANALYSIS

### 1.0 OVERVIEW OF THE UNEMPLOYMENT PROBLEM

The most recent population estimates for 2012 by the Population Reference Bureau (PRB 2012) provides a mid-year population of 170.1 million with 44% of the population aged 0-14, 53% of working age 15-64 years, and 3% over 64 years. The age dependency ratio of 89% is an increase from 85% in 2011 and 80% in 2009.<sup>2</sup> A disaggregation of the working age population by the World Bank shows that the population in age group 15-24, typically considered as the youth population, constitute only 19% of the population while the 25-54 and 55-64 age groups constitute 30% and 4% respectively.



<sup>2</sup> The NBS (2012) estimates a population distribution where 40% are ages 0-14, 56% are aged 15-64 and 4% are aged 65 and above yielding a dependency ratio of 79%.



The population aged 15-24 years (referred to as the youth) constitutes approximately similar shares of total population in Nigeria and South Africa at 19% and 20% respectively in 2010. However, the fact that Nigeria's population is about 3.2 times the size of South Africa implies that the sheer size of the youth labor force will be many times higher in Nigeria than in South Africa.

Be that as it may, the most important distinction between the two countries lies in the things that are yet to come. The population not ready for work constitutes 44% of Nigeria's population compared to 29% in South Africa. The distribution of this population by age group as shown in Figure 1.1 implies that, over the next 15 years, new entrants into the labor market will arrive at **increasing** rates in Nigeria but at **decreasing** rates in South Africa. Thus, while the labor market and unemployment situation can get better in South Africa, it can only get worse in Nigeria.

Indeed, if job creation efforts and results in Nigeria are not many times as the rates to be achieved in South Africa beginning from now into the next 10-25 years, the debate over whether Nigeria should join the BRICS (to form the BRINCS) will be forgotten, and the emerging debate will be whether Nigeria will enter its own "spring." Indeed, the comparison will no longer be between Nigeria and South Africa, but between Nigeria and the likes of Tunisia, Egypt, or Syria. Movements in unemployment rates in Nigeria and South Africa lend credence to this conjecture.

The Nigerian labor force is estimated at 67.3 million in 2011 by the Nigerian Bureau of Statistics (NBS 2012). Labor force participation rate, computed in line with international convention as the proportion of economically active population aged 15-64 that participates actively in the labor market, has been stable around 73% over the period 2006-2011 (NBS 2012). Analysis of household level data from the General Household Surveys (GHS) conducted in 2006 shows a labor force participation rate of 75% (Haywood and Teal 2010). The closeness of these estimates suggests that the labor force participate rate is in the neighborhood of three-quarters of the economically active population.<sup>3</sup> Haywood and Teal (2010) analyzed household level data from both

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<sup>3</sup>Labor force participation rates provided by the international development organizations (World Bank, etc.) generally relate the labor force to population older than 14 years. This practice is probably due to the negligible share of population that is older than 64 years, which is estimated to be around 3%. However, this practice is problematic because it also assumes that everyone older than 14 years is out of school and therefore enlarges the denominator quite substantially. As a result, the reported rates have generally been stable around 55% over the period 2006-2011.

General Household surveys (GHS) and Nigerian Living Standard Surveys (NLSS) over the period 1999-2006 and found that the labor force participation rate was steady at around 75%. These estimates imply that the labor force participation rate had been stable since the turn of the new millennium at least since 1999.

The implication of the preceding statistics is that the proportion of the economically active population (population ages 15-64 and not in school) that is not in the labor force has remained fairly constant at near 25% since 1999.<sup>4</sup> Naturally, this group comprises the discouraged job seekers (those without work and not seeking work), those physically challenged or otherwise unemployable, and full-time housewives. Predictably, Haywood and Teal (2010) found the share of women outside the labor force to be at least twice that of men in the 2003/04 NLSS data.

Table 1.1 presents the labor force participation and unemployment rates for the period 1999 to 2011. The ILO unemployment rates as well as the GHS and NLSS rates are computed on the basis of guidelines that classify persons as employed as long as they work for at least one hour during the reference period. On the other hand, official unemployment rates provided by the NBS consider an individual as employed only if they work for forty hours (full time) during the reference period. Thus, the difference between the two rates is an indication of the rate of under-employment.

**Table 1.1: Labor Force Participation and Unemployment Rates**

Year	LFP	Unemployment Rates		
		GHS, NLSS	ILO	NBS
1999	74.7	2.2		8.2
2000				13.1
2001				13.6
2002				12.6
2003			2.9	14.8
2004	77.0	3.0	2.8	13.4
2005			3.3	11.9
2006	74.8	2.6	3.5	12.3
2007	72.8		3.5	12.7
2008	73.7			14.9

<sup>4</sup> As a result of rampant long-term unemployment, discouraged workers have presumably assumed an increasing share of persons in this group in more recent history. It is generally believed therefore that increase in the share of economically active population that is out of the labor force has to be added to official unemployment rates.

2009	72.8	19.7
2010	72.8	21.4
2011	72.8	23.9
2012	72.8*	27.4

Notes:

Labor force participation and unemployment rates (GHS, NLSS) for 1999-2006 are obtained from Haywood and Teal (2010).

The remaining statistics are obtained from NBS

\*estimate

The unemployment rate, measured as the proportion of the labor force that is available for work, without work and looking for work during the reference period of the survey, was steady around 13% between 2000 and 2007. The ILO and household survey rates were also stable over the same period. The measure of underemployment, the difference between the NBS rates and ILO rates, decreased from 12.7% in 2003 to 9.2% of the labor force in 2007. This also shows that economic activities became more intensified among the employed over the period. Haywood and Teal (2010) shows that the period 1999-2006 coincided with robust earnings growth in agriculture, a structural shift of the labor force from wage employment (largely due to redundancies and slow rate of job creation) and from inactive working-age population (discouraged and surplus labor that is out of labor force finding new opportunities) into agriculture. The stability of labor force participation rates and unemployment rates during the period suggests that jobs expanded largely in line with labor force.

However, while labor force participation remained flat at about three-quarters, unemployment rates began to increase from 2008, rising from 12.7% in 2007 to 23.9% in 2011 and further to 27.4% in 2012. Table 1.2 shows the pattern of growth of the labor force and employment during 2007-2011.

**Table 1.2: Labor Force, Job Growth and Unemployment**

Year	Labor Force Growth (%)	Employment Growth (%)	Newly Unemployed (millions)
2007	3.2	2.7	0.46
2008	3.2	0.6	1.59
2009	3.2	-2.6	3.32
2010	3.2	1.0	1.51
2011	3.2	-0.1	2.13

Notes:

All figures are in percentages except otherwise indicated. Authors' calculation from NBS (2012).

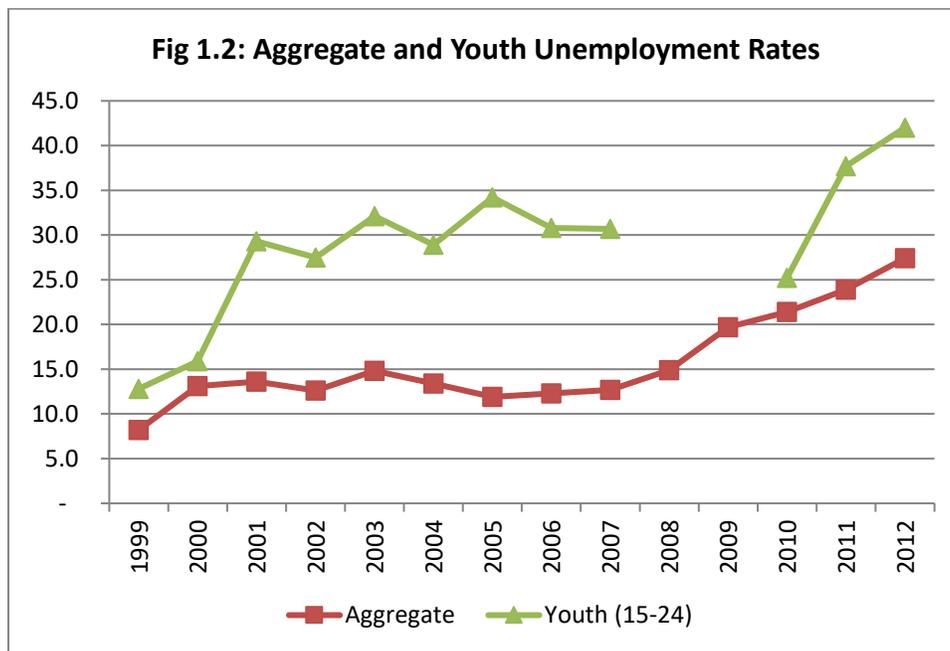
Job growth fell slightly short of labor force growth in 2007, causing the unemployment rate to increase slightly to 12.7% from 12.3% in 2006. The result was that 0.46 million people became newly unemployed during the year. The job deficit widened immensely afterward, causing the unemployment rates to start trending upward and millions more workers becoming newly unemployed. It can be seen that the job deficit was largest in 2009 when employment contracted by 2.6% while the labor force expanded at the rate of 3.2%, causing 3.32 million more people to drop into the unemployment pool and pushing the unemployment rate up by 4.8%. This is reasonably the impact of the financial crisis.

Employment seemed to recover, albeit slightly, from the financial crisis as jobs increased by 1% in 2010 but 1.51 million people became newly unemployed. The recovery was essentially nipped as employment dipped again by 0.1% in 2011 through job losses while the labor force expanded further, resulting in 2.13 million new addition to the unemployed.

Increases in unemployment have been driven by unyielding expansion of the labor force and anemic rates of job creation. Given that the labor force will expand at increasing rates at least over the next 10-25 years, the need for accelerated job creation cannot be over-emphasized.

## **1.1 Youth Unemployment**

The picture of stable unemployment rates during 1999-2007 may mislead on unemployment rates among the population aged 15-24 commonly referred to as the youth. Figure 1.2 summarizes the aggregate and youth unemployment rates for the period 1999-2012.



It is clear from Figure 1.2 that the stable aggregate unemployment rates during 2001 to 2007 masked rising youth unemployment during the period. Indeed, the stable aggregate unemployment rate is a combination of rising youth unemployment and falling adult unemployment rates.<sup>5</sup> Youth unemployment rates for 2008 and 2009 are missing. Meanwhile, the impression given by the figure, that youth unemployment rates dropped between 2007 and 2010 while aggregate unemployment rate was rising, could not be correct. However, the point that is not lost on readers is that the youth unemployment rate has been rising much faster during the latter period than during 1999-2007, and is a reflection of **more rapid** inflows into the labor market (refer to the demographic profile in Figure 1) and **slower** pace of job creation.

These dynamics can easily be rationalized. The sectors of the economy that thrived during the period were agriculture, commerce, financial services, telecommunications and information technology. The noticeable decrease in unemployment rates among older adults during 1999-2007 reflects increased employment opportunities in growing urban services (financial services, telecommunications and information technology) and movements of urban workers into rural agriculture, which was also a driver of growth. The rising rates of youth unemployment is plausibly due to arrival of new

<sup>5</sup> A more detailed analysis of data from the NBS shows that unemployment rates fell almost similarly among rural and urban adult labor force. On the other hand, unemployment was stable among urban youth labor force while it increased among rural youth labor force. In essence, the rising youth unemployment during 1999-2006 was largely a problem of rural youth unemployment.

entrants into the market who are generally less favored in urban labor market, for lack of experience, compared to older adults in the labor market, as well as lower rates of willingness to engage in rural agriculture among the youth. Youth unemployment is naturally expected to rise most significantly during periods of job losses or lack of robust job growth. In recent years, labor absorption in agriculture has reduced, job creation has slowed and arrival rates in the labor market have increased.

