AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

Country Focus Report 2025

Nigeria

Making Nigeria's Capital Work Better for its Development

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ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
CBN	Central Bank of Nigeria
CFR	Country Focus Report
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
NNPC	Nigerian National Petroleum Corporation
OECD	Organization for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SMEs	Small and Medium-sized Enterprises
SNA	System of National Accounts
STEM	Science, Technology, Engineering, and Mathematics
USD	United States Dollar

EXECUTIVE SUMMARY

The rise in global uncertainty will dominate our projections on Nigeria's macroeconomic outlook for 2025 and 2026. Despite the cautious optimism created by comprehensive economic reforms, the medium-term growth outlook is projected to decline to 3.2% in 2025 and 3.1% in 2026 from 3.4% in 2024. Growth in the coming years will be supported by focused policies such as inflation targeting, the market-driven exchange rate, and fiscal consolidation as tax reforms start to bear fruit. These measures aim to stabilize the economy, foster investor confidence, and accelerate economic transformation. However, despite these promising moves, Nigeria's reliance on oil revenues has led to a critical development finance gap — estimated at USD 31.5 billion — for essential infrastructure, social services, and the broader Sustainable Development Goals (SDGs), if these are to be reached by 2030. This gap is intricately linked to domestic resource mobilization efforts that have yet to fully realize their potential.

While Nigeria's domestic resource mobilization holds considerable promise for bridging the financing gap, it faces significant inefficiencies and structural challenges. Recent reforms to streamline tax laws and boost non-oil revenue sources have started to lift revenue collection, but the benefits are offset by a large informal economy and persistently low compliance rates. With the country's tax revenue-to-GDP ratio among the lowest in the region, the heavy reliance on oil and associated non-tax revenues reflects deep-seated operational inefficiencies. Optimizing the fiscal framework by broadening the tax base, improving compliance, and bolstering the capacity of revenue agencies is essential to harnessing endogenous funding sources and reducing fiscal vulnerability.

Governance and institutional shortfalls further complicate the domestic resource mobilization landscape, impeding Nigeria's ability to capitalize on its wealth. Fragmented regulatory oversight, overlapping jurisdictions between federal and subnational entities, and pervasive corruption have eroded public trust and discouraged both domestic and foreign investment. These constraints not only widen the development finance gap but also stunt the broader economic transformation process. Tackling them requires a strategic overhaul — streamlining administrative processes, enforcing robust anti-corruption measures, developing digital infrastructure, and reinforcing the rule of law. Embracing a pan-African approach to harmonize legal and regulatory standards can promote transparency, reduce capital flight, and ultimately valorize capital mobilization for sustainable socio-economic development.

GENERAL INTRODUCTION

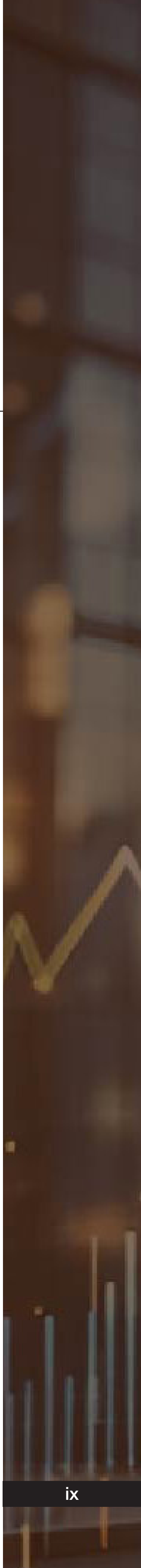
Nigeria is the continent's most populous country, with 233 million people. It boasts one of the four largest economies in Africa, driven by substantial natural resources, particularly oil and gas. Moreover, the country's geographic location gives it strategic advantages for trade within the Economic Community of West African States and beyond. Despite these opportunities, Nigeria faces significant socio-economic challenges, including poverty and unemployment.

Nigeria has seen progress and setbacks in its investment landscape. The country attracts foreign investment with its large consumer market and resources. However, corruption, regulatory inconsistencies, and security issues have hindered sustainable growth. The government has implemented reforms to improve business conditions, but more needs to be done to implement progressive policies to attract and retain foreign investment. Despite these efforts, infrastructure gaps remain a major bottleneck for industrial development and sustainable growth.

The economy has long been heavily dependent on oil, which accounts for much of government revenue and export earnings. This dependence has made the economy vulnerable to global oil price fluctuations, leading to periods of economic instability. Efforts to diversify the economy have been slow, with the industrial sector contributing only a small fraction to GDP. The Nigeria Industrial Revolution Plan, launched in 2014, aimed to boost industrial output and reduce reliance on oil, but infrastructural and policy challenges have limited progress.

The 2023 governmental transition represented a turning point for Nigeria's economic policies as economic and fiscal reforms targeted economic stabilization and growth. Notable measures included unifying the exchange rate, abolishing fuel subsidies, and tightening monetary policy to control inflation. Furthermore, the government has prioritized social protection initiatives. These actions are a first critical step to reset the economy, support private sector expansion, and improve the living standards of Nigerians.

The African Development Bank's Country Focus Reports (CFR) analyze the economic environment of regional member countries. The 2025 African Economic Outlook will emphasize macroeconomic developments, domestic capital, resource mobilization, and natural capital for accelerated development. The Nigeria CFR uses official data and insights from stakeholders to offer valuable recommendations for sustainable economic growth. The rise in global uncertainty caused by trade policy announcements, which are then paused or reversed has increased uncertainty on the Nigeria economic outlook. The report does not accommodate the announced but still awaited 2025 GDP rebasing.



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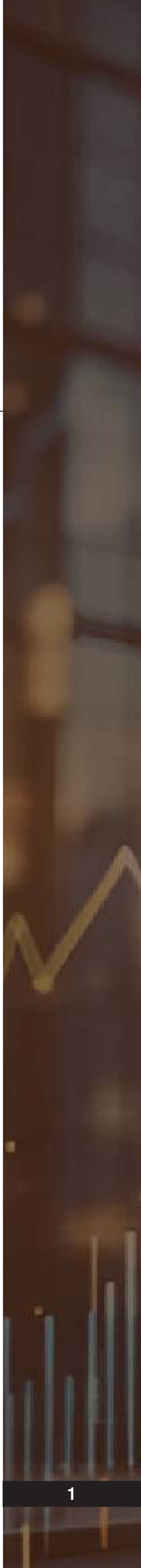
MACROECONOMIC PERFORMANCE AND OUTLOOK



Key Messages

- Expanding services and increased oil production were the reason for Nigeria's economic growth of 3.4% in 2024. Removing fuel subsidies has boosted fiscal revenues, signaling a positive shift for the oil and gas sector.

- Sustaining macroeconomic reforms is essential to further strengthen confidence in the economy. Removing structural impediments and deepening policies that attract private investment will be crucial to closing infrastructure gaps, enlarging industry, and diversifying exports.

