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Nigeria's Q2: 2022 GDP-

Drivers of Growth in today's Digital Economy

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Highlights:

- Nigeria's $432.3billion economy grew by 3.54% year-on-year in real terms in Q2:2022, driven largely by activities in telecommunication, trade, financial institutions, transportation, agriculture, and manufacturing.
- This 3.54% growth is 1.47% below the 5.01% y/y recorded in Q2:2021, but a 0.44% increase when compared to the 3.11% in Q1:2022
- Economies globally have changed dramatically over the last two decades. As a result, the drivers of economic growth are also changing.
- Nigeria remains a potential economic powerhouse in Africa, but potentials must be developed and nurtured. The country can leverage digital economy advancements to generate and sustain desired growth.
- Productivity, capital, and labour are the major drivers of growth in any economy. As economies gets increasingly digitized, the playbook will and has changed significantly.
- Economic growth drivers of the coming decades will include digital talent, digital entrepreneurship, digital infrastructure, reliable energy, and an agile public sector, amongst others.

The National Bureau of Statistics (NBS) recently released the Nigerian Gross Domestic Product (GDP) data for Q2:2022. The report showed that the country's $432.3billion economy grew by 3.54% year-on-year (y/y) in real terms during the quarter, driven largely by activities in telecommunication, trade, financial institutions, transportation agriculture and manufacturing. This 3.54% growth is 1.47% below the 5.01% y/y recorded in Q2:2021, but a 0.44% increase when compared to the 3.11% in Q1:2022. Nonetheless, quarter-on-quarter estimate shows that the real GDP grew at -0.37% in Q2:2022, reflecting lower economic activity relative to the preceding quarter. The GDP serves as a measure of an economy's overall size, health, and direction. It tracks the total market value of all domestic goods and services produced, and indicates whether the economy is expanding, contracting, or heading towards a recession. The GDP figures equally reveal one of the most important determinants of long-term growth: the structure of the economy. This 'structure' is inferred from the percentage contribution of different economic sectors to the GDP and could be deliberately designed to birth (or drive) a robust future-ready digital economy.