## **2.0 MACROECONOMIC PERFORMANCE AND CONTEXT**

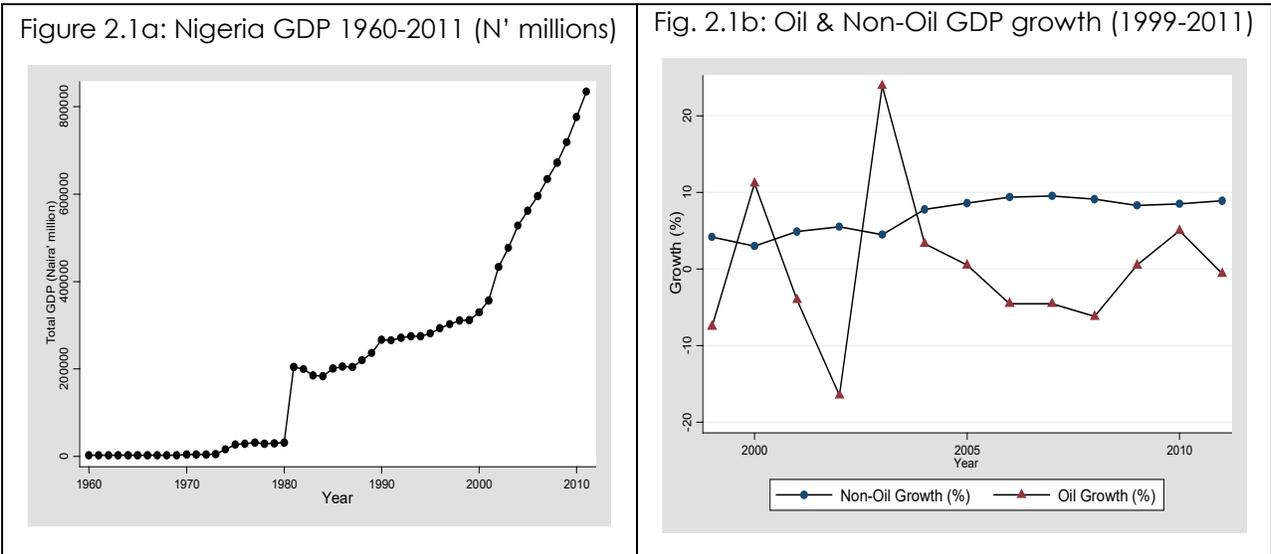
Economic theory predicts a negative relationship between unemployment rate and output growth. Okun's law, based on the empirical observation of Arthur Okun in the 1960s, predicts that shifts in aggregate demand would lead to output changes which would result in changes in unemployment rate (Ball, et al. 2013). In particular, the law predicts an increase of 1% in unemployment when output decreases by 3%. Thus a macroeconomic policy that stimulates demand which consequently increases output is usually considered as a means of reducing unemployment. However, despite the empirical observations of Okun's law fitting the output and unemployment data of advanced countries, there have been some exceptions. In the "German miracle" usually cited as the major deviation from the law, unemployment decreased as output fell in the years following the Second World War. The "jobless recovery" witnessed in the last three recessions in the United States has heightened the case against the law (Ball, et al. 2013). Also, the numerical response of unemployment to a fall in output has not always followed Okun's law. The recent output drop in European Union countries such as Spain and Ireland by about 8% was accompanied by an increase in unemployment rate of more than 7% (IMF, 2010), which was far above the 2.67% predicted by the law.

The idiosyncrasies witnessed in the output and unemployment relationship of different countries point to the idea that other factors affect output fluctuations, aside from unemployment. Structural differences across countries relating to institutions, labor market policies and shocks are candidates. This is true of East Asian countries which have been identified as following the Okun's law with variations in its coefficient across countries. The strong economic growth witnessed in East Asian countries led to significant job creation, but in different degrees across countries. However, the negative relationship between unemployment and economic growth was seemingly evident in non-agricultural sectors, as the agriculture sector typically witnessed a drop in unemployment amidst economic downturn, contrary to the Okun's law (Hanusch 2013).

### **2.1 PERFORMANCE OF THE NIGERIAN ECONOMY**

Nigeria's economic performance has been impressive since the transition to democratic rule in 1999. GDP figures show that the Nigerian economy has been

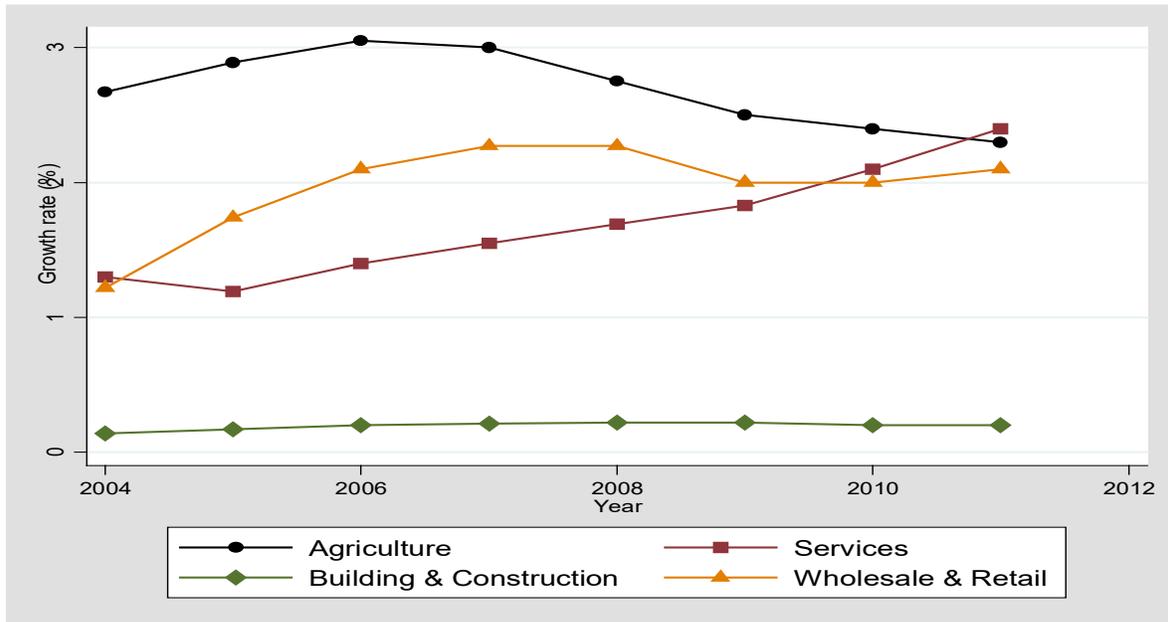
growing rapidly. From Figure 2.1, a clear upward trend in GDP can be observed, which began in the 1980s, and began to accelerate in early 2000. The rate of growth dramatically increased beginning from 2001, making the country the 5th fastest growing economy in the world in 2010 at a rate of 7.8%. Efforts to diversify the economy away from dependence on oil paid off as non-oil GDP has grown considerably over the last decade. From Figure 2.2, non-oil GDP growth rate increased from 3% in 2000 to about 9% in 2011. In contrast, oil GDP has been on the decline, owing to unrest in Niger Delta in recent times as well as oil theft. As shown in Figure 2.2, oil-GDP has been experiencing negative growth rates for most part of the decade.



Source: CBN Statistical Bulletin, 2011;

The key drivers of the growth in non-oil sector are: agriculture, commerce (wholesale and retail), and services. Figure 2.2 indicates that between 2004 and 2011, Agriculture had the highest growth rate of about 2 to 3%. This is followed by Wholesale and retail sector with a growth rate of about 1 to 2%, and the services sector which has the fastest growth rate.

Figure 2.2 Growth rate of non-oil sector in Nigeria (2004-2011)



Treichel (2010) pointed out that the growth in Nigerian Agriculture sector can be attributed to a significant rise in the price of agricultural commodities, driven by a rise in both international and local prices of agricultural commodities, coupled with protectionist trade policies that led to import bans on items like cassava and poultry. The study attributed the rise in local demand to the emergence of an urban middle class in Nigeria. In addition, the study pointed out that the growth in the sector was driven mainly by increase land use, rather than productivity increases, and by extension, economic growth witnessed in Nigeria was largely as a result of factor accumulation.

## 2.2 STRUCTURAL SHIFT OF THE NIGERIAN ECONOMY

Table 2.1 presents the structure of the Nigerian economy and its transition since independence in 1960. The data shows that the economy remains largely agrarian as agriculture dominates the economy, although the share of agriculture decreased from 57 percent in the 1960s to 40 percent during 2010-2012. However, it is noteworthy that the economy experienced a brief transition from an agrarian to a service-dominated economy during the 1970s. The share of agriculture dropped to 30 percent during the decade while services (commercial and other services) rose to 33.8 percent. During this period, manufacturing share of the economy increased slightly to 6.9 percent from 6.5 percent in the preceding decade and construction jumped from 4.7 percent to 8.2 percent.

The transition was made possible by revenues from the oil boom of the early-to-mid 1970s manifested in the share of mining activities in the economy, which jumped from 4 percent in the preceding decade to 21.1 percent. Using the oil revenues, the military government expanded public services in education and health, and invested heavily in public infrastructure. These investments created demand for other services, and commerce grew along. More importantly, the growth of building and construction share of the economy that accompanied the growth of the oil sector is a testament to the way in which the stimulus provided by oil revenue helped to propel the transition.

Unfortunately, petro-dollar revenue lost its transformative, stimulus effect on the economy during the following decade. The mining sector, which remains disproportionately dominated by crude petroleum, grew in size to 33.5 percent of the economy during the 1980s, but the resources were hardly felt in the real sectors. The share of construction fell to 3.2 percent and manufacturing also fell slightly. At the same time the combined services sector dropped to 25.5 percent of the economy. Thus, while the country produced and sold more oil, the revenues failed to translate into meaningful real investments and thus the economy lost its momentum.

The growing gap between petro-dollar earnings and real investment in the economy could be attributed to debt servicing and repayment as well as the emergence of a culture of corruption in scales that had not been previously witnessed in the country. More to the point, however, investments in physical capital funded by the oil boom of the 1970s were not maintained or developed further, leading to collapse of the nation's infrastructure. This led to stunting of manufacturing production and declining share of manufacturing output during the 1980s and 1990s. Indeed the mining and quarrying sector gained the dominant share of the economy during both decades.

At the inception of the fourth republic, the democratic government embarked on a mission to expand agricultural production and promote food security. Alongside, the administration also pursued reforms and encouraged investments in ICT and communication sectors. As a result of the numerous initiatives, the agricultural sector returned to dominating the economy, accounting for about 40 percent of the economy, and the services sectors (including commercial services) also grew aggressively to reach 38 percent of the economy during the most recent years. It is expected that the services sector will dominate the economy in the immediate future.