- The rise in global uncertainty, despite the benefits from the economic reforms, weighs on our growth projection, with the Nigerian economy expected to expand by 3.2% over the medium term. A rise in certainty on bilateral trade policies could see geopolitical risks and uncertainty decline, which will act as tailwinds.

1.1 Introduction

Since mid-2023, the government has implemented economic reforms to boost Nigeria's growth by stabilizing the economy, heightening external competitiveness, promoting local production, and diversifying exports. These reforms include removing fuel subsidies and adopting a market-driven exchange rate. Increased investor confidence has improved foreign reserves and returned investments into government securities. More capital investment is needed for long-term growth. This chapter reviews Nigeria's recent economic performance, reform impacts on social development, and growth projections for 2025-2026. It addresses risks, domestic resource mobilization, and offers policy options to increase growth.

1.2 Growth performance

The economy grew 3.4% in 2024, driven mostly by services contributing 76% to growth. Rising costs increased borrowing needs, growing financial sector services by 29.6%, while maintaining strong activity in information and communication. Agriculture expanded by a meagre 1.2%, slightly above the 1.1% recorded in 2023 and below the three-year average of 1.4%. Oil and gas were helped by a 2.8% increase in daily crude oil production to 1.56mbpd. Nigeria commissioned a large-scale refinery with a 650,000bpd capacity, which can meet most domestic fuel demand and is expected to slash reliance on imported fuel, further stabilizing the local fuel market. The power sector grew by 0.6%, constrained by poor transmission and distribution networks needing investment. High costs reduced consumer demand by 50% in the first half of 2024, counteracted by rising foreign demand and government consumption. This shift in demand dynamics highlights the importance of a market-based price of the Naira, robust foreign trade policies and strategic government spending initiatives in maintaining economic stability.

1.3 Other recent macroeconomic and social developments

1.3.1 Monetary Policy, Inflation, Exchange Rate

Economic adjustments exerted pressure on prices, with the inflation rate rising to 33.2% in 2024. Food prices rose by 39.0% and fuel prices by 28.4%. The cost of living, particularly the cost of a "healthy diet", doubled. In response, the Central Bank of Nigeria (CBN) raised the policy rate to 27.5% to dampen inflation.

The Naira depreciated by 39.4% in the first half of 2024, stabilizing around 1,613/USD in the second half. The adjustment to market pricing for fuel was fully implemented only in the fourth quarter. The CBN is moving towards inflation targeting for better price stability, but further measures are needed to improve the overall monetary policy effectiveness.

1.3.2 Financial sector

The CBN has set new minimum capitalization requirements for commercial, merchant, and non-interest banks to strengthen their resilience amid macroeconomic challenges. Several banks have already begun increasing their capital base before the 2026 deadline. Although the financial sector is stable, it remains smaller than its peers. Credit to the private sector improved from 19.9% of GDP (2020-2022) to 27.3% of GDP in 2024, still well below expectations to rapidly grow the economy. High interest rates have hindered credit growth, particularly for SMEs. Financial soundness indicators are within benchmarks: the capital adequacy ratio was 13.7% (above 10%) and non-performing loans were 4.9% (below 5%) by end-2024.

1.3.3 Fiscal Policy and Public Debt

The federal government fiscal deficit is estimated to have remained stable in 2024, with a slight decline to 3.9% of GDP from 4.0% in 2023.

Higher revenues due to increased collections and exchange rate gains were outpaced by increased spending. This was primarily caused by higher debt servicing costs as interest rates on government securities rose during the year, along with new debt incurred to finance the budget. Additionally, transfers also increased during the year. Public debt grew to 52.3% of GDP in 2024 from 41.5% in 2023, driven by greater funding needs and a weaker Naira. External debt was mainly provided by commercial lenders adding USD 2.2 billion in Eurobonds, with the remaining debt from multilaterals, adding a total new debt of USD 3.3 billion in 2024. Debt servicing increased to 4.1% of GDP from 3.7% in 2023. The debt servicing-to-federal-government-revenue ratio stood at 76.8% in 2023, rising slightly to 77.5% in 2024.

1.3.4 External Position – External Financial Flows

The depreciation of the Naira has boosted external competitiveness and improved the current account balance, increasing the current account surplus to 9.2% of GDP in 2024 from 1.6% a year earlier. The goods trade surplus improved to USD 13.5 billion though the services deficit remains high at USD 13.4 billion. The estimated 17 million Nigerians living abroad increased total average monthly remittances by USD 142 million to USD 1.7 billion in 2024. Foreign direct investment (FDI) inflows were modest, reflecting cautious investor sentiment amid economic uncertainties. Portfolio investor inflows in the second half of 2024 provided a significant boost to foreign reserves that increased from USD 33.2 billion in 2023 to USD 40.2 billion, 8.2 months of import cover. Additional inflows are from Overseas Development Assistance, which accounted for about 1.1% of GDP in 2023 or USD 4.1 billion.

1.3.5 Social developments

Nigeria's social cash transfer program provides financial relief to vulnerable households, mitigating the increased cost-of-living. Estimates in 2024 point to an increase in national poverty to 56%, while inequality remains low, with the Gini index at 35.1. The unemployment rate is 5.4%, but the large informal economy implies a high number of working poor at 26.2%. According to the UN, 33 million face acute food insecurity nationwide during the lean season. By January 2025, the National Social Safety Net Program-Scale Up had reached 32.2 million beneficiaries, providing about USD 15 a month via mobile transactions. The program aims to support 15 million vulnerable low-income households.

Figure 1: Trends in fiscal balance and public debt in Nigeria

Figure 1A: Trends in fiscal balance in Nigeria (% of GDP)

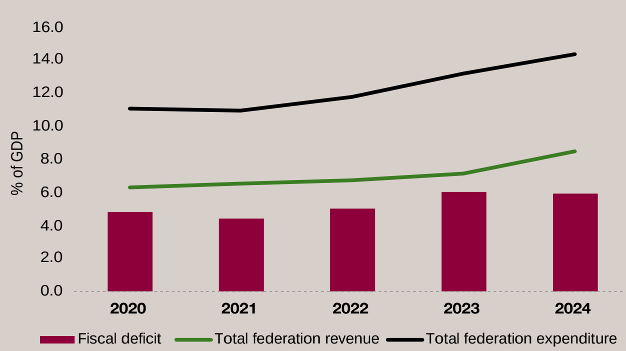
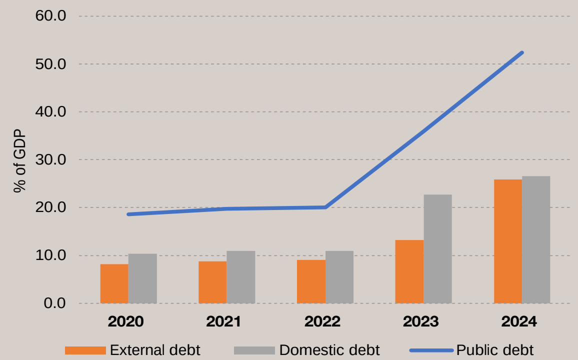


Figure 1B: . Trends in public debt in Nigeria (% of GDP)



Source:CBN. Note: Aggregate for federal, state, and local level

Source: Debt Management Office

Box 1: Domestic resource mobilization efforts and development finance gap

Nigeria's recent efforts to mobilize domestic resources still fall short of bridging the country's substantial development finance gap. This gap underscores the critical importance of intensifying domestic capital mobilization and using those funds more efficiently, as well as harnessing Nigeria's capital potential and resources to drive development and meet the country's economic goals. These reforms are particularly urgent against the backdrop of challenging macroeconomic conditions — including persistently high inflation, chronically low public revenues, and heavy debt service obligations that continue to consume a large share of fiscal resources.

