

Raising Productivity

Building a Competitive and
Production-Led Economy



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Executive Summary

Productivity is central to building a competitive and production-led economy. Despite the importance of productivity growth, it has remained weak in Nigeria over time. Nigeria's labour productivity growth averaged just 1.5 percent between 1990 and 2018. A significant part of this weak performance is structural with approximately 30.1 percent of the workforce employed in agriculture, a sector producing below half of the economy's average productivity, keeping national productivity low even where individual firms perform well.

At the firm level, weak skills alignment, thin management capability, low technological innovation, high production costs and a weak business environment dominated by electricity constraints are cited as the single biggest obstacle for Nigerian firms. Also, a narrow, import-dependent production base and limited value-addition core export sector are significant barriers to achieving a productive and competitive economy.

Reversing this trajectory requires action on four (4) policy priorities to accelerate productivity and competitiveness include building demand-driven productive capabilities, reducing the cost of doing business, deepening domestic production and value chain linkages, and accelerating technological upgrading and value addition.



Introduction

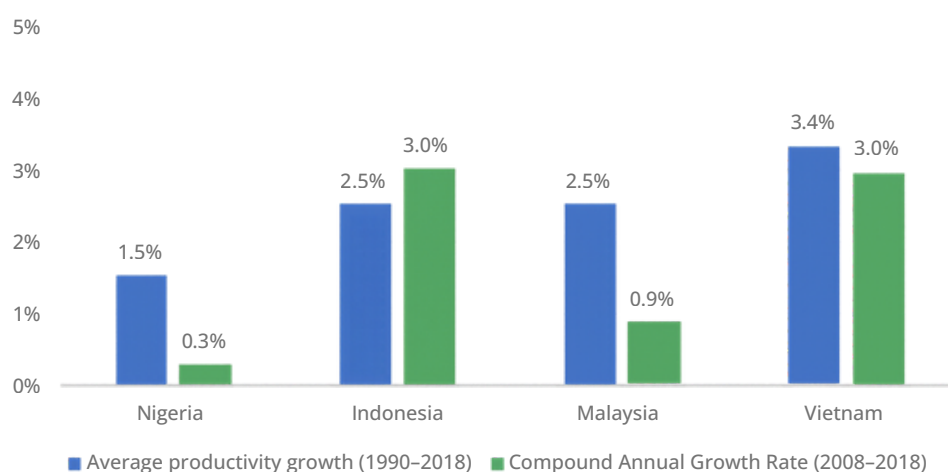
Why Productivity Matters for Nigeria

Productivity is the foundation of a competitive, production-led economy. As firms become more productive, they produce more efficiently, lowering unit costs and improving their ability to compete in domestic and international markets. At the macroeconomic level, sustained productivity growth is what allows rising output to translate into higher incomes and improved living standards, rather than simply more of the same low-value activity.

Despite productivity's central role in structural transformation and inclusive growth, Nigeria's productivity performance has remained weak relative to international peers, constraining competitiveness of both the firm and by extension the nation. Labour productivity growth averaged just 1.5 percent between 1990 and 2018, compared with 2.5 percent in Indonesia and Malaysia and 3.4 percent in Vietnam, a country that has achieved substantial structural transformation (Fig. 1). More troubling, this long-run average understates a further deterioration as Nigeria's productivity growth slowed to a near-standstill at 0.3 percent CAGR between 2008 to 2018, even as Indonesia and Vietnam sustained growth close to 3 percent reflecting evidence that Nigeria's relative position has been worsening.

A significant part of this weak performance is structural with more than half of Nigeria's workforce employed in low-productivity activities (AfDB, 2024). Furthermore, agriculture alone employs about 30.1 percent of the workforce yet produces approximately 48 percent of the national average level of productivity. The limited movement from low to high productivity activities has constrained economy-wide productivity gains. This policy brief examines why productivity and competitiveness remain low and sets out four (4) policy priorities to reverse the trend and drive a more competitive production-led economy.

Fig 1: Labour Productivity Growth, Nigeria Vs. Peers



Data: Economic Transformation Database; Chart: NESG Research

Why Productivity and Competitiveness Remain Low

Nigeria's challenge is not simply to produce more but to produce more productively, which translates into higher competitiveness. This section delves into the constraints limiting productivity growth.