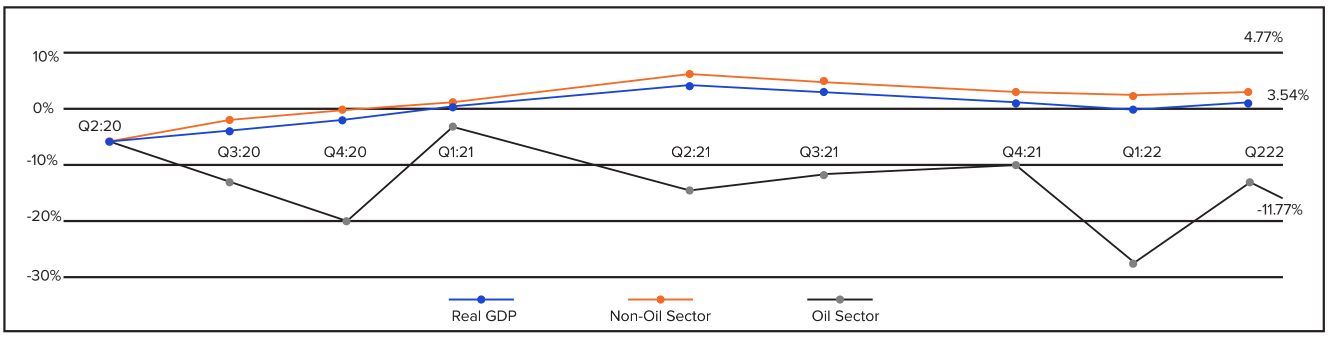
Economic sector performance

– the good, the bad, the ugly

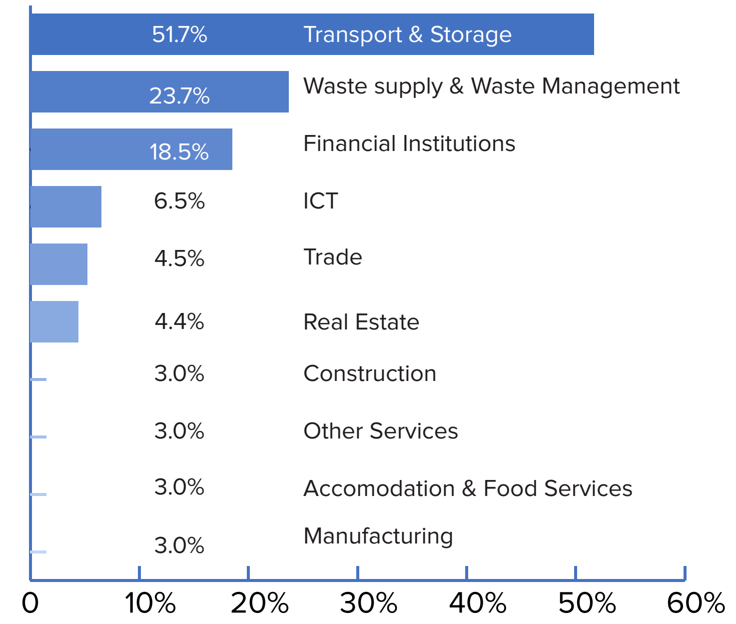
The oil sector is arguably the most important economic sector in Nigeria but recorded a disappointing 11.77% decline in Q2:2022 - the 9th consecutive quarterly decline. Nigeria depends on the sector for 95% of the country's foreign exchange earnings, as well as 60% budget revenues. Nonetheless, the sector accounts for only 6.33% of the GDP! Average daily crude oil production in Nigeria declined to 1.43 million barrels per day (mbpd) in Q2:2022 (as crude oil theft continued), 0.06mbpd below the preceding quarter average; and 0.45mbpd below the budget assumptions for 2022 fiscal year. The war in Ukraine brought a pseudo energy crisis globally that saw brent crude oil prices balloon to a peak of $119pb in March 2022 (fiscal budget assumption: $62pb) and have maintained above $80pb average during the year. Regrettably, Nigeria failed to profit from the oil boom, and continues to borrow to finance huge annual budget deficits, expected to hit N11trillion by 2023.

The non-oil sector contributed 93.67% to the GDP and remains the major driver of overall growth, despite the challenges of insecurity, inflation, and Naira depreciation. The sector grew by 4.77% y/y in real terms, less than the 6.74% and 6.08% recorded in Q2:2021 and Q1:2022 respectively. This growth was driven by activities in select resilient sectors: telecommunication, trade, financial institutions, transportation, agriculture, and manufacturing. These sectors have been instrumental to the sustained economic recovery in the country and forecast to remain resilient in the coming years. The Agric sector has maintained an average of 2.1% y/y growth in the last 10 quarters despite the challenges of post-harvest losses, insecurity, food inflation, transportation bottlenecks and very little government support. In July 2022, the African Development Bank Group (AfDB) approved a $134 million loan to boost private sector participation in the Nigerian agriculture sector, igniting hopes of better future performance. The ICT sector recorded 6.55% y/y growth during the quarter, significantly lower than the 12.06% y/y growth recorded in Q1:2022. It contributes an impressive 18.44% to the real GDP and remains a very critical driver of Nigeria's digital economy evolution today, and in the years ahead.