Table 1: Key Macroeconomic Indicators

	2020	2021	2022	2023	2024(e)	2025(p)	2026(p)
Real GDP growth	-1.8	3.6	3.3	2.9	3.4	3.2	3.1
Real GDP growth per capita	-4.0	1.5	1.1	0.7	1.3	1.1	1.0
Inflation	13.2	17.0	18.8	24.7	33.2	24.7	17.3
Overall Fiscal Balance, Including Grants (% GDP) *	-4.7	-5.2	-4.2	-4.0	-3.9	-4.0	-4.2
Current account (% GDP)	-3.7	-0.8	0.7	1.6	9.2	4.7	3.9

*Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, May 2025. *: Federal Government Operations.*

1.4 Macroeconomic Outlook and Risks

1.4.1 Outlook (Economic growth – Inflation - Fiscal and External position)

Despite the expected upside effects of the economic reforms on growth, the rise in global uncertainty emanating from the increases in global trade tariffs that has reduced oil prices by more than 15% during the first 4 months of 2025 is projected to slow growth to 3.2% in 2025. Real GDP growth is projected at 3.1% in 2026. Following the 2024 CPI rebasing, with lower weights for food items, the inflation rate is expected to reduce over the medium term, to 24.7% in 2025 and 17.3% in 2026. As imports start to rise over the medium term, the current account is projected to decline to 3.9% of GDP in 2026.

1.4.2 Risks

Unpredictability clouds the medium-term outlook, with the rise in uncertainty and geopolitical tensions. Lower oil prices could benefit services and industry as fuel prices fall, but also risks straining public spending and investment, should domestic revenues fall. The growth outlook could decline if there is a loss in reform momentum, an increase in insecurity, or adverse weather events. Conversely, a resumption of clarity on trade policies could increase business and consumer confidence and strengthen growth.

1.5 Policy recommendations

A strategic mix of economic and structural reforms is essential to pursue Nigeria's aspirations of becoming a trillion-dollar economy by 2030 while raising living standards. These recommendations aim to spur private investment, lower business costs, and ensure fiscal and macroeconomic stability — all critical factors for building investor confidence and driving sustainable growth.

Enhance Macroeconomic Stability:

Continue economic reforms to increase price stability, while building robust buffers to mitigate external volatility.

Consolidate Fiscal Policy:

Increase domestic revenue through improved tax compliance, strategic adjustment of tax expenditures, the reduction of tax leakages, and fiscal decentralization.

Broaden the Tax Base:

Implement market-oriented business and financial sector reforms that lead to increased capital investment in SMEs, while facilitating a shift towards the formal economy.

Reduce Production Costs and Increase Competitiveness:

Minimize structural impediments by investing in skills and reducing infrastructure gaps — particularly in energy, transportation, and ICT — to lower business costs and stimulate economic activity.

Diversify the Economy:

Mitigate reliance on oil by promoting agriculture, manufacturing, digitalization, and other services through targeted industrial policies and concessional funding.

Deepen the Financial Sector:

Develop regional community banks that support investment and offer financial services, to expand credit access for the local private sector.

2

BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION

Key Messages

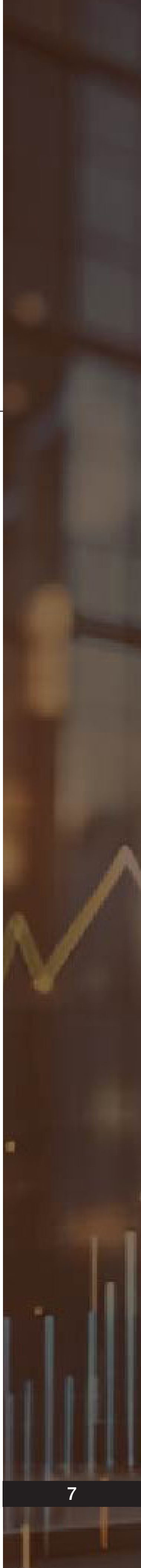
- Resource Gaps: Nigeria faces significant resource gaps, estimated at 14%-15% of GDP, to finance its economic and social development.

- Tax Revenue: Despite being the region's economic powerhouse, Nigeria's gross revenue-to-GDP ratio of about 13% is the lowest in West Africa, exposing the country to fiscal vulnerability.

- Fiscal Consolidation: Nigerian authorities are pursuing fiscal consolidation to achieve sustainable economic growth, manage public debt, and cope with commodity shocks and resource leakages, such as illicit financial flows, tax evasion, and avoidance.

- Government Expenditure: Nigeria spends only 15.5% of its GDP compared to the sub-Saharan average of 21.4%. Investment in education and health is below average, constraining inclusive growth and human capital development.

- Natural Capital: Natural capital — oil, gas, agro-based resources, and solid minerals — remains a major source of wealth. Expanding investment, maintenance, and management of natural capital are essential for increasing output and prosperity.



2.1 Introduction

This chapter examines Nigeria's constraints on domestic resource mobilization, expenditure efficiency, debt sustainability, and resource gaps. It evaluates Nigeria's fiscal resources and key forms of capital — natural, human, domestic capital market, and business capital — by analyzing their usage, efficiencies, and gaps. The aim is to efficiently utilize these resources for sustainable benefits for current and future generations.

2.2 Fiscal resource mobilization

2.2.1 Nigeria's financing needs

Nigeria has large financing needs to expand public infrastructure development and growth. According to the CFR 2024, Nigeria needs USD 47.6 billion annually to fast-track SDGs by 2030, with a financing gap of USD 31.5 billion. Most resources are needed for industry, innovation, and infrastructure (SDG9). However, revenue mobilization has been insufficient, limiting public capital investment. Since 2022, federation fiscal deficits have exceeded 5% of GDP, with deficits mostly funded by domestic treasuries, while from 2024, external debt funding surpassed domestic debt.