1. Weak capabilities: skills, management and technology

Nigeria's labour market suffers from a persistent skills mismatch. The skills acquired through education and training frequently do not align with what industry needs, and employers report gaps in both technical and workplace-relevant competencies (Appasamy et al., 2015; World Bank, 2025). This is compounded by weak management practices, since Nigeria's average management-practices index for medium and large firms stands at just 51.5 out of 100 (46.9 for manufacturing and 53.3 for services), and better-managed firms are consistently more productive (Bloom et al., 2018). Firm-level innovation is correspondingly low, as only 20.3 percent of Nigerian firms introduced a new product or service in the past three years, against 24.5 percent in Sub-Saharan Africa and 29.7 percent across all economies surveyed, with the gap even wider among medium and large firms (Fig. 2). Capability constraints are likely still more severe among smaller and informal firms, which fall outside these surveys entirely.

2. High cost of production and weak business conditions

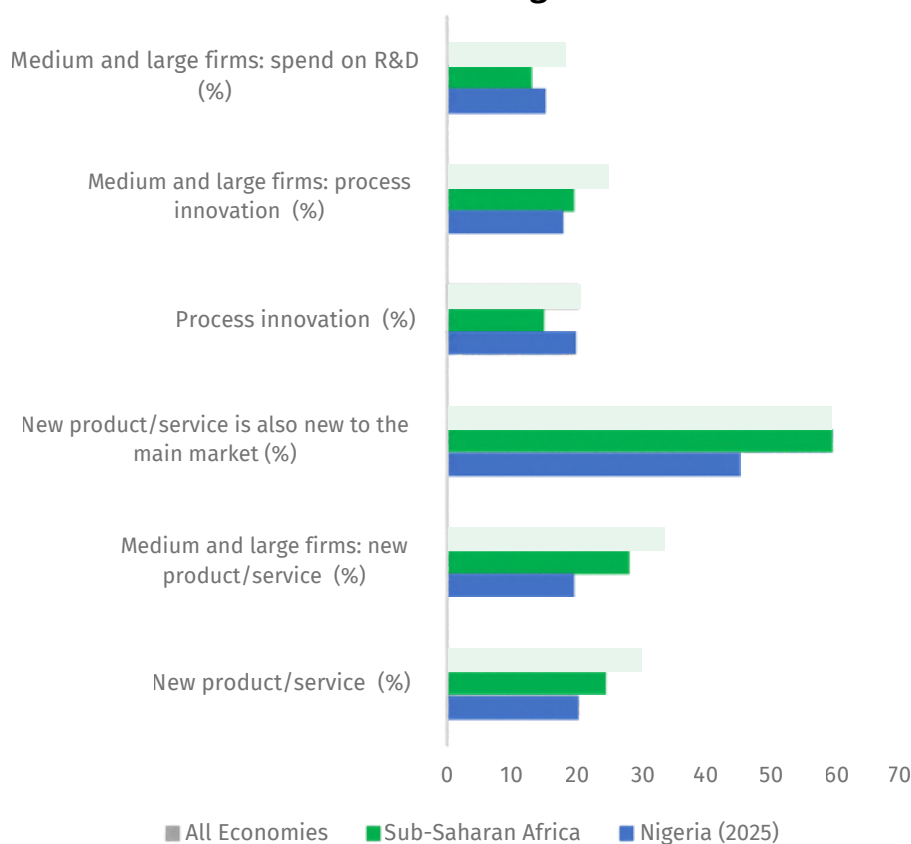
Nigerian firms face a business environment that raises costs and constrain growth. Inadequate access to electricity is one of the major challenges with 27.6 percent of Nigerian firms citing electricity as their single biggest obstacle compared with 10.4 percent in Sub-Saharan Africa and 7.1 percent across all economies surveyed. Inadequate infrastructure and logistics, limited access to affordable finance, and unpredictable regulation compound this, raising costs, limiting firms' ability to expand, and making it especially difficult for micro and small firms to scale into more productive, job-creating enterprises.



3. Weak production ecosystems and limited value addition

Nigeria's economic transformation remains constrained by limited diversification and a heavy concentration in low-value-added activity. According to data from the NBS, non-oil export accounted for only 14.5 percent of total exports in 2025, leaving the economy's principal external earnings almost entirely exposed to commodity-price cycles rather than to higher-value, more resilient production. Nigeria is simultaneously a major importer as total imports stood at N67.3 trillion in 2025, including N7.7 trillion in food and beverages and, notably, N16.2 trillion in processed fuels and lubricants, a striking gap for a major oil producer and a direct illustration of limited domestic value addition even within its core export sector. Many sectors remain heavily dependent on imported intermediate inputs, constraining their expansion, investment, and job creation.

Fig. 2: Nigeria's Firm-Level Innovation Vs. Regional and Global Benchmarks



Data: World Bank. (2025). Enterprise Surveys, Nigeria 2025; Chart: NESG Research.