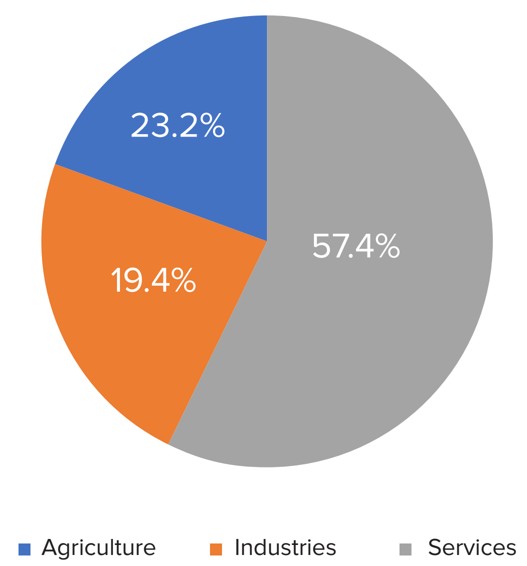
Real GDP Growth Trend (Q2:2020 - Q2-2022)



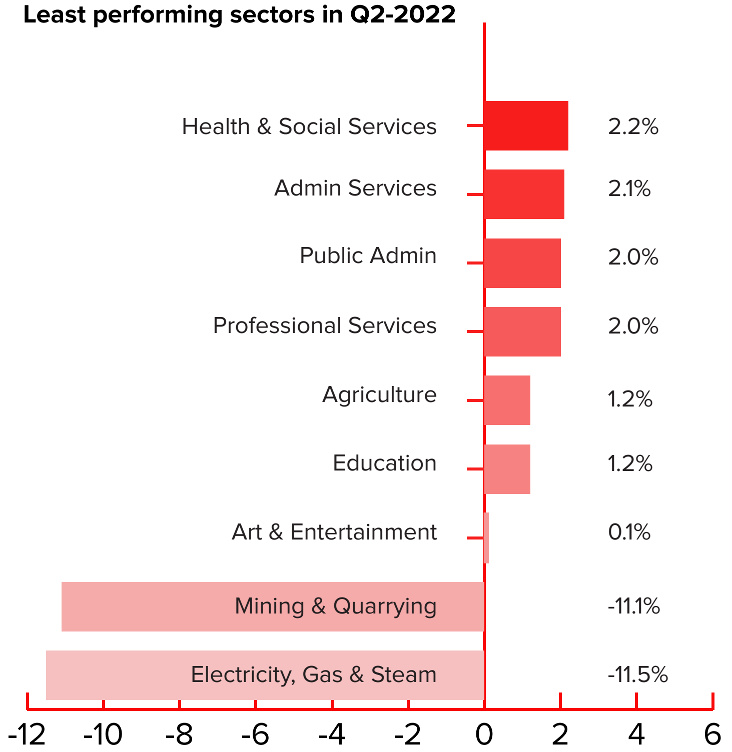
Top -10 sectors in Q2-2022



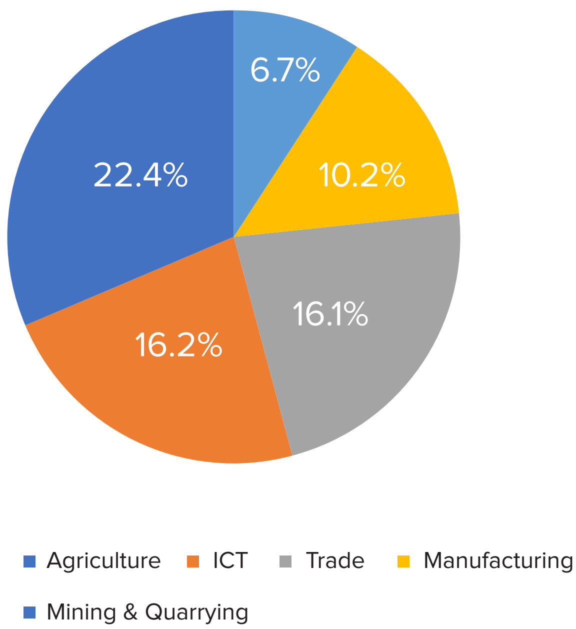
Contribution to GDP (Sector Categories)



Least performing sectors in Q2-2022



Contribution to GDP (Top-5 Sectors)



How does Nigeria's Q2:2022 performance compare?