Table 2.1 Structure of the Economy: Sectoral Shares of Output and [Employment]

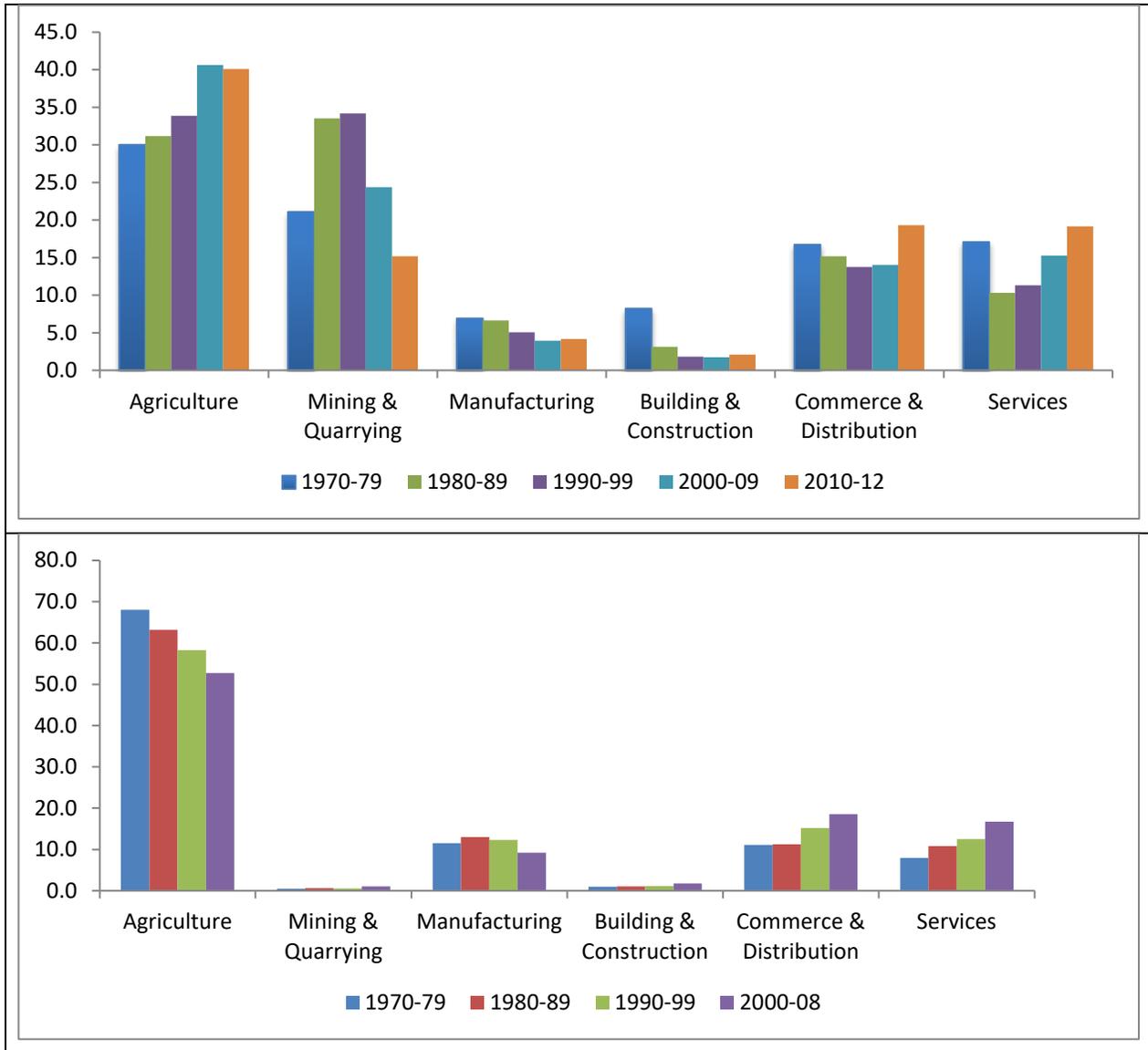
Sector	1960-1969		1970-1979		1980-1989		1990-1999		2000-2009		2010-2012	
Agriculture	57.0	[n.a]	30.0	[68.0]	31.2	[63.2]	33.9	[58.3]	40.6	[52.7]	40.1	[n.a]
Mining & Quarrying	4.0	[n.a]	21.1	[0.5]	33.5	[0.7]	34.2	[0.6]	24.4	[1.1]	15.2	[n.a]
Manufacturing	6.5	[n.a]	6.9	[11.5]	6.6	[13.0]	5.0	[12.3]	3.9	[9.2]	4.1	[n.a]
Building & Construction	4.7	[n.a]	8.2	[1.0]	3.2	[1.1]	1.8	[1.2]	1.8	[1.7]	2.1	[n.a]
Commerce/Distribution	12.8	[n.a]	16.7	[11.1]	15.2	[11.3]	13.8	[15.2]	14.0	[18.6]	19.3	[n.a]
Services	15.0	[n.a]	17.1	[7.9]	10.3	[10.8]	11.3	[12.5]	15.3	[16.7]	19.2	[n.a]

Note: Employment data compiled from National Rolling Plan (1980 - 2003), NBS (Statistical Fact Sheets), NMB (Data File, 1970 - 2005) and CBN Annual Report (2012). Employment data series were available up to 2008.

Figure 2.3 presents a graphical description of the data in Table 2.1. There are three noteworthy observations with regards to the transition of the economy. First, we observe emigration of labor from agriculture over time, but this is not associated with a decrease in agriculture's share of the economy. Rather, agriculture share of the economy increased over time. This is an irregularity when viewed in the light of historical trends associated with the experience of more developed countries. This outcome is a confluence of three factors: (1) statistical agencies generally associate rural labor with agriculture, (2) increase in agriculture value-added was driven largely by high prices and expansion of land under cultivation (see Treichel 2010), and (2) developments in the urban non-agricultural service and commercial sectors were more attractive, thereby inducing rural-urban migration.

The second observation is that manufacturing and services are the sectors where output and employment shares have progressed commensurately, especially since the 1980s when decreasing (increasing) share of output is associated with decreasing (increasing) share of employment in manufacturing (services). These sectors could provide important lessons for job creation and employment strategies.

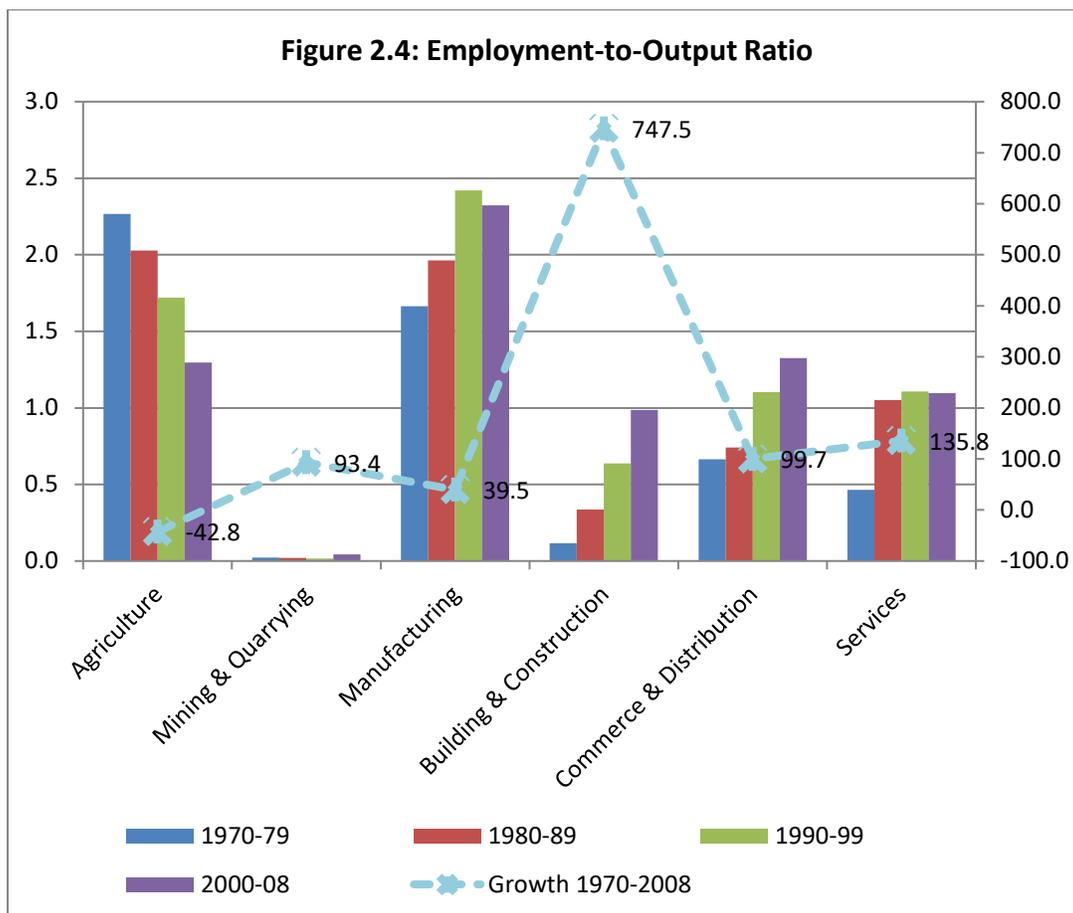
Figure 2.3: Changes in Sectoral Distribution of Output [top] and Employment [bottom]



### 2.3 SECTORAL EMPLOYMENT INTENSITIES AND LABOR ABSORPTION

In order to assess the employment intensity of sectoral production functions, we compute labor absorption rates in the form of employment-to-output ratios for the sectors by decade. The results presented in Figure 2.5 confirm that, on average, the manufacturing sector absorbs most labor per unit of output while the mining sector absorbs the least. However; the graph throws up other interesting observations. While labor absorption in agriculture had been falling, it seems to have peaked in the services sector and, perhaps, in manufacturing also. The real sector (building and construction)

and commercial sector (wholesale and retail businesses) are the sectors where labor absorption rates have continued to increase.



Note: Authors' computations based on data in Table 2.1

These disparities and shifts in production functions deserve attention. In the case of commerce, a plausible explanation for the increasing labor absorption rate is that the nodes in the chain of commerce have increased, requiring more labor participation in the chain for a unit of value addition. In the case of real estate and infrastructure, the boom in housing construction comes across as a plausible explanation for the shift in labor absorption. Moving from the period where construction, arising from urbanization, was dominated by large infrastructure projects to an era where an emerging affluent class in society is driving demand for housing and other more labor-intensive real estate, the production function in the sector is likely to have become more absorptive of labor. Taken together, the manufacturing, real estate and commerce sectors hold bright promises for employment generation.

The final and perhaps most important observation is the pattern of growth of labor absorption rates represented in Figure 2.4 by the broken line chart and the vertical axis on the right side of the graph. That is, given sectoral differences in labor absorption, we seek to identify the sector where the production function has become more labor intensive over the years given technology, prices and preferences. Evidently, that candidate is the building and construction sector. Although the manufacturing sector is where labor absorption is highest in history, it is the real estate sector where the potential for labor absorption growth is greatest. There is obviously a need to pay attention on this sector.

The building and construction sector remains a very small component of the economy, contributing an average of 2% of GDP in history, but holds the brightest promise of contributing to sustained and inclusive growth. Although it contributed only 3% of GDP growth during 2010-2011, the sector has recorded phenomenal growth in during the period. Buoyed by rising demand for housing by the emerging affluent demographic groups, increased urbanization rate and the associated demand for infrastructure, and the response to these demands through proliferation of public-private partnerships (PPPS), the sector recorded an average of 12.06% growth during 2010-2011, higher than the growth of any other sector of the economy. The combination of current low contribution to the economy, which implies a strong potential for growth, outstanding rates of recent growth, and the brightest promise for labor absorption places the construction industry in the prime position.

The sector is unique in the sense that the processes of construction involve a complex set of materials, skills and occupations, as well as its composition by a small number of large firms and a large number of small firms, where the smaller firms tend to concentrate on repair and maintenance activities (Ashworth and Willis 1994). The rising rate of labor absorption in the sector (refer to figure 3.2) is potentially the outcome of expansion of the sector from the bottom; entry of small firms that are typically more labor intensive, thus moving the median firm toward a more labor intensive technology. Given the increasing demand for housing and real estate, and the continued emphasis of the government on infrastructure development, the sector is one of the most promising job creators in the country. Policies that provide support for the small firms would be necessary for the sector to realize its full employment potentials.

