

Job Creation and Employment in Nigeria

Centre for the Study of the Economies of Africa
(CSEA) & Nextier Advisory



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Abuja | Nigeria

Aim and Scope

Purpose of the Presentation

- **To examine the unemployment problem and constraints to job creation, through**
 - Analysis of official numbers
 - Findings of a recent survey of the labor market covering public sector institutions, private firms and recruitment agencies
- **To provide context for this dialogue**

Outline

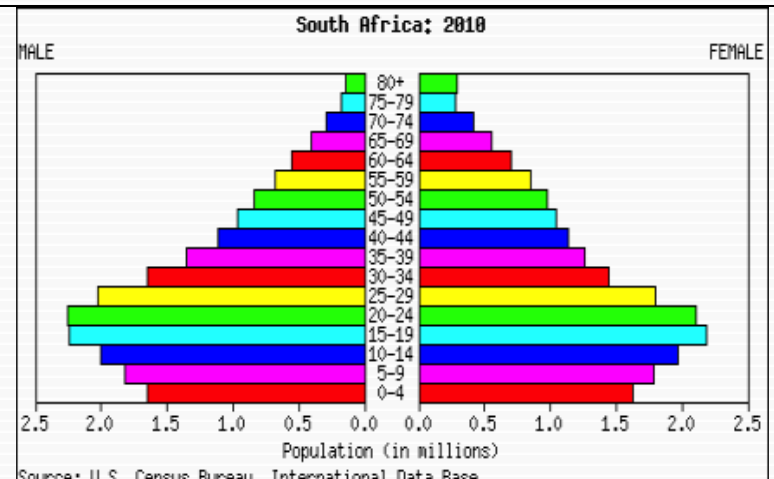
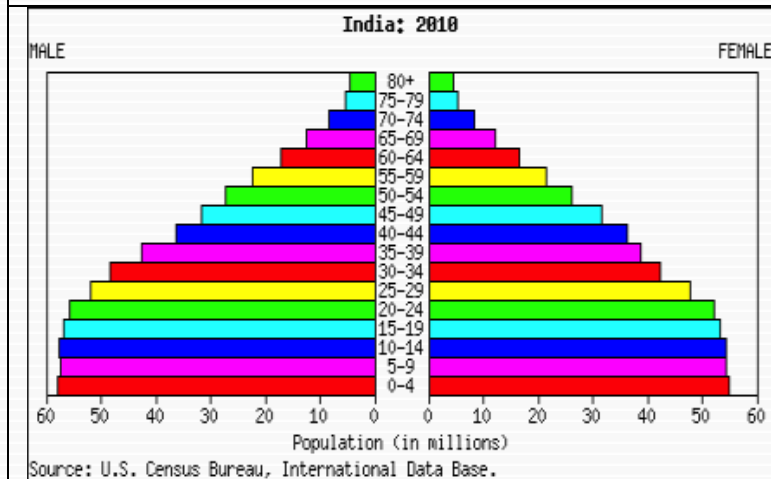
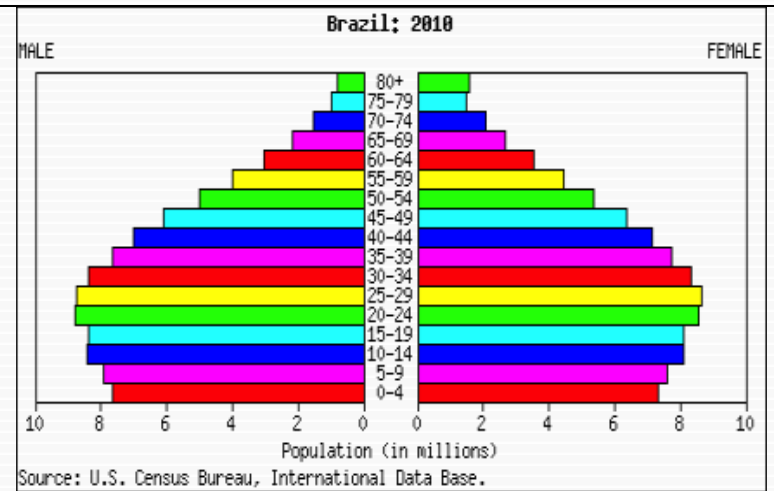
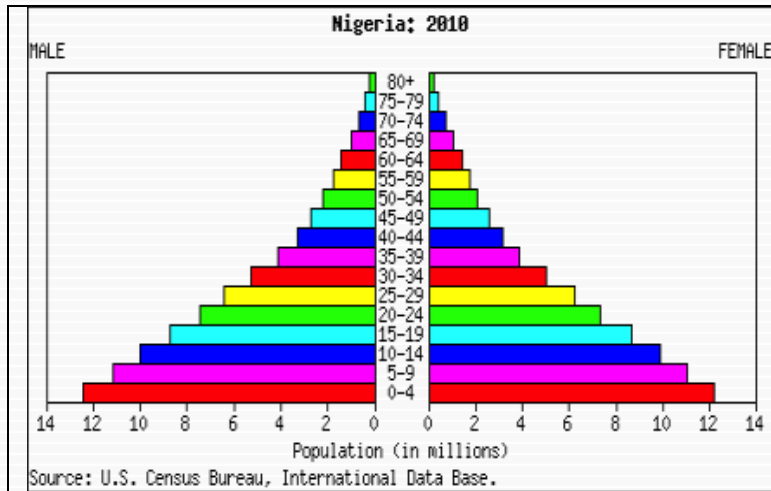
What we'll be talking about