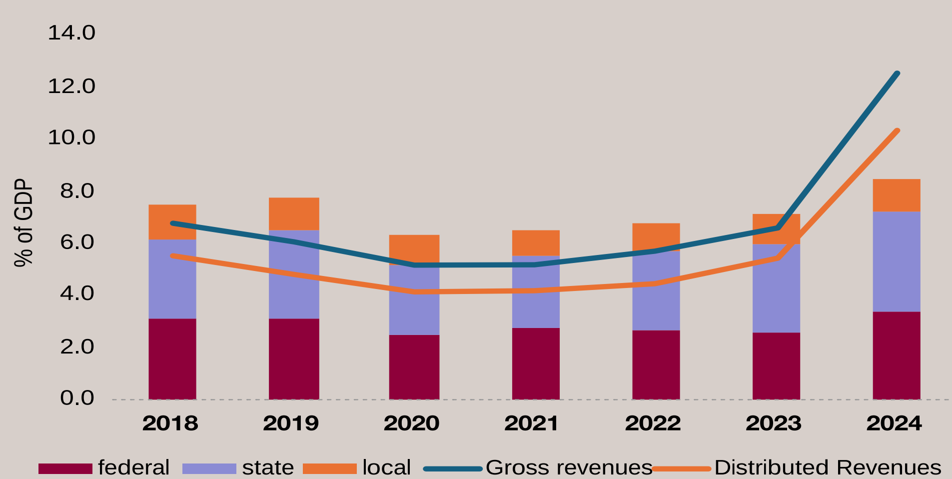
2.2.2 Tax structure

Nigeria faces a significant domestic revenue gap, of 14%–15% of GDP, which requires substantial increases in tax and non-tax collections to close. The revenue gap is attributed to the large informal economy estimated at 68% of the economy in 2018, combined with informal employment of over 90%, thus reducing tax opportunity. Nigeria classifies its two main sources of domestic revenue: oil revenue, 37.9%, and non-oil revenue, 59.2%, with grants averaging 2.9% over the past 5 years. It is estimated that tax revenues account for 42% of total domestic revenues.

2.2.3 Non-tax revenues

The other main component of Nigeria's domestic revenues are non-tax revenues, which account for 55% of total revenues. The main component is the oil rent, accounting for 38%, followed by property income, service-related revenues and different business levies. Compared to regional peers, Nigeria's non-tax revenue contribution is large. Ghana's non-tax revenues are on average 1% of GDP. Oil rents vary based on the price of oil, but saw a significant increase in 2024, as fuel subsidies were removed following liberalization of the fuel market.

Figure 2: Trends in domestic resource mobilization (% of GDP)



Source: Accountant Generals Office; CBN

2.2.4 Mobilizing domestic fiscal resources and expenditure efficiency

Nigeria is reforming its tax policy to increase domestic revenues. The shift includes revising tax laws to simplify the tax structure to increase compliance and attract new taxpayers. Mobilizing domestic fiscal resources and boosting expenditure efficiency are crucial for sustainable growth. The tax reforms are bearing fruit with gross revenue estimated to have risen to 12%-13% of GDP in 2024, with the aim of reaching 18% of GDP by 2030. This increase in revenue is needed to increase investment in critical public infrastructure in transport and energy, and to strengthen social safety nets.

2.3 Nigeria's Natural Capital

2.3.1 Overview of Nigeria's natural capital

Nigeria's natural capital—renewable and non-renewable—contributes 41%, to Nigeria's capital wealth. Nigeria's renewable resources, 25.9% of capital wealth, are mostly pastureland and cropland, contributing 85.6%, followed by timber, 9.3%, and other resources, hydro, forest ecosystems, and fisheries. Non-renewables account for 15.1% of capital wealth, with oil contributing 79.6% and gas 20.3%. Solar power, as a renewable source, is not included in the data but could increase capital wealth substantially because of the high levels of sunlight over Nigeria.

2.3.2 Economic contribution of Nigeria's Natural capital

Natural capital may not contribute much to Nigeria's GDP growth in 2024, with renewables, i.e. agriculture, contributing 8.8% to growth, while non-renewables, mainly oil, contribute 7.9%. However, local oil refining capacity has increased to a third of Nigeria's daily crude oil output, which will contribute to productive capital from 2024. Weak economic policies and governance have hindered the efficient allocation of natural capital resources to transform and develop Nigeria. Addressing governance weaknesses, enhancing transparency, and developing policies that support beneficiation of natural resources in green minerals are crucial for industrial expansion and sustainable economic growth.

2.3.3 Estimates and Dynamics of natural capital

Nigeria's natural capital per capita has been declining by 2.1% on average since 1999. The

Table 2: Decomposition of natural capital (USD per capita, real chained 2019 USD)

	1995	2020	Avg. Annual Change (%)	Total Change (%)	Share of total capital (%)
Renewable	10,287	5,598	-2.4%	-45.6%	25.9%
Agriculture land	8,686	4,792	-2.4%	-44.8%	
Timber	1,074	514	-2.9%	-52.2%	
Hydro	171	129	-1.1%	-24.9%	
Other renewable	356	164	-3.1%	-54.1%	
Nonrenewable	3,497	3,260	-0.3%	-6.8%	15.1%
Oil	3,166	2,912	-0.3%	-8.0%	
Gas	401	345	-0.6%	-13.9%	
Other nonrenewable	10	3	-5.4	-75.1%	

Source: WON (2024). Total capital in 2020: USD 21,575 per capita (real chained 2019 USD) high dependence on the oil sector, with insufficient investment to develop the sector, and low-productivity agriculture has reduced renewable capital. The focus on extracting oil resources has not only led to the physical depletion of oil reserves but also caused environmental degradation. The one-sided focus has come at the expense of developing agriculture and forestry, which can only sustain low-productivity jobs. Rapid population growth of 2.5% also erodes the benefits of the natural capital resources available.

2.3.4 Challenges of leveraging Nigeria's Natural Capital

The government has recognized the need to update and develop its System of National Accounts (SNA), which uses the 2008 SNA framework. Last rebased in 2010, the GDP is being rebased by the National Bureau of Statistics, and the new figure planned for publication later in 2025. Although work is progressing on Natural Capital Accounting — measuring and valuing a country's natural resources and the ecosystem services they provide — progress has been slow, with data availability posing a serious challenge. Nigeria's Climate Change Act supports the creation of carbon market pricing, and estimates indicate the potential to generate USD 2 billion in revenues. To develop the market, stakeholder awareness needs to be strengthened, regulation sorted out, capacity built, and the data infrastructure necessary for carbon trading set up.

2.4 Business capital

2.4.1 Setting the stage

Nigeria's business capital landscape is changing in the context of continental efforts to enhance sustainable growth. As Africa mobilizes domestic resources for long-term development, Nigeria has seen its capital market shaped by historical events and reforms. The country's development narrative is transitioning from oil-dependency and informal business operations to a system where capital markets, financial market innovation, and progressive regulation are increasingly important.