The global economic prospects remain 'gloomy and more uncertain', according to July 2022 publication by the IMF which emphasised the downturns in China and Russia, higher-than-expected global inflation and negative spill overs from the war in Ukraine as major pressure points. Consequently, and similar to trends in other markets, growth in Emerging markets and Sub-Saharan Africa are expected to decline to 3.6% and 3.8 in 2022 (from 6.8% and 4.6% respectively in 2021). Nonetheless, the ASEAN-5 economies remain relatively more stable, with countries such as Indonesia and Malaysia posting uptrends in GDP growth in the first two quarters of 2022. Save for Singapore and Thailand, other ASEAN-5 economies reported GDP growth in excess of 5% for Q1 and Q2, 2022. In our Q1:2022 GDP Publication, we emphasised that Nigeria needs to achieve and sustain a minimum of 5% y/y real GDP growth for at least five years to revitalise the production and consumption drivers of the economy. One major hurdle before the country is how to alter the current structure of economic production to address the demands of a rapidly evolving digital world.

	Nigeria	S/Africa	Indonesia	Malaysia	Phillipines	Singapore	Thailand
FY 2021	3.4%	4.9%	3.7%	3.1%	5.6%	7.6%	1.5%
Q1:2022	3.1%	1.9%	5.0%	5.0%	8.2%	4.4%	2.2%
Q2:2022	3.5%	-0.7%	5.4%	8.9%	7.4%	3.8%	2.5%
FY:2022e	3.1%	2.3%	5.4%	5.6%	6.4%	4.0%	3.3%
Sector Contribution to GDP							
Agriculture (% of GDP)	*23.2%*	*8.3%*	*13.3%*	*9.6%*	*10.1%*	*0.0%*	*8.1%*
Services (% of GDP)	*57.4%*	*62.7%*	*43.0%*	*51.0%*	*61%*	*69.4%*	*56.7%*
Industry (% of GDP)	*19.4%*	*24.5%*	*39.9%*	*37.7%*	*28.9%*	*24.9%*	*34.8%*
Services + Industry	76.8%	87.2%	82.7%	88.7%	89.9%	94.3%	91.5%

Sources: World Bank, IMF, NBS

Economic performance is partly determined by the structure of the economy in terms of size and relevance of various economic sectors. The 20th century three-sector model categorises economic activities in a country into primary (the extraction of raw materials), secondary (manufacturing) and service industries (which exist to facilitate the transport, distribution and sale of goods produced in the secondary sector). Notwithstanding the model's shortcomings, it offers good explanation and guidance for policy interventions targeted at retooling the economy towards desired growth trajectory. When compared to the ASEAN-5 economies (+South Africa), Nigeria's Agric sector accounts for the largest (23.4%) proportion of the GDP, as opposed to 8.2% average in ASEAN-5 and 8.3% in South Africa. Primary sector - the extraction (and sale) of raw materials, contributes over 30% of the country's economic output and the largest contributor to employment. When this reality is viewed in the context of Industry 4.0 and the inevitability of a digitally driven future for humanity, then it becomes obvious that structural change is necessary to generate growth that is desirable, relatable, and sustainable.

Drivers of GDP growth in today's digital economy

The playbook that drives economic growth and prosperity globally is undergoing some material disruption. '*Twenty years ago, China's economy was a tenth the size of the United States. In 2019, it is two-thirds as big. In 2039, on the current trajectory, it will be more than 10% bigger. India will have leapfrogged Japan and Germany to claim the No. 3 spot in the global rankings. Vietnam will be closing in on the top 20'. The big disrupters are populism, protectionism, automation, digitization, and climate change. Low- and middle-income economies are, in general, poorly positioned to adapt to these coming disruptions, without an early and ambitious response forged at a national and international level."* These were some of the projections in Bloomberg's 'The New Economy Drivers and Disrupters' Report, and a reflection of how countries can attain economic power through deliberate technology play.