- 1) The Unemployment Problem:
 - Demography and Economics
- 2) Output and Employment:
 - Sectoral Output and Labor Absorption
 - Recent Growth Drivers and Employment Outcomes
- 3) Constraints to Job Creation and Employment
 - Demand-side Issues (Firms)
 - Supply-side Issues (Workers)
- 4) Government Interventions
 - Some success stories
- 5) Conclusion

The Unemployment Problem

Demography

Population Pyramids 2010

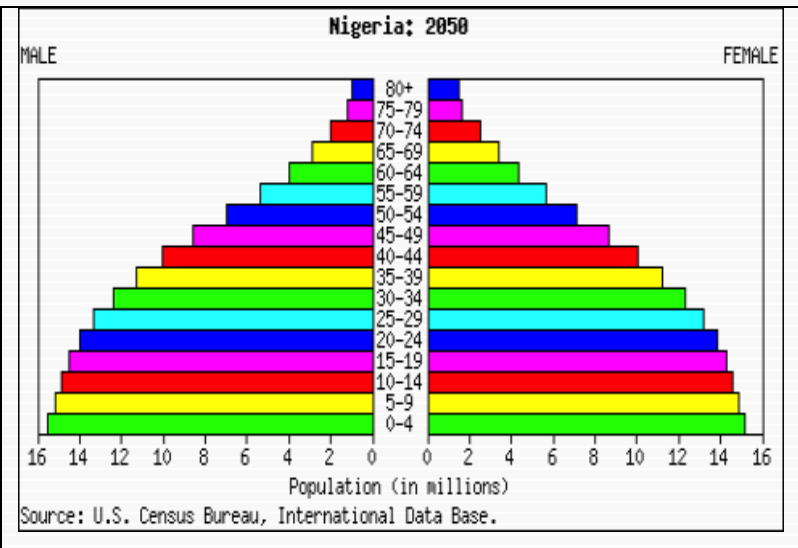
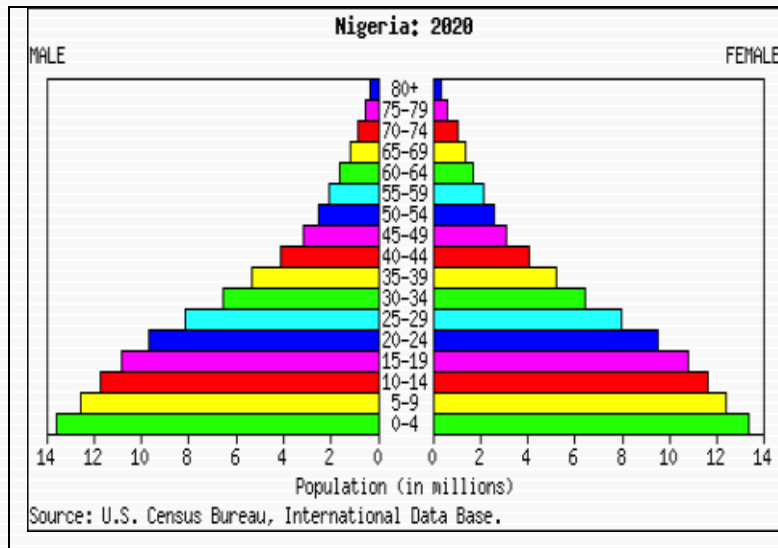


The Unemployment Problem

Demography

Nigeria 2020, 2050

(Projections under medium fertility assumptions)



The Unemployment Problem

Demography: What do these mean?