Table 3: Carbon sequestration-adjusted GDP of Nigeria and selected peer countries

Country	Traditional GDP (USD Billion)	Sequestration-adjusted GDP (USD Billion)	Change	
			USD Billion	Percent
Central African Re-public	2.5	10.6	8.1	324.0
Congo, Rep. of	13.5	18.5	5	37.0
Gabon	21.1	25.7	4.6	21.8
Cameroon	44.9	49.4	4.5	10.0
Mozambique	18.4	19.9	1.5	8.2
Angola	122.0	129.8	7.8	6.4
Uganda	47.6	49.4	1.8	3.8
Zambia	29.1	30.2	1.1	3.8
Cote d'Ivoire	70.3	72.2	1.9	2.7
Tanzania	73.5	75.5	2	2.7
Ethiopia	120.4	122.6	2.2	1.8
Nigeria	**477.4**	**481.0**	**3.6**	**0.8**
Others	1910.4	1910.3	-0.1	0.0

Source: AfDB (2024a).

This evolution is significant for raising funds and supporting industrialization, and for promoting diversification, innovation, and infrastructure development in an economy facing structural impediments such as fragmented small and medium enterprises (SMEs) and inadequate resource mobilization.

2.4.2 Indicators of business capital

Nigeria's domestic private capital is fueling a dynamic ecosystem of firms that drive economic activity. Data on new business density indicates that 1.2 new business registrations occur per 1,000 working age people in Nigeria—similar to Ghana's 1.3 and Ivory Coast's 1.2—reflecting a resilient entrepreneurial spirit in the region. This market, underpinned by diverse sectors ranging from agribusiness and real estate to fintech and manufacturing, offers abundant opportunities for investors to tap into a growing middle market and leverage digital innovations. The rapid pace of business formation underscores an evolving landscape, where regulatory reforms and increased access to capital are reshaping Nigeria's economic prospects.

2.4.3 Challenges and opportunities for enhancing business capital in Nigeria

Physical and institutional infrastructure constraints limit the Nigerian economy's ability to industrialize and create skilled and semi-skilled jobs necessary to reduce poverty. Inadequate access to modern financial services, underdeveloped logistical networks, and bureaucratic inefficiencies also restrain business growth. The substantial informal economy, with approximately 40 million unregistered small firms, hampers economies of scale and innovation. However, recent economic reforms aim to enhance macro-fiscal stability, improve the business environment, and attract investor interest. Reforms to facilitate credit access, strengthen financial intermediation, and encourage local production are important. Credit to the private sector has grown by 7 percentage points since 2023, reaching 27% of GDP. Digital innovations are leading to increased efficiency and reduced transaction costs. By leveraging technology, Nigerian businesses can overcome administrative barriers, streamline operations, and ease access to finance.

2.5 Nigeria's human capital

2.5.1 Current State of Human Capital in Nigeria

Human capital represents the economic value derived from citizens' skills, experience, education, and health, all of which drive national development. With an estimated population of 233 million people in 2024, Nigeria's human capital remains a critical yet underutilized resource. Nigeria's Human Capital Index stands at 36%, significantly lower than the Sub-Saharan African average of 50% and below the World Bank target of 56%. Key indicators, including a life expectancy of 54.6 years, an average 7.6 years of schooling, an under-five mortality rate of 104.9 per 1,000, and a maternal mortality rate of 1,047 per 100,000 live births, reflect considerable challenges. Youth underemployment and unemployment, recorded at 17.6%, and just 25% of workers with a skill, further constrain economic progress. These statistics emphasize that a well-educated and healthy population is essential for transforming Nigeria into a dynamic, trillion-dollar economy by 2030. Improving education and health services can equip Nigerians with the skills and resilience needed to overcome socio-economic challenges and drive sustainable growth and innovation. Focused reforms and increased investment are urgently required.

2.5.2 Major Barriers to Human Capital Development in Nigeria

Several persistent barriers hinder human capital development in Nigeria. Among them are chronic underfunding of education and health. Current budget allocations of 7.9% for education and 5.3% for health fall well short of international benchmarks,

Table 4: Key indicators of Education, Health, and Workforce in Nigeria

Jobs (2023*)	15+ years	15-24 years	15-64 years
Working-age population (millions)	88.9	29.6	83.7
Labor force (millions)	73.4	19.2	69.8
Employment (millions)	71.1	18.2	67.6
Working-age population with advanced education (millions)	7.0	1.6	6.8
Labor force with advanced education (millions)	5.3	0.6	5.2
Employment with advanced education (millions)	5.0	0.5	4.9
Informal employment (%)	93.9	98.9	
Working poverty rate (%)	26.2	35.1	
Unemployment (%)	3.1	5.2	3.2
Combined rate of time-related underemployment and unemployment (LU2) (%)	11.7	17.6	12.2
Education		**1995**	**2024***
Completion rate for children of primary school age (%)			71
Secondary education (% of age cohort with completed secondary education)		20	40
University (% of age cohort with completed university degree)		1	7
Skilled (% of workers with a technical vocation and/or skill)		15	25
Health		**1995**	**2024***
Maternal Mortality (per 100,000 live births)		1,200	1,047
Under-five mortality rate (deaths per 1,000 live births)			105
Proportion of population using safely managed drinking water services (%)			29
Proportion of population using safely managed sanitation services (%)			32
Human Development Index		0.41	0.56

*Sources: AfDB Data, UNICEF MICS, ILO Data, World Bank Data, Human Development Report, 2025, Nigeria Bureau of Statistics. Note: *latest available*

hindering improvements in infrastructure, teaching quality, and healthcare services. Additional factors, such as delayed fund releases, poor accountability, and inadequate staffing, exacerbate the situation. These hurdles prevent effective skill acquisition, limit access to quality services, and ultimately constrain the nation's capacity to build a competitive, resilient workforce, restraining socio-economic progress.

2.5.3 Investing in Education and Skills Development

Strategic investment in education and skills development is vital for Nigeria's future competitiveness. Public and private sector partnerships must increase funding for quality learning, modernize curricula, and expand vocational training programs. Emphasis on

Box 2: The Nigeria Learning Passport is transforming access to quality education

The Nigeria Learning Passport (NLP), launched in 2022 by the Government of Nigeria is revolutionizing virtual education. The platform, embedded within national education policies and aligned to curricula, has successfully expanded to 21 states, reaching 1.8 million users. It offers free, localized content in multiple languages, so that diverse cultural and linguistic groups can benefit. Authorities have played a crucial role in its success, training 68,000 teachers and registering 150,000 educators, with 60% actively engaging with the platform. The NLP promotes gender inclusion, with 47% of users being women and girls, while also reaching marginalized groups in conflict-affected regions and out-of-school children through community engagement. Partnerships with telecom providers enable zero-rated access.