4. Priority Actions for Raising Productivity and Competitiveness

Nigeria's challenge is not simply to produce more, but to produce more productively, which is what ultimately translates into greater competitiveness. The standard account of this challenge focuses on reallocating labour between sectors, meaning moving workers out of agriculture and into manufacturing or services, but this understates the problem: even within the same sector, the gap between Nigeria's best-performing and weakest performing firms is likely at least as large as the gap between sectors, and structural transformation will not by itself raise productivity if the firms absorbing new workers are themselves poorly managed, undercapitalised, or technologically stagnant. The following four priorities are therefore designed to work on both margins at once, reallocating labour towards higher-productivity sectors while also closing the performance gap within them, since the two are complements, not substitutes, and a strategy focused only on the first will under perform.

- **Build demand-driven productive capabilities:**

Closer alignment is needed between the skills acquired through education and training and the technical, vocational, and transferable skills that employers value. Employers should play a greater role in shaping curricula, defining learning outcomes, and identifying the competencies required across occupations, institutionalised through regular curriculum reviews, sector-based skills assessments, and structured industry partnerships, targeted first at the firms and clusters furthest below their sector's average performance rather than spread evenly across already-strong and weak firms alike. In the near term, this should begin with employer-led curriculum reviews and sector skills assessments in the three or four sectors with the strongest job-creation potential, before scaling industry placements, internships, and apprenticeships nationally.

- **Reduce the cost of doing business in Nigeria**

Strengthening the business environment requires addressing constraints that limit investment, firm productivity and opportunities for businesses to scale. Priorities include improving electricity and infrastructure, expanding access to finance, ensuring predictable and transparent regulation, and simplifying business processes. Given that electricity alone is cited as the single biggest obstacle by more than a quarter of Nigerian firms, power-sector reform should be treated as a first-order productivity priority, not a general infrastructure item, starting with reliable electricity access and then expanding into electricity affordability. Cheaper power and finance will not by themselves close the gap for badly managed firms, so these reforms should be paired with management-advisory support directed at underperforming firms, rather than assuming better infrastructure alone will lift sector's productivity.

- **Build domestic production and value chain linkages**

It is essential for Nigeria to enhance local production and deepen local value chain linkages to enable firms to achieve greater economies of scale, improve productivity and increase domestic value addition. Government should provide incentives for firms to competitively source intermediate inputs locally, and strengthen domestic suppliers' capacity to meet producers' requirements on cost, quality, and reliability, directly targeting the weaker suppliers whose performance currently falls short of what anchor producers require. Productive sectors with strong linkages and multiplier effects, should be prioritised, beginning with mapping the largest cost, quality, and reliability gaps in value chains and then using local-content policy and public procurement to build early domestic demand for the sectors.

- **Accelerate technological upgrading and value addition**

Greater processing and transformation of products into higher-value intermediate and finished goods can increase domestic value addition, strengthen productive capabilities, and open opportunities for firms to move into higher-value activity. Deepening local value chains is also an important channel for technology transfer, and should be pursued by encouraging businesses to engage in local and foreign partnerships which strengthen technology adoption and management practices followed by sustained policy support to build firms' capacity to upgrade production processes and move into higher-value activities.

Conclusion

Nigeria cannot build a competitive, production-led economy without a decisive improvement in productivity growth. Productivity growth has remained weak for three decades and has deteriorated further. The current state of productivity reflects a combination of weak capabilities in skills, management, and technology; a high-cost, constrained business environment dominated by unreliable electricity; and a narrow, import-dependent production base with limited value addition, compounded by within-sector productivity gaps that structural transformation alone will not resolve.

Reversing this trajectory requires coordinated, parallel action on four (4) fronts including building demand-driven productive capabilities, reducing the cost of doing business, deepening domestic production and value chain linkages, and accelerating technological upgrading. Since firms will not invest in upgrading if the basic cost of operating remains elevated, therefore business environment reforms should move early and in parallel with the other priorities rather than in strict sequence.

Incentives tied to these priorities should also be time-bound and evaluated against clear productivity metrics, with policy design tested against Nigeria's much larger population of micro, small, and informal firms, not calibrated solely to the formal medium and large firms for which data are most readily available. Because the gap between the strongest and weakest firms within a sector is likely as large as the gap between sectors, implementation should be judged not only by whether workers move into higher-productivity sectors but by whether the weakest-performing firms within those sectors are closing the gap with the strongest, since reforms calibrated only to sector averages risk lifting firms that are already ahead while leaving laggards, and the workers they employ, behind. Together, these measures would strengthen firm-level productivity and competitiveness, accelerate the shift of workers out of low-productivity activities such as subsistence agriculture, and expand the economy's capacity to produce higher-value goods and services, laying the foundation for durable, inclusive growth.



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About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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