- 1) Majority of Nigerians are still at home or in school (South Africans and Brazilians are ready to work or already working)
 - 63% of 2010 population below 25 (44% are under-15)
 - Nigerian Pyramid will resemble S/African (49% below 25) by 2070

- 2) Consequences of youth bulge timing
 - In Nigeria, new entrants will arrive at increasing periodic rates until about 2070 when a youth bulge may appear
 - At current rates of labor force participation, about 2.3m annually during 2010-2014, rising to more than 3.5m during 2050-2054
 - The reverse is the case in South Africa; already experienced a youth bulge

- 3) At current level of effort, the youth unemployment problem can only get worse, not better!

The Unemployment Problem

Labor Force and Unemployment

1) Labor force

- estimated at 67.3m in 2011
- participation rate of about 75% of economically active pop.
- grows at an average of 3.2% per year

2) Unemployment was steady at 13% between 1999 and 2007

- big pushes in agriculture, communications and commerce
- employment expanded in line with labor force
- Youth unemployment was stable around 30% (2002-2007)

3) Increased from 13% in 2007 to 27% in 2012

- no new pushes, working around the edges
- employment failed to expand substantially
- Youth unemployment rose from 30% to 42% over the period

The Unemployment Problem

Labor Force and Unemployment

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. Calculation from NBS (2012).

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Demand-side Issues (Firms)

Supply-side Issues (Workers)