Technical and Vocational Education and Training and STEM disciplines can bridge the skills gap and boost innovation. Reforms should ensure up-to-date teaching methods, adequate infrastructure, and stakeholder collaboration. By cultivating practical competencies and entrepreneurial skills, Nigeria can create a dynamic workforce capable of transforming challenges into opportunities and driving sustainable economic growth.

2.5.4 Health as a Pillar of Human Capital Development

Robust health systems are a cornerstone of human capital development. In Nigeria, persistent underinvestment in healthcare limits access to quality services and preventative care. Low public spending, insufficient facilities, and inadequate health worker density contribute to higher rates of child and maternal mortality, shorter life expectancy, and reduced workforce productivity. Expanding health insurance coverage and modernizing medical infrastructure are essential steps to improve outcomes. Strengthening healthcare not only elevates individual well-being but also fosters a resilient, productive workforce critical for sustainable economic growth and long-term national prosperity.

2.6 Financial Capital

2.6.1 Domestic capital and financial markets

Since 2023, Nigeria's capital markets, led by the Nigerian Stock Exchange — which has a market capitalization of 27% of GDP — and the over-the-counter securities market have seen significant progress. Early initiatives established long-term capital formation, expanding in scale and sophistication. Market valuation of domestic companies increased from USD 15.9 billion in 2004 to USD 91.4 billion in 2022. Recent policy actions have deepened domestic capital markets, increasing local participation and diversifying financial instruments, such as InfraCredit's Naira-denominated guarantees for infrastructure projects. Regulatory oversight from institutions like the CBN has boosted savings into investments, supporting major projects across various sectors. Pension funds and insurance companies are increasingly investing in these markets, providing essential long-term capital. Diaspora remittances have risen steadily, enhancing financial stability and growth. This trend is comparable to peer countries and highlights the potential for further leveraging these inflows for development financing. The more than 17 million Nigerians living abroad send home substantial amounts to support family. In 2024, remittances reached USD 20.9 billion (11.3% of

GDP). With continued policy support, innovative instruments, and improved regulatory frameworks, Nigeria's capital markets can contribute meaningfully to national development.

2.6.2 The State of Financial Development in Nigeria

Financial development in Nigeria involves market depth, regulatory reforms, and technological progress. The financial sector's improvements have driven national growth through enhanced banking stability, advancing capital markets, and a burgeoning insurance sector. Studies show that bank asset growth, stock market capitalization, and expanded insurance services correlate with economic growth. The IMF Financial Development index confirms a rising trend since 2000, achieving 0.22 in 2021, though below its peak of 0.27 in 2008 just as the global financial crisis broke out. Yet, market depth and institutional depth are weak with an index of just 0.07. Despite volatile exchange rates, inflation, and regulatory uncertainties, recent enhancements in supervisory frameworks and regulatory oversight have mitigated risks and boosted confidence. Bank consolidations have increased scale, efficiency, and risk management. Improved liquidity, risk assessment models, and digital technologies have brought the sector closer to global best practices. These reforms have resulted in better credit flow and increased interest from local and international investors, demonstrating a robust, evolving financial sector capable of driving economic transformation.

2.6.3 Mobilizing Financial Resources for Nigeria's Development

Mobilizing financial resources is crucial for Nigeria's developing economy. Traditional funding channels, such as government budgets and tax revenues, provide a foundational base, but the scale of development needs requires diversified financing strategies and more involvement from the private sector. Nigeria adopted an Integrated National Financing Framework in 2022 to enhance both public and private funding channels. This framework aligns domestic policy with the SDGs and ensures that available resources are directed towards infrastructure, social services, and industrial modernization, while helping to fill the large financing gap. Initiatives like domestic dollar bond issues have attracted institutional investors, contributing to infrastructural modernization and economic stabilization. Innovative approaches include risk-mitigation instruments, where guarantees reduce investment risk and encourage local pension funds, insurers, and other institutional investors to invest in long-term projects. These instruments focus on infrastructure development, which has historically been underfunded, effectively bridging the gap between capital availability and development needs. As the government continues to implement fiscal and regulatory reforms to create a favorable investment climate, the progress in domestic resource mobilization serves as a catalyst for growth.

2.6.4 Off-shore-linked financial resources for Nigeria's development

Offshore-linked financial resources have become vital for Nigeria's development, complementing domestic efforts. International capital markets, diaspora networks, and cross-border financing are key in supplementing local resources. These strategies tap into international capital pools through instruments like bonds and currency swaps, providing liquidity at competitive rates. Aligning domestic policies with global standards is crucial to attract investments, involving sound macroeconomic policies, stable regulations, and transparent fiscal reforms to build investor confidence. Engaging the Nigerian diaspora is also essential. Diaspora bonds and international collaborations can help bridge financing gaps. While managing foreign exchange volatility is necessary, these instruments offer growth opportunities when supported by strong domestic institutions, transparency, and spending efficiency. Effective risk management and investor protection are crucial. Integrating domestic and offshore

Box 3: Creative economy is providing new job opportunities and export markets

The creative economy — film, music, fashion, arts, broadcasting, digital media, and tourism — offer great opportunities for jobs and exports. Nigeria's film industry, Nollywood, is the second largest globally after Bollywood and produces over 2,500 films, annually. The music industry, known for its afrobeats and more recently Burna Boy, is expanding globally. Streaming platforms can reach new audiences and with the 2023 Copy Right Act, can address challenges related to content ownership and online piracy. Cultural events, like Detty December, attracts tourists from the region and beyond. The creative industry has been valued at USD 15 billion with the potential of creating 2.7 million jobs.

finance creates a balanced capital structure resilient to global fluctuations, diversifying funding sources and providing flexibility for Nigeria's developmental projects in infrastructure, energy, innovation and technology.

2.6.5 Innovative finance

Innovation in finance can help reshape Nigeria's economic landscape. Innovative financing, such as blended finance and green finance, can bridge the country's development financing gaps, especially in climate-smart agribusiness and energy transition. Blended finance combines public and private capital to mitigate risk and attract investment in development projects to meet SDG goals. By leveraging limited public funds to mobilize private sector investments, Nigeria can supply critical infrastructure and social service needs more effectively. Green finance focuses on sustainable projects that improve environmental outcomes, such as renewable energy and climate-resilient infrastructure. These financing mechanisms not only support development goals but also contribute to long-term environmental sustainability. Nigeria's fintech ecosystem is crucial in mobilizing savings and extending credit effectively. Digital platforms provide affordable and reliable banking, enhancing financial access for underserved communities. Consumers can manage finances without traditional banks, promoting greater inclusion. Fintech also supports business funding through crowdfunding, angel investors, and venture capital suited to local markets, boosting entrepreneurship and globally competitive businesses. Agency banking increases financial engagement by enabling local agents to offer banking services.