Breakthroughs in artificial intelligence, big data analytics and internet-of-things have elevated the role digital economy plays in economic growth and progress. The global economy has changed dramatically over the last two decades (or more). As a result, the drivers of economic growth are also changing. The current Fourth Industrial Revolution (Industry 4.0) sweeping through the globe represents a fundamental change in the way we live, work and relate to one another. Industry 4.0 is disrupting almost every industry in every country, with technological advancements that are merging the physical, digital, and biological worlds in unprecedented ways. The speed, breadth and depth of this revolution is forcing us to rethink how organisations create value, how sustainable economic growth should be achieved and how countries achieve economic development. As economies gets increasingly digitized, some deviation in the traditional drivers of growth is expected. We highlight below some ~~top~~ top-five priority areas that will deliver desired growth for the country, through productivity, capital, and labour linkages of the digital economy.

Digital talent [1] – the new gold

Technology is having profound effects on labour markets and employment globally. Labour is a key factor of production, and a major determinant of economic growth everywhere. Digital technologies have emerged as a major driver of productivity, and digitally skilled workers are required to operationalize digitisation of production. As the digital transformation evolves, demand for digital talents will continue to soar, even as supply plays catch up globally. The conglomeration of digital skills has been noted as central in the economic progress recorded in China and India. As an example, Bangalore in India ranks very high in materials science and artificial intelligence, whilst Shanghai (China) excels in materials science, nanotechnology, and robotics. The human capital needed to drive growth in the coming decades will differ from the status quo and must be intentionally developed.

Nigeria's demographics presents a golden opportunity for the country to drive productivity through her digital-savvy youth population. The country has one of the largest youth populations in the world, with a median age of 18 years. According to World Bank's 2019 Digital Economy Diagnostics Report, *'Nigeria is far from making optimal use of its human capital potential and is underprepared for the impending disruption to jobs and skills brought about by Industry 4.0".* Aggregate labour productivity in the digital economy will depend on the pool of digital talent with the right skill mix. The country must explore innovative ways of including digital skills in the wider curriculum at all levels of education and scale up private sector–led initiatives. A robust implementation of the National Digital Economy Policy and Strategy (NDEPS) 2020 -2030 could offer the necessary heavy-lifting.

2

Promote digital entrepreneurship

Entrepreneurs boost economic growth by introducing innovative technologies, products, and services. Digital entrepreneurs do this by creating new digital-enabled/delivered businesses, products or services; or through digital transformation of existing business activities and models. Globally, these entrepreneurs are launching tech-driven companies that are transforming the delivery of financial services, education, healthcare, logistics, e-commerce, among others. Digitisation has made starting a small business online relatively easier as businesspeople leverage the capabilities offered by mobile devices, the internet, digital platforms and cloud technology to run businesses end-to-end. Leaders across various digital ecosystems such as logistics, FinTechs, hospitality services, etc. employ millions of people directly and indirectly; whilst small digital start-ups in smaller cities globally replicate similar employment outcomes.

Nigerians are developing digital solutions to solve perennial problems and frictions across diverse economic sectors – finance, health, education, transportation, logistics, etc. In 2021, three Nigerian companies (Flutterwave, Opay, and Andela) emerged unicorns, following their attainment of $1 billion valuations during the year. International investors are increasingly interested in Nigerian digital entrepreneurs with over $1.5bn raised by Nigerian startups in 2021 despite the pandemic overhang. These businesses employ thousands of Nigerians directly and help to expand growth opportunities for other businesses who in turn create more jobs. As an example, thousands of Nigerian youths have become mobile money merchants following the FinTech revolution in Nigeria, even as platforms such as Kobo360 is forecast to generate as many as 400,000 jobs over five years by linking truck drivers to freight opportunities in Nigeria and beyond. To optimize the growth opportunities digital entrepreneurship offer, government must lead an innovative funding and de-risking mechanism, eliminate policy bottlenecks, as well as seek ways to encourage private capital to develop deep interest in the country's digital business landscape.