4) Government Interventions

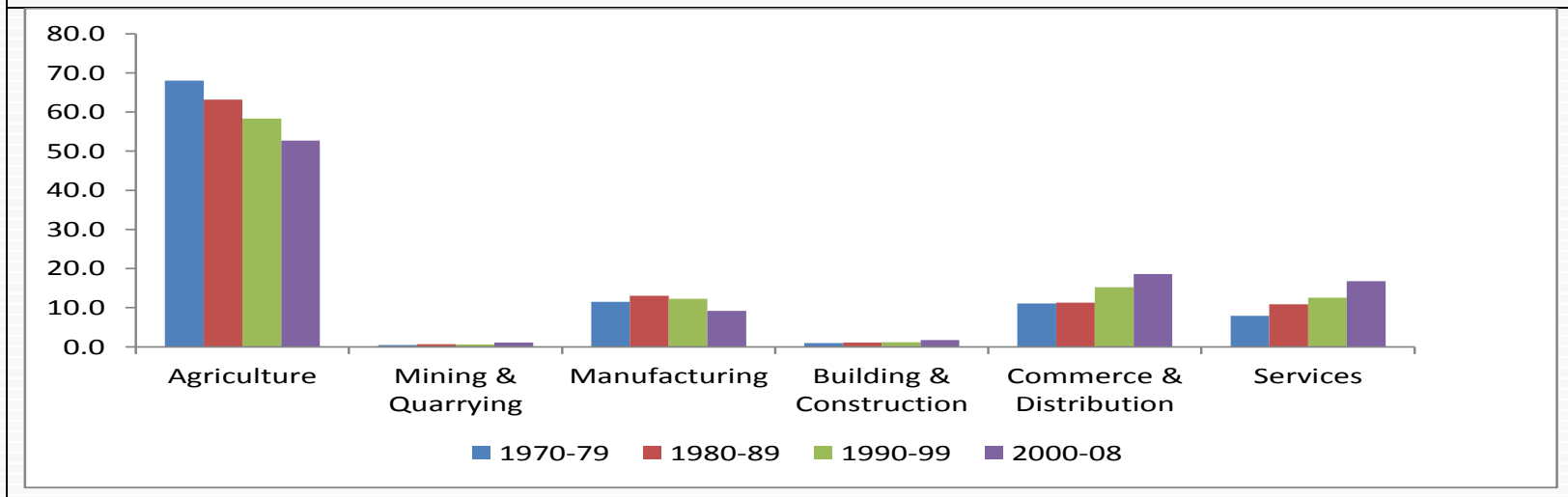
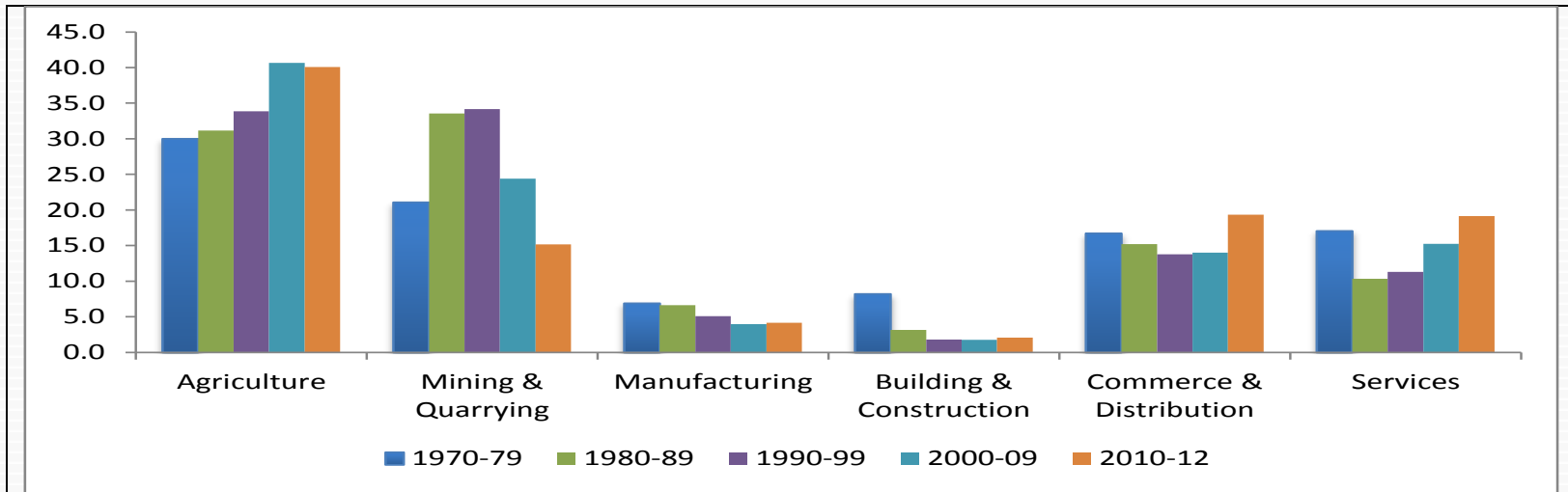
Some success stories