The sector is also shielded from the constraints faced by the manufacturing sector such as lack of capital investments, weak demand due to competition from low-cost imports from China as well as competition from adulterated products, and infrastructure challenges. In essence while weak demand is a major problem facing firms in the manufacturing sector, strong demand is the factor that is helping the growth of small firms in the construction sector.

Another factor that bodes well for the construction industry over manufacturing is that firms are able to transfer the cost of infrastructure deficiency to their customers whereas manufacturing companies cannot do the same and remain competitive. When faced with infrastructural challenge, construction firms typically build in the cost of electricity, transportation and other infrastructure-dependent activities into their quotations. Thus, the industry is protected from the infrastructure setback.

### **3.0 MACROECONOMIC POLICY**

An examination of Figure 2.4 suggests that the unemployment problem lies in diminishing rates of labor absorption in agriculture and its stagnation in the services sector, and extremely low share of manufacturing in the economy. Among the three drivers of recent economic growth, it is only in the commerce sector where labor absorption grew in the data. Thus, a potential explanation for the lackluster employment performance is that economic growth was not driven by the sector where labor absorption rate is highest (manufacturing) nor did it occur in the sector where the potential for higher absorption rates exist (building and construction).

While openness to trade and the endearing consumption culture that characterizes the Nigerian society would keep the commerce sector growing, an examination of the slow growth of the building and construction as well as manufacturing sectors, and the factors that drive labor absorption in the sectors are necessary. The aim of this subsection is to relate the recent macroeconomic reforms to these issues.

#### **3.1 INVESTMENT CLIMATE AND CAPITAL**

Economic theory indicates that capital and labor are substitutable in the production process. This implies that employers will hire more capital and less of labor as relative price changes in favor of capital, and vice versa. However the extent to which changes in the price of a factor affects demand for the other depends on the ease of the substitution of the inputs. While sectors such as manufacturing are potentially capital intensive, others including agriculture are labor-intensive.

The effect of changes in capital-labor ratio (or capital intensity) on employment and wages depends on the state of the labor market. For example, countries with abundant labor supply experience a rise in unemployment as capital is substituted for labor in firms. Also, the effect of capital accumulation on employment depends on the level of skilled/unskilled labor and the rate of technical change. Empirical evidence from South Africa during the post-apartheid period when the economy was already undergoing a

skill-biased technological shift shows that capital complements skilled labor but substituted for unskilled labor (Samson et al., 2001).<sup>6</sup>

Empirical studies have linked capital and labor intensity to increasing unemployment rates observed in recent times, amidst substantial GDP growth. Using data from a comprehensive study of manufacturing firms in Nigeria, Soderbom and Teal (2002) show that capital intensity varies with firm size (number of employees) as a result of differences in factors prices. Higher labor costs relative to capital costs drives large firms to use much more capital than labor in production. Treichel (2010) also observes that large enterprises in Nigeria are significantly more capital intensive, and investment in small-scale enterprises is limited. The result is that small firms, which dominate most sectors, pay low wages, which reduces the demand for such jobs, and thus a fall in wage employment. A different line of thought on the incidence of unemployment in Nigeria is that the oil industry, which is the most significant sector in terms of revenue and exports, is a highly capital-intensive sector employing only about 1.3% of total employment (Odularu, 2008). Treichel (2010) argues that the case of jobless growth could be linked to the fact that investments (especially FDI and remittances) which fueled the growth are channeled to capital-intensive industries, rather than labor intensive industries which are bound to provide jobs.

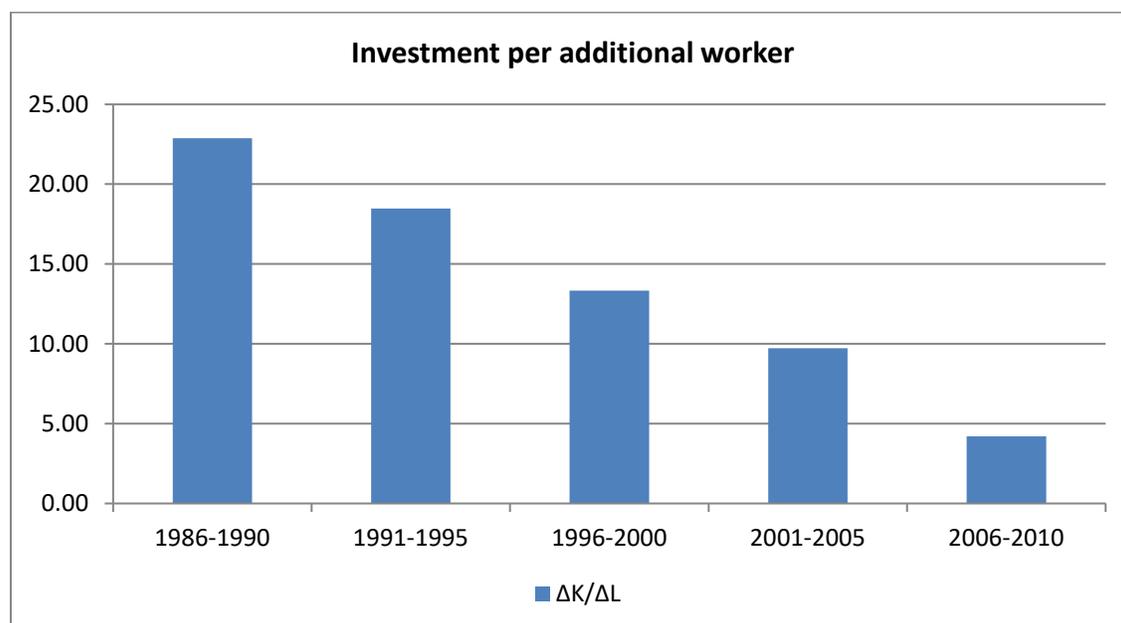
Data on capital stock is unavailable from the NBS, and neither is it available elsewhere, making it difficult to compute the level of capital per worker. However, data on capital formation can provide some insights into the rate of investment in the economy. Figure 3.1 shows the aggregate rate of capital investment derived from national statistics relative to changes in labor employed. We compute the rate of investment per new worker as the ratio of gross fixed capital formation to increase in employment during the respective period. For 1986-1990, the rate is obtained by dividing capital formation (investment in additional capital) during the period by increase in employment during

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<sup>6</sup> The growth in capital intensity was observed in the private sector rather than public sectors, most significantly in mining, manufacturing and construction sectors. Financial services and trade sectors, which are identified as skill-intensive sectors, had stable capital output ratio, and were creating jobs. Fluitman (2001) notes that between 1994 and 1997, “while the mining, manufacturing, and construction sectors, together, lost more than 250,000 jobs, only some 60,000 new jobs were created over the same period, in commerce and financial services.” Thus shortage of skilled labor and rising capital labor ratios implies an increase in unemployment.

the period over 1981-1985.<sup>7</sup> The evidence from the figure implies that investment in capital falls short of the rate of accumulating workers, suggestive of declining capital-labor ratios.

Figure 3.1: Aggregate Rate of Investment per additional worker (1986 – 2010)

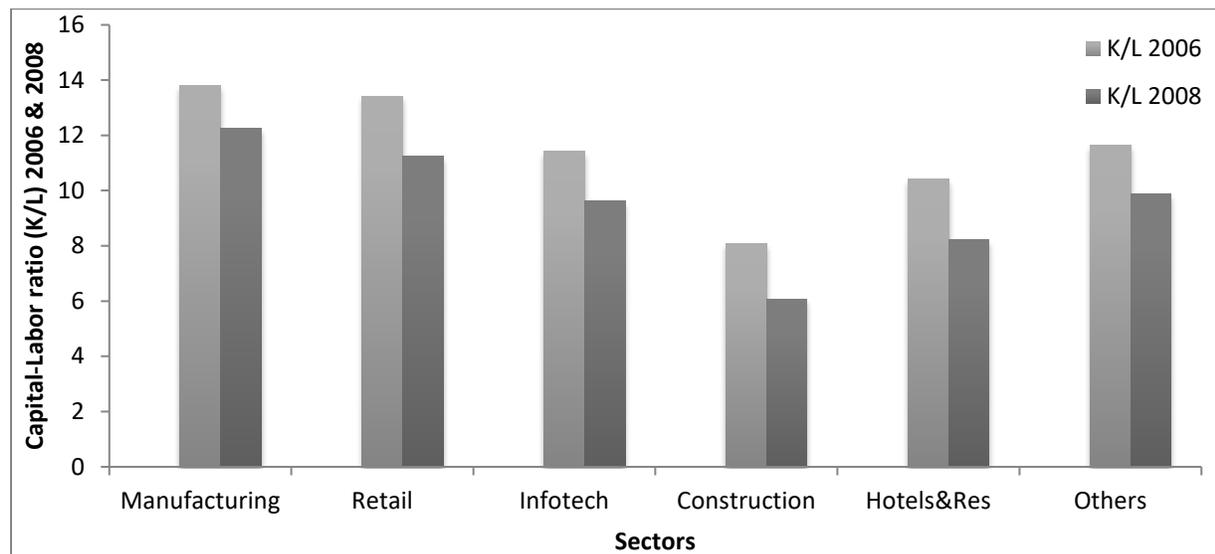


The data in Figure 3.1 is corroborated by other data sources where capital stock is available. Figure 3.2 presents data from the Regional Program on Enterprise Development (RPED), a repeated cross-section of firms of all sizes in Nigeria from all sectors during the calendar years 2006 and 2008. The data shows that the capital-labor ratio decreased between 2006 and 2008 and that it occurred uniformly across all sectors.

A decrease in capital labor ratio suggests that employers are merely adding workers to fixed amount of capital, or investing in capital at rates well below the rate of labor accumulation. This is a signal of two realities. First, it could reflect high cost of capital and low cost of labor, in which case profit maximizing firms would invest in more labor and less in capital. The high cost of capital is a regular point of discussion in the Nigerian society. Although a legislated minimum wage exists, labor costs are relatively low and barriers to wage adjustments are few in Nigeria when compared with countries such as South Africa where union negotiations prevent wages from adjusting downward.

<sup>7</sup> We obtained the gross capital formation data from the national accounts provided by the NBS while the employment data was taken from WDI 2008. The ratios are scaled up by a factor of 1000

Figure 3.2: Capital-Labor ratio across sectors (2006 & 2008) - RPED



Second, entrepreneurs may wish to invest in capital, but the cost of operation is very high as a result of the poor state of infrastructure and high cost of energy. With the exception of the oil industry which is the most capital intensive, capital labor substitution implies that firms would continue to substitute labor for capital.