3 Electricity and renewable energy

– these are non-negotiable

Energy demand (and supply) has long tracked economic growth. The relevance of energy access and consumption as growth enablers become even more relevant in the present day since digital technologies rely heavily on sustainable power. Electricity generation and consumption has yielded huge productivity enhancements for economies along the path of development. Digital technologies also help energy systems around the world to become more connected, intelligent, efficient, reliable, and sustainable. Energy is vital to reducing the cost of doing business and creating economic opportunities inclusively. According to a 2015 McKinsey report, countries with electrification rates of less than 80% consistently suffer from reduced GDP per capita.

The poor state of the energy sector in Nigeria constitutes a huge drag on economic growth and will continue to slow digital progress. Only about 55% of the population have some access to electricity, even as the country's 12,522MW installed capacity (vs. >150,000MW needed capacity), 4000MW power distribution, and a fragile grid network leave much to be desired. Indeed, the country urgently needs reliable power grids and universal access to electricity to be able to power the energy demands of a digital economy. Renewable energy sources such as solar, biomass, wind and geothermal energy offer some hope only in the long run and needed to be de-risked to attract the right investment and development. The country must ensure financial viability of the power sector to attract and retain private capital. For starters, this would imply cost-reflective tariffs, unambiguous regulations, and efficient utilization of existing capacity. Quick wins are difficult to spot, hence a total and unprecedented reform of the sector must happen, and urgently too.

4 Digital infrastructure – enabling innovation

The backbone of the digital economy is hyper connectivity – the growing interconnectedness of people, organisations, and machines. Digital infrastructure brings together and interconnects physical and virtual technologies such as computers, servers, networks, applications, and platforms. In the January 2022 white paper of the World Economic Forum Africa Regional Action Group, five pathways for driving economic recovery and building resilience were highlighted. Two amongst these were digital infrastructure related: 'revitalizing infrastructure and connectivity; and scaling digital transformation and inclusive innovation'. For most African economies, the most important digital infrastructure appears to be broadband internet. World Bank research estimates that a 10% increase in broadband penetration in developing countries is associated with a 1.4% increase in GDP. Other must-have digital infrastructure includes digital identity, payments platforms, cybersecurity, etc.

Nigeria ranks 143rd position (out of 176 countries) in the most recent ICT Development Index ranking of the International Telecommunication's Union's (ITU), following the limited usage of existing broadband infrastructure (fixed and mobile) in the country. Industry analysts believe that the country is using less than 10% of the 40 TBPS submarine cable capacity provided by SAT3, MainOne, Glo1, ACE, and WACS cable, due to limited last-mile capacity. The last two decades have witnessed multibillion-dollar investments in wholesale submarine bandwidth by the major private sector players and the trend is expected to continue as the market matures. With the recent auctioning of 3.5 gigahertz 5G spectrum by the Nigerian Communications Commission (NCC) and pilot rollout by MTN Nigeria, a more robust commercial rollout of 5G is anticipated in the coming months and should help advance the country's 44.5% broadband penetration. Google recently announced a $1 billion investment to finance the laying of a new subsea cable between Europe and Africa that will multiply the continent's digital network capacity by 20, leading to an estimated 1.7 million new jobs by 2025. The subsea cable will cut across South Africa, Namibia, Nigeria, and St Helena, connecting Africa and Europe. This is another opportunity Nigeria can optimise to drive rural broadband penetration.

5

Agile and responsive public sector

Government and its agencies play a critical role in promoting (or frustrating) economic growth. From implementing annual budget to the provision of public goods, legal frameworks, incentives and monetary policy, the public sector's responsiveness to the needs of other economic actors could be a game changer in the economic growth equation. Given the increasing need for the public sector to face, adapt to, and embrace the fast moving changes in technology, lifestyle and business models, there is a new call for governments to embrace agile transformation of its agencies and parastatals, particularly agencies that are saddled with ICT, policymaking, and service delivery. Agile organizations have certain attributes that allow them to meet market demands very quickly, adjust to trends and respond effectively to internal and external challenges. The BCG conducted a global public sector agility study with executives of 23 public sector institutions, and submitted that agencies that practice agile deliver services up to 50% faster and improve citizens' satisfaction by up to 25%. Agile public sector has implications for investments, employment, productivity and long-term growth.