5) Conclusion

Output and Employment

Historical Sectoral Patterns

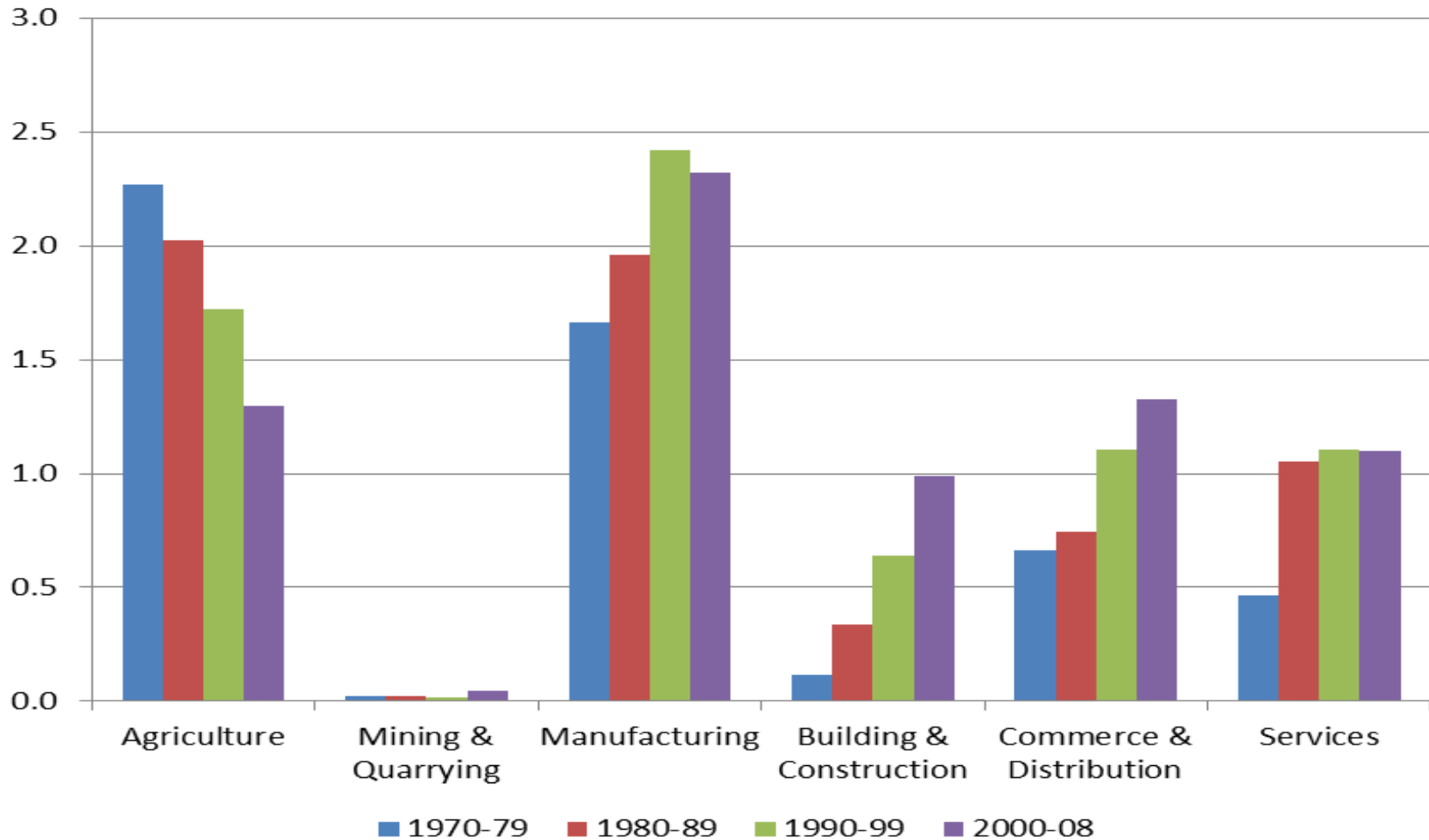
Changes in Sectoral Distribution of Output [top] and Employment [bottom] By Decade



Output and Employment

Labor Absorption

Employment-to-Output Ratio



Output and Employment

Labor Absorption

- 1) Labor absorption highest in manufacturing and lowest in mining
- 2) Falling in agriculture and rising elsewhere, most notably in Building & Construction and Wholesale & Retail