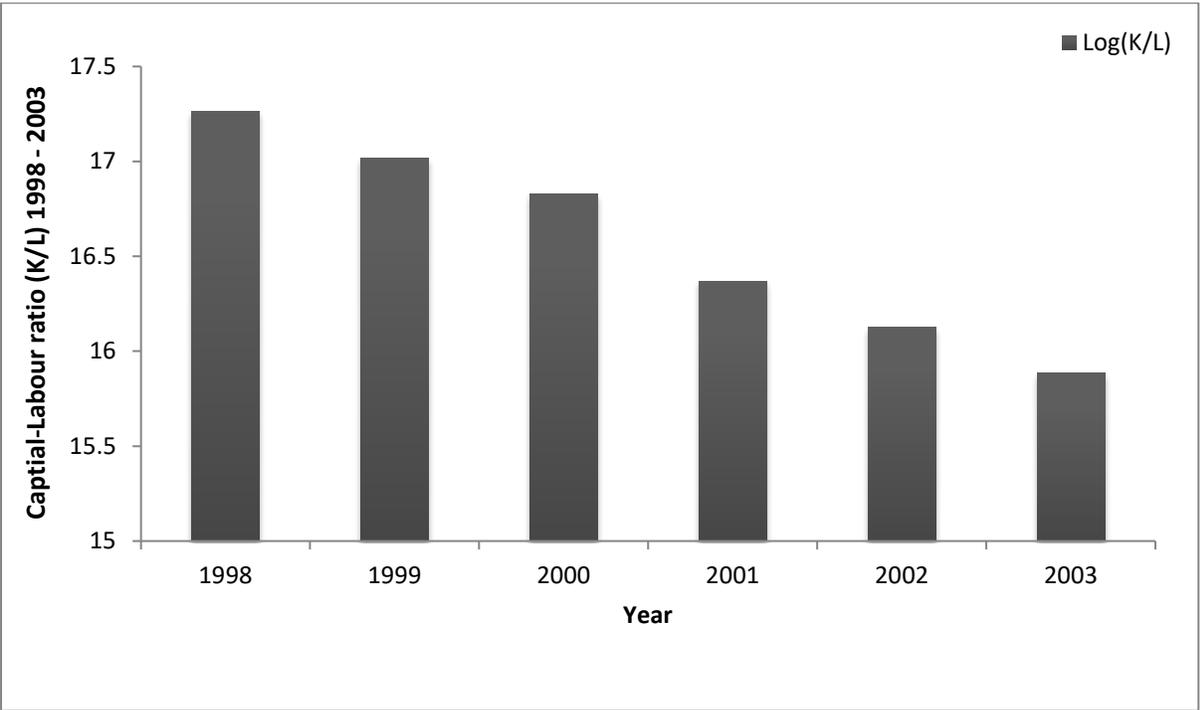
Empirical studies point to falling real wages (see Aigbokan 2000), which is plausible in the face of falling capital-labor ratio and rising unemployment. Because firms are adding workers much more than they are investing in capital, labor faces diminishing returns and wages fall as a consequence while return to capital increases. The unemployment problem is therefore an outcome of the slow pace of gross fixed capital formation.

One of the charges against economic policies implemented in the country is that they led to dearth of small and medium scale industries (SMIs) that are typically the dominant sources of jobs. Lack of capital is the principal problem associated with their underperformance. Observe in particular that the level of capital per workers is highest in manufacturing but lowest in the real (building and construction) sector over the period of the surveys.

### 3.2 THE MANUFACTURING SECTOR

Evidence from two separate datasets based on a survey of Nigerian enterprises show a striking peculiarity. Data from the Nigerian Enterprise Manufacturing Survey (NEMS) conducted over 1998-2003 shows a continual decrease in the capital labor ratio. However, because the NEMS is a panel survey of firms over the period, there is the likelihood that the sample underrepresents startups during the survey period. If startups have higher capital-labor ratio than existing firms, then the data may mischaracterize the sector.

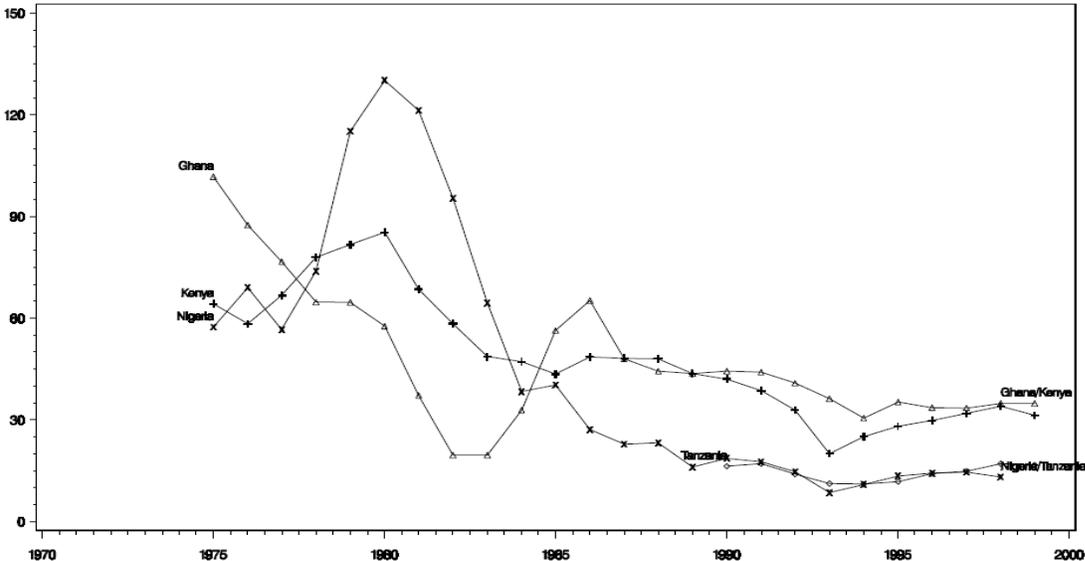
Figure 3.3: Capital- Labour Ratio in Manufacturing (1998–2003)



The NBS does not conduct regular industrial census or survey, making it infeasible to obtain a series on the composition of the manufacturing sector. However, a useful index to assess the sector is manufacturing output. Soderbom and Teal (2002) provide data on manufacturing output in four Sub-Saharan Africa countries namely Nigeria, Ghana, Kenya and Tanzania over the period 1970-2000. Figure 3.4, taken from the study, shows that manufacturing value-added per capita rose between 1975 and 1980 when it reached a peak, fell sharply between 1980 and 1985, and has since continued to fall thereafter. Compared to Kenya and Ghana, the figure shows that manufacturing output in Nigeria fell more sharply than any other country included in the study between 1980 and 1985. Further, manufacturing sectors in these countries have not performed as envisaged in the vision of Structural Adjustment Program (SAP). Instead of

new and efficient manufacturing firms springing up in the post-reform era, new firms were instead springing up in the service sectors.

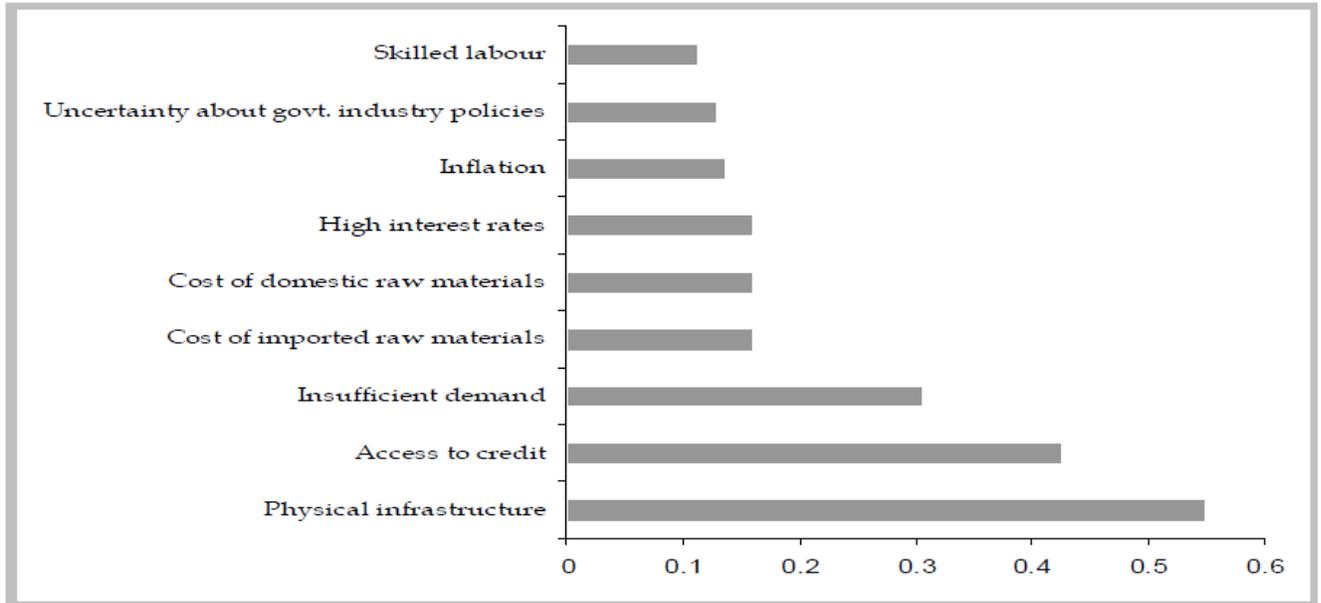
Figure 3.4 Manufacturing Value-added per capita at USD (1995 PRICES)



The data are taken from the World Bank Development Indicators Data Base for 2001.

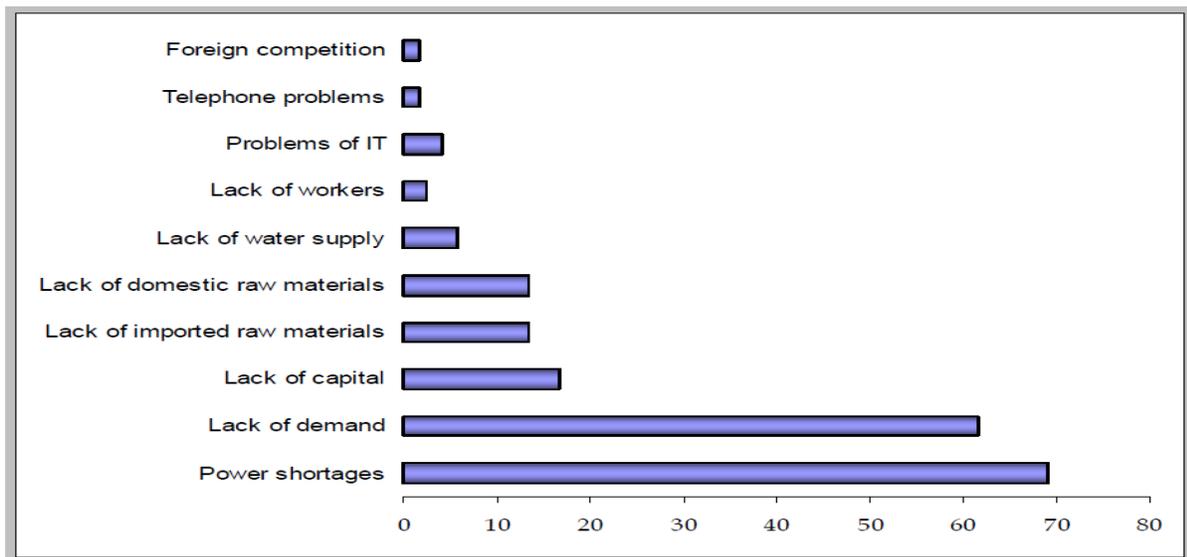
A report by Malik et al. (2006) investigates the constraints to growth of manufacturing in Nigeria. The findings of the survey, reported in Figure 3.5 shows that the country's infrastructure challenges, especially in the area of power supply, is the most important constraint facing the sector. Next is access to credit and third in line is weak demand. Overall, the rate of investment in new capital is very low. The survey shows that only about half of the firms surveyed made any investment in any given year. Lack of skills does not appear to be an important problem for manufacturing firms (this is confirmed in our surveys). Rather, it is a problem for service companies that rely on highly skilled workforce.