Nigeria has had numerous public sector reforms in the past, but the industry 4.0 realities call for one that would entrench the agile principles in the running of (key) ministries, departments, and agencies. This will ensure that parastatals and agencies respond rapidly to the demands of the (fast-moving) citizens, businesses, and cities of the digital era. Agile approach coupled with technological transformation of MDAs will enable them respond better to businesses' quest for quality and speed in public service delivery. Indeed, leaders in the public sector have no choice but to ride with the digital trends to improve operational efficiencies and provide effective regulatory oversights that are growth-enabling. Agile is a proven approach to delivering incremental value cheaper, faster and sustainably.

The digital economy has the potential to deliver impressive economic growth. For this potential to be realised however, countries must put in place the key foundations that strengthen the digital economy: digital talent, digital entrepreneurship, digital infrastructure, reliable energy, and an agile public sector. Nigeria remains a potential economic powerhouse in Africa, but this potential must be developed and nurtured. The country must begin to create incentives that boost productivity and infrastructure needed to scale digital transformation in the country. Technology hubs and ecosystem cities must be established at least in every geopolitical zone and must provide digital entrepreneurs easy access to state-funded incubators and accelerators, as well as an environment to experiment and thrive. Agile comes with a change in mindset, a very difficult but necessary call in Nigerian public sector. Nonetheless, for government agencies to adopt agile approach, they must be transparently flexible and experimental, finding what works and then learn and improve over time as technology continues to shape our daily lives, and GDP outcomes.

Verraki's Advisory Practice provides digitally transformative services to the African market, leading the charge to deliver cutting-edge innovation solutions to organisations – unleashing their growth potential. Talk to one of our experts today to learn more.

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About Verraki

Verraki is a proudly African company partnering with enterprises and governments to accelerate the development and transformation of Africa by providing business solutions designed for Africa. We build and implement technology solutions for seemingly intractable challenges, provide advisory services to drive the capacity and motivation for change, and curate innovative ventures to unlock new sources of growth across our continent.

A fusion of two words: ‘Versorium’ (Latin for Turn Around) and ‘Meraki’ (Greek word used to describe the action of doing something with soul, creativity, pouring oneself into a task), Verraki aptly captures the essence of our company; to turn around African enterprises and governments via smart, future-focused solutions and business insights, new growth opportunities, helping to unleash their potential, turnaround their performance and achieve the seemingly impossible, with the sole goal of creating a better future for Africa.

We are committed to enabling the African (start-up) story by supporting high-impact socially-conscious entrepreneurs and catalysing self-sustaining enterprises and governments within the continent to deliver affordable services across critical sectors.

Our Growth Optimisation Offering

The contemporary business environment is dramatically different from what it was ten years ago, and it continues to evolve at an increasing rate. Consumer trends, macroeconomic shifts, technological advances, changing competitive dynamics, climate change, supply chain disruptions, digitalisation and pandemics are accelerating the pace of change, leaving many businesses struggling to grow amidst the turbulence.

At Verraki, we understand client needs and provide innovative new approaches that help enterprises and governments to explore new market opportunities including expansion into new regions, identification of new channels, targeting of new customer segments, or even the creation of new product categories in a way that moves them from “surviving” to “thriving.” Verraki develops and delivers the practical tools, frameworks, and organizational capabilities required to gain competitive advantage, and achieve sustainable growth, utilising customer insights, big data, and proprietary knowledge to achieve a deeper understanding of demand, customers, competitors, and opportunities.

Our seasoned executives and team have a broad range of multibillion-dollar P&L experience delivering long-term growth and optimisation vision, strategies, and management at global Fortune 500 companies.

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