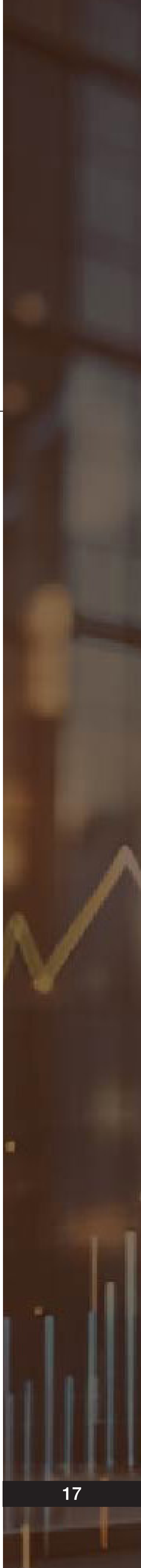
2.7 Policy Recommendations

This chapter reveals significant domestic capital mobilization challenges in Nigeria, including low tax revenue from a large informal economy. Natural capital management remains inefficient despite abundant oil and non-oil resources, while insufficient human capital and underdeveloped infrastructure constrain growth in business capital. Although recent reforms show promise, their scale is insufficient to close the development finance gap.

Nigeria should prioritize digital solutions by deploying advanced technologies to streamline data collection for tax administration and enhance fiscal monitoring, thereby boosting compliance and transparency. Increased investment in human capital is crucial. This includes ramping up education and healthcare funding, modernizing curricula, and expanding vocational training to bridge skill gaps. Revitalizing infrastructure, especially in digital connectivity, transport, and energy, will create a conducive environment for sustainable business growth. Moreover, in the era of constrained public budgets, leveraging innovative financing tools such as blended finance and green bonds can attract private and international investment, catalyzing resource efficiency and supporting structural transformation. Collaborative efforts with international development partners and multilateral banks will reinforce these reforms.

HARNESSING NIGERIA'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT

3



Key Messages

- Institutional Framework: Effective management of Nigeria's natural, human, business, financial, and social capital depends on robust institutions, streamlined regulations, and modern digital technologies. These reforms can reduce leakages, enhance value addition, and build a diversified, resilient economy beyond oil dependence.

- Economic Diversification: A strategic shift away from overreliance on oil revenues is crucial. Value addition, innovation, and diversification in trade and manufacturing will foster sustainable growth, generating stable revenue streams and maximizing Nigeria's resource potential.

- Governance Integrity: Enhancing transparency in revenue mobilization is essential to building trust. Tackling bureaucratic inefficiencies, corruption, and opaque practices can improve tax compliance, strengthen investor confidence, and support governance. These improvements support fiscal sustainability.

- Rule of Law: A strong legal framework is essential for safeguarding property rights, enforcing contracts, and deterring regulatory capture. Comprehensive legal reforms are needed to create a predictable, resilient climate that fosters investment and economic activity.

- Pan-African Collaboration: Regional cooperation through harmonized legal standards and best practices can empower Nigeria to address systemic challenges.

3.1 Introduction

Chapter 3 examines Nigeria's capacity to mobilize and harness diverse forms of capital for sustainable, inclusive development. It reviews institutional quality, governance structures, and the rule of law as essential enablers of effective resource mobilization. Examining the different types of capital, the chapter highlights challenges arising from overreliance on oil revenues, capital flight, and corruption. It explores the roles of federal, state, and local governments in fostering resilient economic ecosystems. This analysis outlines evidencebased reforms to strengthen institutions and promote balanced, long-term growth in Nigeria.

3.2 Institutional arrangement for the management and utilization of the various forms of capital

Institutions in Nigeria manage a wide array of capital resources — natural, human, business, financial, and social capital — which together offer enormous potential for transformative economic growth and societal advancement. However, these prospects are undermined by enduring institutional weaknesses and fragmented governance structures that lead to resource leakages and inefficiencies in capital utilization. The country's export profile remains dominated by raw or semi processed commodities, reflecting a dearth of diversification and value addition, which limits the benefits of its vast natural endowments.

Despite significant resource potential, Nigeria remains dependent on revenues from the oil and gas sector. This overreliance exposes the economy to volatile global oil price and fiscal shocks, constraining the nation's capacity to finance development. Current estimates suggest that Nigeria will require approximately USD 47.6 billion in development finance annually to close SDG gaps by 2030 and achieve meaningful structural transformation. The narrow revenue base restricts economic resilience, while regulatory complexities and a multiplicity of permits intensify the challenge for private sector investors and public administrators alike.

Recent reforms have aimed to address these institutional challenges. Government initiatives, such as establishing anticorruption agencies like the Economic and Financial Crimes Commission and reforming stateowned enterprises such as the Nigerian National Petroleum Corporation (NNPC), are intended to enhance transparency and accountability in resource management. Efforts to integrate digital technologies into tax administration further illustrate attempts to modernize the fiscal landscape. Yet inadequate legislative backing, inconsistent electricity supply, limited internet connectivity, and low computer literacy have impeded these digital initiatives, undermining their effectiveness in improving revenue collection.

To harness Nigeria's full capital potential, comprehensive institutional reforms are imperative. Streamlining regulatory processes, consolidating multiple permits, and harmonizing tax policies across federal, state, and local levels can reduce the compliance burden and stimulate business growth. Strengthening the capacity of public institutions to implement and enforce reforms will help to safeguard revenues and attract both domestic savings and foreign investments. Reforming fiscal policies and improving digital infrastructure are also critical for efficiently mobilizing and utilizing available capital. These measures are not merely administrative updates, but strategic interventions designed to secure long-term social and economic benefits for the nation.

Ultimately, reformed institutional arrangements will create an enabling environment that promotes efficient capital conversion, increases investor confidence, and reduces illicit financial flows. By aligning administrative structures with global best practices, Nigeria can expand its economic complexity and build a resilient ecosystem capable of sustaining long-term development. A modernized governance system based on streamlined regulations and digital innovation will empower the nation to fully exploit its diverse capital resources and drive inclusive growth.

Further reform measures must prioritize clear, harmonized legal frameworks that govern all facets of capital management. Modernized administrative procedures, better interagency coordination, and investment in capacity building across public institutions will reduce bureaucratic delays and corruption. Successful institutional frameworks in other emerging economies offer instructive models for Nigeria. By adopting strategic partnerships with international organizations and leveraging technological innovations, the country can create a more predictable regulatory climate that encourages local entrepreneurship and attracts and retains FDI. These initiatives will strengthen Nigeria's financial architecture and drive sustainable economic progress. Robust policy implementation remains the key.

3.3 Governance challenges in the management and utilization of the various forms of capital for resource mobilization

Governance challenges represent a critical barrier to effective resource mobilization in Nigeria. Widespread opacity in resource management has fostered a climate of distrust, leading citizens to shy away from complying with fiscal responsibilities such as tax payments. This erosion of public confidence undermines democratic accountability and permits corrupt practices to flourish unchecked. Consequently, key institutions responsible for revenue collection and management, notably in sectors such as petroleum, maritime, and customs, are compromised, further weakening the efficacy of Nigeria's economic governance.