Figure 3.5 Main problems facing the manufacturing sector



The enumerated challenges are sufficient to impede capacity utilization in the sector. Figure 3.6 presents the main constraints to capacity utilization identified by the firms in Malik et al. (2006). As expected, the principal factors are infrastructure and lack of demand while lack of capital came in the distant third place. The fact that lack of demand jumps to the second most important reason for idle capacity compared to the challenges in Figure 3.5 reflects the immense impact of import competition on Nigerian firms.

Figure 3.6 Reasons for Idle capacity (% of firms)



### **3.3 DISAGGREGATION BY FIRM SIZE**

The survey report finds a propensity (in likelihood terms) to invest of 28%, 44% and 80% among small, medium and large firms respectively. On the other hand, the average investment rates (in actual monetary terms) were 55%, 39% and 37% respectively. Thus, the large firms that are most likely to invest in additional capital invest very little amounts when they do so, while the small firms who invest large amounts rarely invest. However, because investment rates are computed relative to existing levels of capital, the propensity to invest is the more alarming statistic. This is important for two reasons. First, small firms achieve lowest capacity utilization rates in the distribution. The survey found that average capacity utilization rates were 40%, 50% and 46% for small, medium and large firms respectively. Second, the rate of job creation per dollar of investment is highest for micro and small firms and decreases with size. Therefore, an appropriate job creation effort would do best to focus on easing the constraints to investment and growth among the small firms.

Overall, the manufacturing industry is dominated by small firms that invest little capital, experience little or no growth, and do not export. Large firms that employ much capital and labour are every few, resulting in few formal wage jobs being created overall. The study pointed out that most jobs in the industry are created within the self-employment sector, and are usually small in size, low-wage paying, low capacity utilization, and serve mainly the domestic market. This is driven by the low levels of investment in capital which characterizes these own-account firms. In effect, job creation efforts need to be directed toward manufacturing activities in the self-employment sector.

## **PART 2: MICROECONOMIC ANALYSIS**

### **4.0 ANALYSIS OF DEMAND SIDE**

This section focuses on microeconomic aspects of the labor market and describes the nature of the unemployment challenge from the demand side. It enumerates the constraints to job creation from demand side of the market from the perspectives of the operators and observers.

Most surveys of firms and establishments in the country report sole proprietorships as the overwhelming form of ownership. In a recent survey of job creation by the Nigerian Bureau of Statistics (NBS 2013), 60 percent of formally registered establishments surveyed in a representative sample of firms are legally recognized as sole proprietors. Given that most firms in the informal sector are own-account businesses, and the informal sector is the main employer of labor in the country (NBS 2013), it is therefore the case that the Nigerian economy is predominantly a sole-proprietor economy.

#### **4.1 Earnings Determination**

Empirical evidence suggests that the behavior of the private sector is suitably described by the efficiency wage model. In the framework, profit-maximizing firms pay their employee wages that depend more on firm profitability than employees' characteristics. Using data from a firm level survey, Aigbokan (2011) examines wage determination in Nigerian manufacturing sector and finds a positive correlation between employee wages and firm productivity, consistent with a framework in which firms offer higher-than-market-clearing level in order to maximize profitability. The results confirm rent-sharing between firms and employees (see also Soderbom and Teal 2002). Two important observations corroborate this description. One, existence of entry-level wages for new employees whose productivities remained unknown at the time of hiring suggests that workers are paid wages based on firms' profitability concerns rather than employee productivity. In the formal sector, these wage levels are influenced by labor union negotiations and minimum wage legislations. Two, it is common practice among firms to award employee bonuses that are clearly tied to firm's performance and evaluation of how employees have contributed to the outcomes. The coexistence of guaranteed or negotiated component (wages that are typically adjusted in line with the market or inflation levels) and a bonus component makes the efficiency wage

model suitable for the Nigerian labor market. A firm's capacity to earn rents<sup>8</sup> depends on many factors including its size, age, sector, capital and other characteristics, although workers generally tend to earn more rents in the private than in the public sector.

Earnings determination in the (dominantly informal) self-employment sector assumes a different process that has two important properties. One, because the entrepreneur is also the employee, earnings are purely enterprise profits that depend on individual endowment (of skills), capital, managerial ability and other unobservable characteristics. Second, earnings depend to a large extent on random draws in which older enterprises are not necessarily more profitable than younger ones, so that the age of the enterprise, conditional on capital, does not affect earnings. It is also the case that self-employment has no rent offers. Therefore, existence of rent in wage employment is a major attraction making the wage employment sector of primary interest to jobseekers.

## 4.2 Employment and Wage Dynamics

While profitability drives wages in general, it is not clear that it drives employment. In the manufacturing sector, it is more likely the case that decision to hire is based on turnover rather than profits. Under stable prices, this amounts to hiring decisions being tied to production levels. The case is different in the services sector where profits drive the hiring decision. In the survey of six firms in the Enugu area, the manufacturing companies suggested that turnover determined their decision to employ while the law firm indicated that profits were important. A survey respondent in Lagos suggests that firms in services tend to have a pre-determined profit margin. In many cases, the wage offers are too low, prompting rejection from jobseekers.

It is observed that the **wage gap** between experienced managers and new entrants is increasing, thereby raising the experience premium. There are two reasons for this: market competition for more experienced workers and excess supply of low-skill labor. In the first case, the requirement of experience for managerial positions ensures that the

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<sup>8</sup> Firms can earn rent from different sources depending on the nature of the firm. For instance banks do earn rents from instant arbitrage transactions commonly referred to as "round-tripping" in foreign exchange markets and "free-funds" businesses. Large non-bank firms are sometimes able to negotiate very low cost of funds from their bankers. This also represents some rent.

pool of workers that qualify is limited, thus creating scarcity of suitably qualified candidates. At other times, the widening wage gap is driven by revision of remuneration in the public sector with which the private firms have to compete. Second, excess supply of candidates for entry level positions induces downward pressure on earnings except in corporations with fixed wage structures. In short, employers are taking advantage of surplus labor. In the surveys, increased casualization of the workforce is understandably a way to avoid staff overhead as well as take advantage of the excess supply of workers. To characterize the observations, it seems like the labor market is witnessing increased bargaining at the top and increased casualization at the bottom of the skill distribution.

### **4.3 Contracting and Staff Training**

Most manufacturing firms surveyed employ the services of recruitment agencies<sup>9</sup> to hire staff, especially skilled staff. They noted that it is a reflection of the poor quality of graduates in the labour market.<sup>10</sup> Employers are happy to transfer the responsibility of scrutinizing and evaluating potential workers to recruitment agencies. However, some firms conduct in-house aptitude tests for candidates for skilled positions with the aim of ensuring they are trainable at the very least.

There has been a more than modest shift away from permanent employment contracts toward more short-term contracts and subcontracting of labor services. The replacement of permanent employees with contract staff is driven by a number of factors including uncertainty, taxation, training, and employee retirement benefits. This way, firms can work around the restrictions of labor regulations on hiring and firing of employees as well as remuneration issues. Indeed, employers are using contract staffing to cut wages and other employee costs.

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<sup>9</sup> A recruitment agency in Enugu describes the experience in filling a vacancy. Typically, the agency advertises the positions online, and about 100 people apply. They are required to write an English test at this stage. Only about 20 people usually pass the English test and move to the next stage which requires candidates to undergo aptitude tests, critical reasoning tests, and discipline-specific test. About 10 people usually get through to the third stage which involves an interview. At the interview stage, experience becomes a key factor. On the average only 2 or 3 people get employed through this process.

<sup>10</sup> A recruiter that was a respondent in the survey expressed strong belief that lack of skills is the main driver of the unemployment problem. She blamed the tertiary institutions for awarding notoriously incompetent people with degrees. According to her, many graduates cannot write simple sentences in English, implying that many of them must have paid their way through “sorting” to acquire degrees. Also, many candidates lack basic computer skills.

Subcontracting serves a different purpose. Organizations find it costly in terms of wages and managerial effort to keep some categories of workers, typically those whose services are valued at below the mandatory minimum wages, on their payroll. In terms of strategy, they subcontract those services. Indeed, subcontracting enables firms to avoid labor regulations as it is a strategy to reduce the cost of monitoring and supervision. Subcontracting can also be a means of firm survival in the face of government regulations. Otherwise, firms that are unable to subcontract have been forced to downsize.

Staff training is a driver of motivation on the job. The survey notes the observation that most employers are no longer providing **employee training**. This is attributable to the cost element. Firms have to expend monumental resources on electricity and other energy inputs that are not readily available due to the infrastructural deficit. Excessive government taxes and fees also play a role here. This bloats overhead costs and necessitates reallocation of funds. Unfortunately, staff training is one of the items that suffer the cut.

Another factor that seems to play out in terms of employee training is the weak contract enforcement environment that allows employee poaching. Firms are reluctant to train employees in the absence of guarantee that the employee will apply newly-acquired skills for a period of time that allows the employer to reap the benefits of training expenses.

#### **4.4 Firm Expansion and Stability**

##### *Legal Environment*

Most small businesses are built around the owner who oversees all aspects of operations. This is a reflection of the business environment that is lacking in trust as well as effective and reliable legal means of litigating disputes. It is also one of the reasons why Nigerian businesses are predominantly sole proprietorships.

##### *Uncertainty*

Fluctuation in input costs also limit expansion of businesses as they induce uncertainties into activity plans. This phenomenon is more important for firms that depend on importation of essential inputs from the international market where prices are unstable.

For example, vegetable oil producers<sup>11</sup> are faced with fluctuations in the cost of palm kernel which is the main input used to produce vegetable oil. Palm kernel, which used to be locally produced in commercial quantities in the past, is currently imported from Cote d'Ivoire. Pharmaceutical producers also face fluctuating prices of imported antibiotic powder, which is a main input in the production process. This challenge is not limited to manufacturing firms. A law firm included in the survey noted that the relative cost of law reports, which is a key recurrent expenditure of law firms, has risen, compounding their financial challenges.

### *Capital*

Capital constraints are common, especially for manufacturing firms for which alternative financing is challenging. Interest rates on commercial bank loans can be up to 35 percent if hidden costs are accounted for. However, the Bank of Industry (BOI) and Bank of Agriculture (BOA) offer interests rates as low as 10 percent and 14 percent respectively. A key limitation to the size of the loans available from BOI and BOA is that they require guarantees from commercial banks which offer very stringent requirements. In some cases where the BOI approved the loan, the requirements for accessing the fund tend to be very strict.

The surveys also confirm the exclusion of a large swath of middle-level entrepreneurs from capital schemes. While microfinance banks tend to target small-scale traders that require up to N1 million, commercial loans are only accessible to very large firms, as their collateral requirements are impossible to meet by mid-level entrepreneurs.<sup>12</sup>

### *Competition*

The problem of weak demand faced by manufacturing firms is a result of competition on the basis of price and preference from foreign goods. Domestic firms face price competition in the sense that foreign goods are cheaper than the locally-produced counterparts, and face preference competition in the sense that the consuming public prefers goods produced overseas to those produced locally.

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<sup>11</sup> This is confirmed by producers in Enugu.

<sup>12</sup>A respondent cited the instance where a commercial bank demanded collateral worth N75 million in effort to secure a loan of N50 million.

In addition to competition with imports, segments of the manufacturing industry also face more acute competition from not only legitimate rivals in the industry, but also illegitimate, adulterated and “fake” goods. As a result of weak regulation, firms in the affected subsectors incur enormous costs in prosecuting the adulterators. Indeed, the pharmaceutical subsector is described as having retreated into the “pre-Dora Akunyili” era. In addition, foreign companies in the industry are granted tax rebates that put indigenous producers in a difficult position to compete.