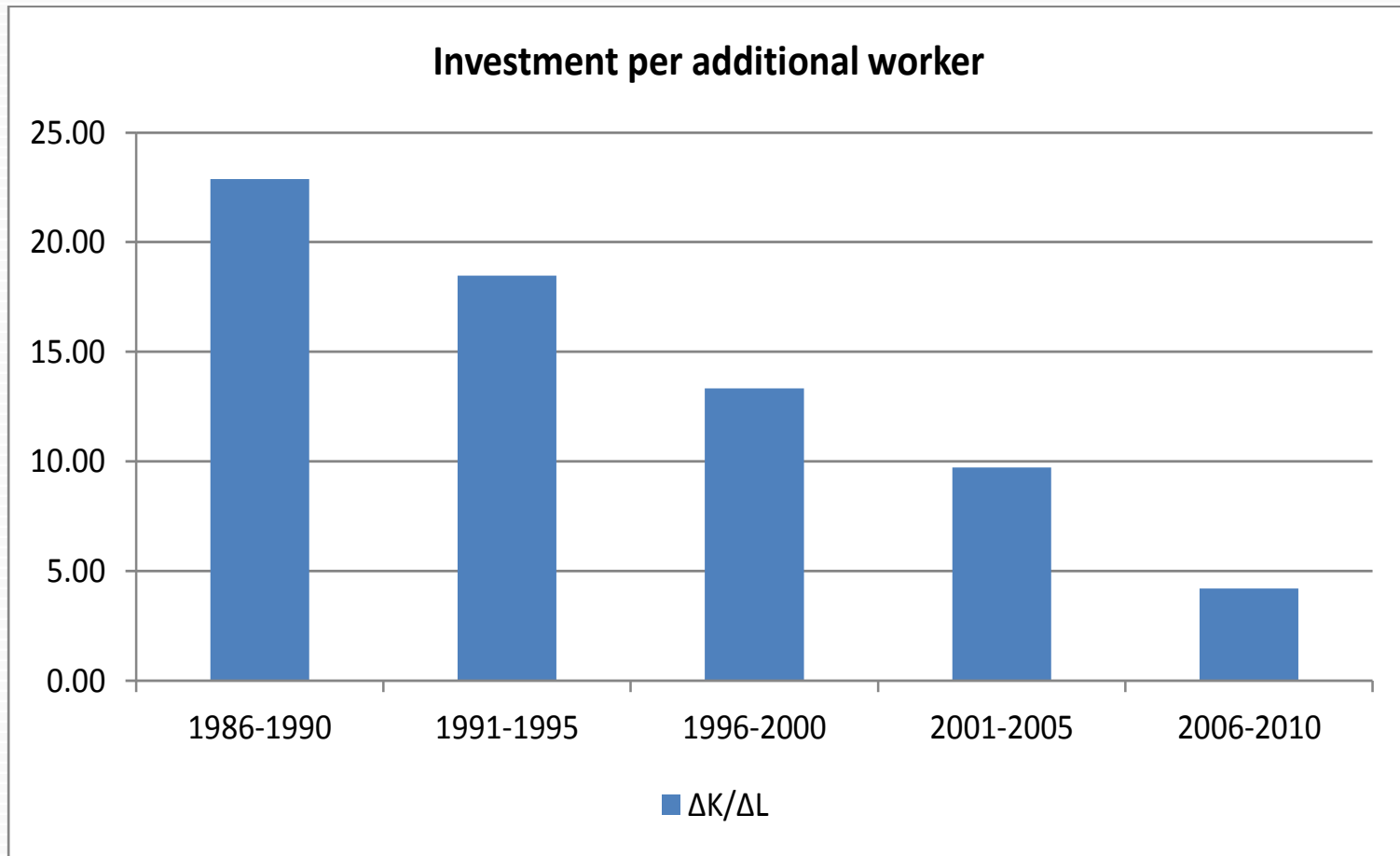
What does the rising trend reflect?

- 1) Changes in the production function of the representative firm
 - Shift toward more labor intensive production (consistent with declining capital-labor ratio)
 - Median construction firm now smaller and more labor-intensive
 - Extension of wholesale and retail nodes absorbing more labor
- 2) Falling real wages, except in agriculture (rising) and services (unchanged)

Output and Employment

Investments

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



Output and Employment

Recent Performance

- GDP Growth averaged 7% during 2009-2012
(compared to labor force growth of 3.2%)
 - wholesale & retail, agriculture and communications account for more than 80% of growth.
 - based on historical experience, the latter two are not strong in terms of jobs
 - thus, most growth occurred in sectors with weak employment potentials

Output and Employment

Links

Weak link between growth and employment

- Lack of substantial industrialization (7% of GDP)
- The “growth-creates-labor-demand” hypothesis fits well in an industrializing economy, not one shifting workers from agriculture to tertiary activities.
 - Nigeria is now a service economy (52%) straight from agriculture and mining!

An appropriate policy should be one centered on the “jobs-create-growth hypothesis!”

- The challenge: finding the big push!

Output and Employment

Policy Question

Where will the next big push come from?

- Working around the edges does not seem like a plausible answer given economic and demographic realities
- Manufacturing?
- Building & Construction ?
 - Not challenged by infrastructure and energy issues
 - Strong demand for housing arising from growing affluence

But,.. How is job creation constrained?