Recent surveys and reports, including those by AfroBarometer, Transparency and Integrity, and Mo Ibrahim, have painted a uniformly negative picture of governance at all tiers in Nigeria. Prominent agencies such as NNPC, the Nigeria Maritime Administration and Safety Agency, and Nigeria Customs Services have been criticized for mismanagement, inefficiency, and pervasive corruption. Their poor performance not only hampers tax collection but also diminishes investor and public confidence, illustrating how weak oversight and fragmented administration contribute directly to revenue leakages and fiscal instability.

Tax administration in Nigeria exhibits critical shortcomings. According to recent OECD and IMF reports, tax revenues constitute a small fraction of the nation's GDP despite accounting for a substantial portion of total public expenditures. The complex fiscal federalism system, wherein tax collection responsibilities are split among federal, state, and local governments, often results in overlapping jurisdictions and inconsistent enforcement. High compliance costs and cumbersome procedures discourage both large corporations and small businesses from fulfilling their tax obligations, thereby deepening the challenges of revenue mobilization.

Additional governance challenges emerge from a fragile investment climate and volatile regulatory environment. Aid conditionalities and erratic FDI flows exacerbate the pressures on Nigeria's fiscal system. Over the years, many multinational corporations have either reduced operations or announced exits due to the unpredictable business environment and recurring currency volatility. Furthermore, the informal sector, which employs most of the workforce, largely evades taxation, further limiting the nation's revenue base. Such conditions contribute to an environment where capital flight and illicit financial flows become pervasive, draining vital resources from the economy.

Systemic tax evasion further exacerbates fiscal challenges, with studies indicating that only a tiny percentage of high-net-worth individuals comply with tax obligations. Loopholes in key legislation, including those governing corporate and petroleum taxes, enable profit shifting and misreporting of financial transactions. As a result, honest taxpayers bear an undue burden, while pervasive tax avoidance and evasion significantly diminish state revenues. The persistence of these practices undermines the notion of fiscal equity and erodes trust in the tax system, thereby stifling both economic competitiveness and sustainable development.

Hence, comprehensive policy reforms and robust institutional accountability measures are necessary. Strengthening intergovernmental coordination, creating greater transparency in revenue reporting, and instituting stringent anti-corruption frameworks are critical steps. Leveraging digital technologies for real-time tax monitoring and streamlining regulatory procedures can improve compliance and reduce opportunities for financial malpractices. These interventions must be supported by sustained political will and stakeholder engagement to rebuild trust and create a more stable fiscal environment conducive to long-term economic growth. A decisive commitment to transparent governance and reform will restore fiscal integrity and stimulate both local and foreign investment.

3.4. The rule of law, the management and utilization of the various forms of capital

The rule of law is a foundational pillar for the effective management and utilization of all forms of capital in Nigeria. A robust legal framework safeguards property rights, enforces contracts, and provides a predictable environment for economic activity. When the rule of law is weak, administrative ambiguity fosters corruption, regulatory capture, and arbitrary decision-making that hinder investment and innovation. In Nigeria, deficiencies in legal enforcement have manifested in inconsistent adjudication processes and a judiciary that is often perceived as inaccessible or biased. This vulnerability undermines both private sector confidence and public trust in state institutions.
Several global institutions and reports highlight the critical impact of legal stability on economic growth. The World Trade Organization notes that corruption, combined with weak enforcement of laws, remains a substantial barrier to private sector-led development. Research by the International Monetary Fund suggests that reducing corruption to levels seen in benchmark countries could boost annual growth significantly. In Nigeria, achieving a more effective judicial system and rigorous legal enforcement could increase GDP growth, as investor confidence and business operations improve markedly in a legally secure environment.
Challenges to the rule of law in Nigeria are exacerbated by regulatory capture and conflicts of interest among lawmakers and business leaders. Cases of undue influence have led to preferential treatment in tax exemptions, distorted regulatory policies, and a judiciary that is sometimes complicit in protecting vested interests. Moreover, enforcement agencies such as anti-corruption bodies often lack resources and political backing, making it difficult to prosecute high-level malpractices effectively. This environment of compromised legal integrity deters both domestic and foreign investment in critical sectors.

Significant improvements in the rule of law can transform Nigeria's economic landscape. Robust legal reforms could result in higher levels of infrastructure investment, with studies indicating that reducing corruption to benchmarks observed in countries like South Africa might increase the efficiency of publicly invested funds substantially. Reforms in property rights, contract enforcement, and judicial efficiency could yield an annual GDP growth increase of up to 2 percentage points. Such gains would not only stimulate economic development but would also enhance social well-being by promoting equality, transparency, and accountability throughout all sectors of the economy.

Recent legal reforms have demonstrated the benefit of aligning national laws with international best practices. The enactment of updated investment and securities legislation represents a significant step forward in modernizing regulatory frameworks and empowering sub-national governments to raise capital through market mechanisms. Such measures are expected to stimulate local economic development, foster innovation, and boost investor confidence. By ensuring that legal instruments offer clear, enforceable rights, Nigeria can create a more inclusive environment where all sectors contribute effectively to national growth and development.

Enhancing the rule of law is not merely a legal imperative but a strategic catalyst for economic transformation. By addressing systemic failings and reinforcing judicial independence, Nigeria can secure its capital resources, attract critical investments, and build a resilient, equitable economic future that benefits all citizens. Comprehensive legal reforms, combined with rigorous enforcement, will pave the way for a sustainable transformation that strengthens market integrity and social progress.

3.5 A Pan-African Approach to Strengthening the Rule of Law, Institutions and Governance for Harnessing Nigeria's Capital

Adopting a pan-African approach to enhancing governance and legal frameworks offers Nigeria a promising route to unlock its capital potential. By learning from regional success stories and embracing collaborative reform initiatives, Nigeria and its neighbors can establish harmonized standards and best practices that combat corruption and inefficiencies. Strengthened legal institutions and transparent governance, supported by integrated continental policies, foster an environment conducive to sustainable development and inclusive growth. This collective effort not only bolsters investor confidence regionally but also sets a precedent for transformative change across Africa.

3.6 Conclusion and policy recommendations

Nigeria's future hinges on its ability to reform institutional frameworks, strengthen the rule of law, and enhance governance across all levels. Effective management of diverse capital resources demands streamlined regulations, robust legal enforcement, and proactive anti-corruption measures.

Policy recommendations include modernizing tax administration, fostering digital innovation, implementing the Natural Capital Accounting approach across key economic sectors, and embracing pan-African collaborations to drive sustainable growth. These reforms will build investor confidence, reduce capital flight, and promote equitable development, ensuring that Nigeria fully leverages its vast resources to achieve lasting economic transformation. Unified action ensures progress.

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