#### *Others*

Security is a vital constraint to firm expansion in the Northern parts of the country. In addition, the textile industry suffers from high level of dumping, smuggling and counterfeiting of textile products in Nigeria. One of the respondents is quoted as saying:

*“...all these low quality imported and counterfeit products are a major threat to the Nigerian manufacturing sector...and government has not really done anything to stop them recently...”*

Government policies also hurt. Respondents pointed out that inconsistency in government policies especially as regards the ban on textile products and multiple taxes inhibit their expansion. A respondent from the textile industry lamented;

*“rather than for government policies to favor us, they often affect our operations badly.....the price of Black Oil, an alternative which we use to provide energy in the textile industry and even some construction companies through the Combined Heat and Power System (CHP), increased drastically from about NGN4.0 per liter to over NGN80.0 per liter within a short time...”*

For microenterprises, lack of growth is partly to be blamed on norms that place heavy burden on people to spend a lot on social events, thereby gutting enterprise funds and profits that could otherwise be reinvested.

For manufacturing firms, energy was the most pressing challenge to expansion. As a result of lack of adequate supply, the firms incur enormous costs on operating power generators.

## **5.0 ANALYSIS OF SUPPLY SIDE**

This section describes the nature of the unemployment challenge from the jobseekers' side. It enumerates the constraints to successful job search from the perspective of jobseekers and observers of the labor market.

### **5.1 Curriculum Design and Vocational Training**

The truth needs to be said, that the Nigeria education system is largely a job-seeking system rather than an entrepreneurship system. Thus, the unemployment problem is driven partly by lack of vocational training. Government technical colleges still exist, but they lack equipment. The federal government banned the importation of equipment on the basis of allegation that renegades might use the avenue to import arms.<sup>13</sup>

Over the years, there have been undue emphases on management education instead of technical education. Lack of knowledge of crafts and technical skills creates dependence on the white-collar job sector for employment and is partly responsible for lack of interest in self-employment.

### **5.2 Pre-graduation Experience**

There is a sense, from the surveys, that graduates possess very little technical knowledge (a respondent estimates this at about 10 percent of the required knowledge of their field within 5 years post-graduation). However, the problem seems to be related to pre-qualification experience that could be overcome through internship and industrial attachment.<sup>14</sup> In addition, the graduates lack soft skills such as the culture of hard work and diligence, grammar, writing and computer skills. These skills could have been developed through workplace experiences prior to graduation. In general, these skills are often more important in the services sectors than in the real sector.

The idea that fresh graduates are not productive is attributable to their transition from school to workplace, which is in essence a transition from reading and passing exams to dealing with real-world issues in the workplace.

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<sup>13</sup> This allegation is more relevant in the South-east part of the country due to the civil war.

<sup>14</sup> In his experience, he has worked with Accountants that cannot perform simple book-keeping. In his view, it is better to employ an OND Accounting graduate with experience, than a BA Accounting graduate without experience.

### 5.3 Employment Choice and Transitions

There is a general way in which social expectations affect employment choice in the Nigerian setting. There is an acknowledgement, particularly from the Southwest and Northern parts of the country, that the society's influence on job valuation is critical to employment outcomes. Society tends to value employment generally by the wage. Since self-employment on average (due to risk) yields lower expected returns on employment, the society tends to undervalue the experience, networking and other attractive benefits of self-employment.

Empirical evidence established rent-seeking behavior on the part of workers. There is a sense that wage employment is the essence of any type of education.<sup>15</sup> A small business owner in Abeokuta, Ogun State, reflecting on how society values education in the city, puts the phenomenon this way: *"The worth (value) of a certificate is a paid job. There is no respect for a graduate without a paid job."*

Given the social construct, family socioeconomic background influences individual choice between unemployment (and continued job search) and self-employment. Individuals from well off or top income bracket are well connected and typically do not remain unemployed. For example a kid whose parent is director of a company or public establishment is likely to commence a job immediately after graduation. Individuals from the bottom of the socioeconomic ladder do not have a choice of remaining unemployed because they lack financial support required to stand strong on the job queue. As a result, they may not care about the stigma of self-employment as they must find something to do. These types of entrepreneurs will make up a large fraction of the "necessity entrepreneurs." Social expectation is likely to yield very limited impact among these groups.

Individuals who are educated, unemployed and searching for jobs are most likely from the middle of the socioeconomic ladder. The rationale here is that the social expectation keeps them searching for paid employment, and financial support

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<sup>15</sup>There were several anecdotes to demonstrate that the society considers entrepreneurship as too volatile and entrepreneurs as not responsible. If an individual wants to get married or rent an apartment, the question "where do you work?" must be answered satisfactorily. A few decades ago, work in private sector was the preference. With few employment opportunities in the private sector in recent years, the public sector has become attractive. Self-employment has not received such acceptance.

available from family keeps them alive in the queue rather than forcing them into self-employment.

Lack of capital has been often cited as a major impediment to entrepreneurship. However, it does seem to influence the structure of economic activities. Consider an individual who seeks capital for a small manufacturing activity. Because she/he gets turned down, he may begin to look for opportunities that would not require outlay of capital, such as facilitating commerce or offering labor services. As a result the services sector enlarges over manufacturing.

### **5.5 Rentier versus Entrepreneur**

This is particularly important in the Niger Delta region of the country but it has nationwide implications. Employers complain of a strong 'entitlement culture' among the Niger Delta state indigenes, which resulted in a preference for "rentier" income from oil activities, and an aversion towards entrepreneurship and business ownership.

### **5.6 Skill Mismatch**

There is lack of integration between business and academia, and most of the products of Nigeria's universities were not fit for purposes of the business community, creating a mismatch between the skills required in the workplace and those provided by the educational institutions.

To deal with the problems of skill mismatch, manufacturing companies provide in-house training; IT companies provide internship programme for IT students and new graduates, and offer training programme for professional IT examinations. A landscaping company in Cross Rivers provides humanitarian assistance in communities where it operates, which allowed for 'talent spotting.

Some respondents listed three important issues in the employment matching process. Firstly, they agreed that there is a lack of skills among many young people. The educational system is very poor and not delivering skilled workers into the labour market. The next factor is the lack of political will to diversify the local economy away from oil dependence, which would create employment opportunities in non-oil activities such as agriculture and small-scale industry. Thirdly, respondents felt that there is a spatial mismatch between what is required by employers and what is available

locally, and a lack of information on job opportunities (informational asymmetries) for job seekers.

Large firms who are able to do large Corporate Social Responsibility (CSR) projects are funding vocational training centers in the states where they operate. In particular, General Electric is collaborating with the Enterprise Development Centre (EDC) and the Microfinance and Enterprise Development Agency (MEDA) to fund small enterprises in the state. Other companies provide specialized training programs for selected graduates of relevant disciplines such as agricultural studies and engineering, and groom them in the company's training school by offering 6-month classroom and on-the-job training. Some of the beneficiaries are hired by the companies while others are let go into the labor market with the skills they acquire.

### **5.7 Labor Market Information System**

Jobseekers generally think that recruitment processes are not transparent. Recruitment agencies observed, in their interactions with job seekers, that the major grievance cited was the insincerity of employers of labour and informational asymmetries in the labour market. There is no centralized job placement system that links employers and job seekers. Jobseekers often complain of corruption and influence-peddling in private and public recruitment processes, leading to the employment of underqualified people, while talented and qualified workers are frustrated out of the labour market.

### **PART 3: THE PUBLIC SETOR**

This section examines the role, actions and inactions of government in facilitating employment, and enumerates the challenges associated with government policies on both historical and contemporary basis. Inasmuch as the Nigerian economy remains a petro-dollar stimulus economy, progress on many issues, including unemployment, depends to a large extent on what the government does or doesn't.

In the neoclassical view of production economies, the government plays no direct role in job creation but aids job creation by providing infrastructure that supports the private sector. In this paradigm, public capital derived from taxes collected by government only provides benefits that serve as inputs into private production.<sup>16</sup> However, the view that government does not produce output independent of the private sector is changing. In this new paradigm public capital contributes to aggregate output directly by providing services directly to end users and indirectly by providing inputs into private production.<sup>17</sup> For example, a highway construction provides services directly to end users (in return for toll fees) while at the same time reduces the cost of transportation for private producers of consumer goods. Indeed, while new private economic activities will emerge as a result of the new highway, construction and maintenance of the highway is also a source of economic activity that leads to job creation. It is in this light that the public sector is analyzed in this report.

The most important point to be clarified however is whether the private sector leads or lags the public sector in production and job creation. Indeed, whether government provides infrastructure, soft or hard, or provides some intangible services, it is nearly universal that the public sector leads the private sector. One can imagine the set and order of activities that take place consequent to emergence of a new city. The public sector must provide some basic goods and services that allow for convenient living, for example, roads, electricity infrastructure, health centers and sewage systems, before meaningful private sector activities can blossom. Since the government must employ new workers in order to provide these services and to keep them going, it therefore seems clear that public sector leads the private sector in job creation. Whenever citizens and private sector operatives demand new services or upgrade of existing

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<sup>16</sup> See Barro (1990)

<sup>17</sup> This paradigm is in effect a renaissance of the tradition of Arrow and Kurz (1969).

ones, they are essentially asking for new public sector jobs. The public sector also creates activities and employs labor in not only to keep up with demands but also to create new areas of endeavor. Indeed, although the private sector is most productive in the advanced economies, the public sector remains the largest employer of labor in those countries.<sup>18</sup>

In addition to its role in direct job creation, the government also must play the role of providing public goods to support the private sector in the process of job creation and matching of workers with vacancies. The government performs this function through specialized agencies.

### **6.1 THE NIGERIAN DIRETORATE OF EMPLOYMENT (NDE)**

The NDE is the anchor of several initiatives of the government to spur job creation. These initiatives are in two categories. The first category, which targets graduates of higher institutions, include Rural Agricultural Training Schemes (RATS), Graduate Attachment Program (GAP), Graduate Internship Scheme (GIS) and Graduate Coaching Scheme (GCS). Other initiatives of state and local councils include Small and Medium Scale Enterprise Program (SMEP), Basic National Open Apprenticeship Scheme (BNOAS) and Advanced National Open Apprenticeship Scheme (ANOAS).

The programs face notable challenges. On the participants, side, some people do not like to take loans due to high degrees of risk aversion or expectations that they would receive free monetized grants. For instance, some participants enroll for training with the intention that they will receive cash, and when they realize that they will be given equipment, they abandon the program. On the funding side, the allocation provided by the federal government is small. NAPEP receives more funds than NDE. Below is a description of the programs.

#### **Rural Agricultural Training Schemes (RATS)**

RATS aim at providing graduates of tertiary institutions and high school leavers with skills in agriculture and agricultural loans for a subset of trainees. Areas of training include Fish farming, poultry, animal husbandry, and crop-processing. Experience in agriculture is not required for enrolment in the training program, which lasts for three months. The

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<sup>18</sup> See Baily et al (2011) "The Public-Sector Productivity Imperative," McKinsey & Co

first month is assigned for tutorials while the remaining two months are spent in practical field training. Loans offered by the schemes vary by type of farming. For instance, Loans for fish farming are typically about N100,000 and the conditions are down payment of 10 percent, interest rate of 9 percent and possession of land. In the Enugu office of the NDE, training takes place twice a year and 80 persons participate in each round (total of 160 persons per year). Loans are usually issued to about 50 people per year (about 30 percent of the participants).