- Examined through a survey of the labor market, looking at
 - Constraints to firm expansion
 - Limitations to job matching and entrepreneurship

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Sectoral Output and Labor Absorption

Recent Growth Drivers and Employment Outcomes

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Constraints to Job Creation

Demand Side Issues (Firm Expansion)

1) Weak demand arising from competition

- From imports
 - On the basis of costs (dominantly from low-cost made-in-China goods)
 - On the basis of preferences (hangover from the fixed exchange rate regime!)
- From illegitimate, adulterated and fake goods
 - Pharmaceutical firms complain about relapse to “pre-Dora” era

2) Capital/Credit

- Commercial credit expensive: interest rates up to 35%
- BOI and BOA offer rates as low as 10% and 14%, respectively
 - require guarantees from commercial banks: stringent conditions
 - when BOI approves a loan, the conditions of access are very strict
- Large swath of mid-size entrepreneurs underserved

Constraints to Job Creation

Demand-side Issues (Firm Expansion)

3) Legal environment

- Most firms remain sole proprietors for their lifetime and die with the proprietor
 - Lack of trust limits partnerships
 - Weak legal institutions for seeking redress in partnerships and other forms of business structure
 - Most operate informally, outside the purview of laws
- Expensive to challenge producers of fake goods

4) Huge operating cost due to inadequate power supply and other infrastructure

5) Others:

- Insecurity
- Adverse government policies(e.g. the black oil in textiles)

Constraints to Job Creation

Supply Side Issues (Workers)

1. Skill mismatch

- Private sector – academia mismatch
- Inadequate vocational, technical and entrepreneurial training
- Pre-graduation experiences
 - Internship and industrial trainings

2. Social and Personal Preferences

- Societal preference for wage/paid employment
- Preference for rentier income

3. Challenges

- Transparency in recruitment process
- Demand for experience
- Information Asymmetry
 - Non-functional centralized job placement system

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Government Interventions

Review of Existing Programs

Some recent success stories (1 State and 1 Federal) include;

1. Rivers State Microfinance Agency (RIMA) – Microfinance

■ Features

- Funded by Rivers State Government and UNDP
- Focus on existing informal sector enterprises
- To local cooperative societies through rural and community financial institution (RFI and CFI)

Government Interventions

Review of Existing Programs

1. RIMA (cont'd)

- Success Factors
 - Minimal government involvement
 - Use of local cooperative societies to curb adverse selection and imbibe trust and integrity
 - Constant monitoring and mentoring of beneficiaries
- Achievements
 - Repayment rate of about 85%
 - Empowered about 14,000 enterprise (7000 each through RFI and CFI)

2. YouWin – Youth Enterprise with Innovation in Nigeria

- Features
 - Collaboration between 3 ministries (led by FMF), private sector and development partners

Government Interventions

Review of Existing Programs

- Focused on supporting aspiring entrepreneurial youths
- Provides grants matched with business needs and milestones
 - 3 cycles – 1200 winners each
 - Grants disbursed in tranches based on performance
- Success Factors
 - Proper monitoring and evaluation
 - Cases of disqualification based on misconduct and non-performance
 - Technical Support and Training
 - Boot camps for entrepreneurial training
 - Not business as usual!
- Achievements
 - Creation of over 26,000 jobs (22,060 jobs – YouWin 1; 4,799 jobs – YouWin 2)
 - Training of non-winners.

Government Interventions

Review of Existing Programs

Some Issues

- Cost effectiveness arguments
 - Can we do more with the same amount?
- Conflict between poverty eradication “donations” and job creation strategies.

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Conclusion:

Strategies for a Big Push

Based on our demographic and economic realities, the unemployment problem can only get worse if not prioritized.

Question: Where can the big push come from?

1. Manufacturing

- Building the value chains
 - Cocoa to beverages and chocolates
 - Raw hides and skins to simple leather manufactures
 - Other products: rubber, furniture, plastic and chemicals

2. Building and construction sectors

- Expansion of public infrastructures
- Developing of Nigeria's mortgage system

Conclusion:

Strategies for a Big Push

3. Entrepreneurship

- Need for massive upscale of well planned and systematic programs such as YouWIN and RIMA
- Need for synergy between state and federal government programs – without partisanship

Conclusion:

Strategies for a Big Push

What is the role of government in addressing the situation?

- Providing enabling environment (Private sector inputs)
- Vocational and Enterprise Development Programs and Centres
- Sound and coherent industrial policy

Thank you for listening...