### **Graduate Attachment Program (GAP)**

In the GAP, graduates are attached to organizations for a period of six months during which they receive a monthly stipend of N10,000. A number of the participants are retained by the host organizations after the period while others would return elsewhere. Interested candidates are required to register at the NDE office. The number of people selected depends on demand from both public and private organisations. In the Enugu zonal office, about 50 people enroll in GAP twice a year (amounting to 100 persons per year).

### **Graduate Internship Scheme (GIS)**

The GIS is a new program run at the state level in collaboration with SURE-P. Graduates are posted to different organisations (both private and public) for one year during which they receive a monthly stipend of N18,000. Applications are completed online and the selection is done centrally by SURE-P in Abuja.

### **Graduate Coaching Scheme (GCS)**

The GCS recruits graduates to organise lessons for WAEC and NECO candidates. This is aimed at creating employment for the graduates while simultaneously seeking to improve learning outcomes at secondary school level. Candidates are selected twice a year from each Local Government Area (LGA).

### **Basic National Open Apprenticeship Scheme (BNOAS)/Advanced National Open Apprenticeship Scheme (ANOAS)**

The BNOAS focuses on providing vocational skills at no cost and targeted at school leavers, high school drop-outs and interested graduates. Selected candidates are

attached to master trainers in auto mechanics, auto-electricians, fashion design, cooperate operations, and vulcanizing after an orientation session. Apprentices are selected on a “first come first served” basis based on rolling registration at the NDE job centers. The Enugu center enrolls more than 100 apprentices monthly.

Upon completion of apprenticeship, the candidates pass onto the Resettlement loan scheme that finances equipment relevant to their vocation. Recipients are required to pay back only 10 percent of the cost of the equipment over a period of two to three years. In Enugu, loan amounts vary from N153,000 for fashion designers to N222,905 for business centers because of the need for generators, scanners etc.

In the Enugu office, about half of the candidates attend only the training sessions and prefer not to take the loan. The other half opts for the resettlement loan.

### **Small and Medium Scale Enterprise Program (SMEP)**

The SMEP focuses solely on human capital constraints in entrepreneurship. Graduates of tertiary institutions are given “starting your own business” training while school leavers and artisans are given basic “how to manage small business” training. Anyone interested can receive the training. In some cases, the Bank of Agriculture (BOA) gives loan to those who complete the training. Such loans are guaranteed by senior civil servants, NDE staff guarantees and religious leaders.

## **6.2 MICROFINANCE AND ENTREPRENEURSHIP PROGRAMS**

Many state governments are also running microfinance and entrepreneurship programs as a means to job creation in rural areas. A classic example is Rivers State Microfinance Agency (RIMA) which receives funding from Rivers State government and UNDP, and focuses on existing (not startup) small businesses and petty economic activities especially in the informal sector. Its aim is to transformation local economies through an integrated value chain approach.

RIMA provides funding for small enterprises through microfinance banks in the state – namely, rural financial institutions (RFIs), and community financial institutions (CFIs). RIMA chooses beneficiaries through local cooperative societies formed in each of the LGAs in alliance with the Ministry of Commerce, and lends based on the production value chains (mainly in agriculture, cottage industries and animal husbandry). To encourage

beneficiaries to “move up the value chain,” the agency offers a micro leasing scheme for equipment and machinery, which increases productivity, profitability and loan recovery.

The rural cooperative societies emerged as an important factor in ensuring that trust and integrity was maintained within beneficiary groups, such that loans were only used for the purposes they are granted and RIMA staff adopted a hands-on approach, with constant monitoring and mentorship of rural beneficiaries. Members of the risk-pooling cooperative society act as guarantors to the beneficiaries. Repayment rate averages 85%, challenging the conventional view that poor people are unable to repay bank loans. In terms of assessment, observers strongly believe that RIMA interventions capture the most entrepreneurial people through a process of self-selection.

The respondent from RIMA stated that around 14,000 people have been empowered through the microfinance programme (7,000 through the RFIs, and another 7,000 through the CFIs). He believed that RIMA's activities had a considerable impact on poverty and job creation, boosting cottage industries and agricultural activities in the state. The strength of the program lies in the innovative micro-leasing component and the strong links with local cooperatives in rural areas.

Another example is the Ogun State Employment Generation Program (OGEGEP). The agency provides short-term (6-8 weeks) training programs for unemployed graduates in agriculture and non-agricultural activities, and matches jobseekers with private employers. It became a full-fledged agency in 2006. In principle, it is supposed to cater for the unemployed of all education categories but is faced with several challenges. Unemployed graduates are asked to train for activities that they do not really like to do. Masonry is an example here. This is a source of disincentive for the program. Private sector firms are not really interested in the program and are therefore not forthcoming. Training programs focus solely on graduates who are not willing to go through the apprenticeship process. The agency's funding is highly vulnerable to political climate and politicians' whims. Due to lack of funds, the last training was conducted in 2010. What happens after training? Bank of Industry is not providing loans as expected; only government agencies are helping with finances. Where is the market for their products? You train, they produce, then what?

### **6.3 EMPLOYMENT AND JOB CREATION PUBLIC-PRIVATE PARTNERSHIPS (PPP) PROGRAMS**

An example is the Rivers State Sustainable Development Agency (RSSDA) designed to combat youth restiveness, generate wealth and employment and reduce poverty in rural areas. The agency operates a Public Private Partnership (PPP) model, whereby technical and core managerial staff are seconded from the private sector, and the agency is run according to 'private sector principles' of merit, competition and transparency.

RSSDA's interventions are focused on entrepreneurial skill development in areas of financial management, vocational training, and agro-allied activities. The primary target groups include women, ex-militants, secondary school dropouts, and unemployed youth. The agency operates 13 business incubator centres that offer specialized courses including aquaculture and livestock management, and 4 centres focusing on animal husbandry. Program participants including existing and new entrepreneurs are selected through a rigorous screening process by agency officials from all the LGAs and senatorial districts in the state. In its approach, the agency takes potential beneficiaries through a rigorous process of behavioral change, skills acquisition and entrepreneurial training. Specifically, selected participants go through an initial six month mentorship programme that focuses on basic business management techniques such as bookkeeping and business plan development, after which there is an assessment exercise.

Upon completion of the training, successful participants develop formal business plans that are verified by RSSDA enterprise development officers. Non-repayable business grants ranging from N250,000 to N2.5 million per participant are normally provided for a period of 18 months, with phased disbursements every 3 months. The grants may be provided in-kind (machinery, land, business premises or technical support) according to the capacity of the beneficiary. The grants are paid through dedicated bank accounts instead of direct cash transfers, and all transactions are monitored by RSSDA officials. RSSDA has a strong monitoring and evaluation (M&E) component. The M&E division visits beneficiaries within six weeks of the first disbursement, and pays frequent (weekly) monitoring visits to project sites afterwards, for the grant duration.

In terms of assessment, observers believed that some disadvantaged groups were being lifted out of poverty by RSSDA's interventions, and an entrepreneurial culture is being created in the state, but was undecided as to whether the 'best' or most capable individuals were benefiting from the programme. Particularly, there were concerns over the high rate of abscondment, attitudes of the militant and youth groups, and the sustainability of new enterprises after the grant period. The respondent from RSSDA noted that 2,000 to 3,000 people had benefited from the programme over four years.

#### **6.4 OTHER INTERVENTIONS**

There are also programs to create employment for unskilled workers particularly in the Northern part of the country where the level of education is very low. These include menial jobs such as sweeping the streets, horticulture works, waste management and traffic regulations and enforcement.

## **PART 4: SUMMARY AND RECOMMENDATIONS**

### **7.0 SUMMARY OF FINDINGS**

Youth unemployment is currently as high as 42 percent. Over the 5-year period leading up to 2010, an average of 1.8 million youth entered the labor market for the first time. This figure will increase every year into the future until at least 2050. Therefore, the current 42 percent unemployment is simply a tip of the iceberg.

This paper reports on attempts to elucidate information on the nature and impact of the cardinal challenges to job creation – infrastructure, capital and skills – and to seek other micro-level factors that impede job creation.

The findings suggest that these primary challenges are reinforcing. Weak infrastructure directly limits productivity and capacity utilization of firms. Indirectly, they also contribute to raising the cost of doing business, which contributes to poor assessment of the investment climate, and ultimately discourages investment of capital. In another dimension, businesses incur enormous overhead costs in order to mitigate the infrastructure challenges. This warrants reallocation of resources from other business needs such as employee training, which leads firms to emphasize experience in job advertisements, limiting the employability of less experienced jobseekers.

Apart from the cardinal challenges, the microeconomic surveys reveal additional issues. These include information asymmetry in the labor market that contributes to skill mismatch, uncertainties in the economic environment which limits expansion, high transactions costs in intra and inter-firm contracting as a result of weaknesses in the legal system, and social orientation that discourages self-employment in some parts of the country.

Based on the survey, the key initiatives to support job creation include the following:

- 1) Re-orientation of educational system away from white-collar job-seeking curriculum toward an enterprise and vocational curriculum, and revamping the vocational training institutions
- 2) Graduate retraining programs to improve the level of skills of existing workers and prepare upcoming streams adequately for the labor market

- 3) Emphasis on pre-graduation internships to expose potential jobseekers to workplace ethics and demands
- 4) Provision of support for firms to upscale employee training activities
- 5) Development of job centers, both online and offline, to act as clearinghouses for firms and jobseekers in order to eliminate information asymmetry.
- 6) Institution of regular interaction between private sector and skill development institutions including universities, polytechnics and technical colleges.
- 7) Further improvement in the business environment in order to attract capital investments that are needed in various sectors of the economy.
- 8) Development of domestic schemes and initiatives to provide capital for underserved midsize entrepreneurs
- 9) Stemming the proliferation of counterfeit products
- 10) Fast-tracking energy and other infrastructure development reforms

## **8.0 SPECIFIC RECOMMENDATIONS**

A review of the Federal Government budget over the last two decades shows that the strategy has been to invest in all sectors probably with the intent to move all sectors forward, even if only marginal progress is achieved. This is not a viable strategy. Government policy and programme should focus on creating a favorable environment for the select sectors of the economy that have demonstrated an increasing contribution to GDP growth and the potential to create high numbers of jobs.

### **8.1 Real Estate and Construction:**

With an estimated deficit of about 17 million housing units, Nigeria's housing market holds a significant opportunity for growth and jobs. It is currently underperforming due to a number of structural problems including high costs of building materials driven mostly by importation bans, quotas and other forms of restrictions. The high cost and short-term nature of financing are major impediments to the development of the sector. The current administration hopes to unlock the potential in the sector. For instance, the Mortgage Refinance Company, sponsored by the private sector, the World Bank and the Federal Government of Nigeria, aims to provide mortgages with longer tenures and lower costs.

### **8.2 Agribusiness:**

Agriculture is the largest sector of the economy, accounting for about 42 percent of total GDP. Nigeria is one of the world's top producers of a number of agricultural products (cassava, cashew nut, tomatoes, millet, shearnut, oil palm, etc.). The sector has opportunity to create high numbers of wage jobs. However, most of the produce is unnecessarily affected by post-harvest losses due to inadequate transportation, processing and storage facilities. In addition, Nigeria's agricultural sector has one of the world's lowest levels of productivity. Productivity must be increased significantly for the produce to compete favorably against produce imported from other countries. The sector has opportunity to create high numbers of wage jobs.

### **8.3 Conduct of Industrial Policy**

There is always a risk, especially in developing countries, to pick a particular company and make it a winner. Government should resist this policy and, instead, pick industries

not companies. Government support should be made available to the entire industry and not to specific companies. The best-managed companies should be allowed to survive and win. Picking companies causes distortions in the market and promotes inefficiencies, creating the situation where companies cannot compete on the national or international levels.

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