

McKinsey Global Institute



July 2014

Nigeria's renewal: Delivering inclusive growth in Africa's largest economy



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MGI is led by three McKinsey & Company directors: Richard Dobbs, James Manyika, and Jonathan Woetzel. Michael Chui, Susan Lund, and Jaana Remes serve as MGI partners. Project teams are led by the MGI partners and a group of senior fellows, and include consultants from McKinsey & Company’s offices around the world. These teams draw on McKinsey & Company’s global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, act as research advisers.

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McKinsey in Nigeria

McKinsey & Company is a global management consulting firm that helps many of the world’s leading organisations address their strategic challenges, from reorganising for long-term growth to improving business performance and maximising revenue. With consultants deployed in more than 60 countries across the globe, McKinsey advises on strategic, operational, organisational, and technological issues. For more than eight decades, the firm’s primary objective has been to serve as an organisation’s most trusted external adviser on critical issues facing senior management.

McKinsey opened its first office in Africa in 1995 and is playing an active role in the continent’s economic rebirth, making a difference to both individual clients and whole countries. McKinsey has more than 350 consultants working in Addis Ababa, Cairo, Casablanca, Johannesburg, Lagos, Luanda, and Nairobi and has completed more than 2,000 engagements across the continent. Since 2002, McKinsey has helped support the growth and development of Nigeria. Since opening its Lagos office in 2010, McKinsey has completed more than 200 projects in the country, serving a range of private local companies, multinationals, state-owned enterprises, and the public sector.

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Nigeria today ...

The largest economy in Africa and the 26th largest in the world, with GDP of

\$510 billion

Only **14%** of GDP is from resources, with retail and wholesale trade the biggest drivers of GDP growth

Almost **40 million** Nigerians in consuming-class households¹

... but almost **130 million** live below the Empowerment Line²

Road density is **$\frac{1}{7}$** that of India, and power generation capacity is just **$\frac{1}{5}$** that of India

¹ Households with income of more than \$7,500 per year (in purchasing power parity terms).

² The MGI Empowerment Line is defined as the income required to fulfil eight basic household needs at a level sufficient to achieve a decent, if modest, standard of living.

... and in the future

Potential to achieve **7.1%** annual GDP growth could make Nigeria a top-20 economy in 2030, with

GDP of more than **\$1.6 trillion**

... supported by rapid infrastructure expansion through investment of up to

\$1.5 trillion

160 million people in consuming-class households, more consumers than the current populations of France and Germany combined

Potential for **120 million** Nigerians to move above the Empowerment Line and for

70 million to move out of poverty



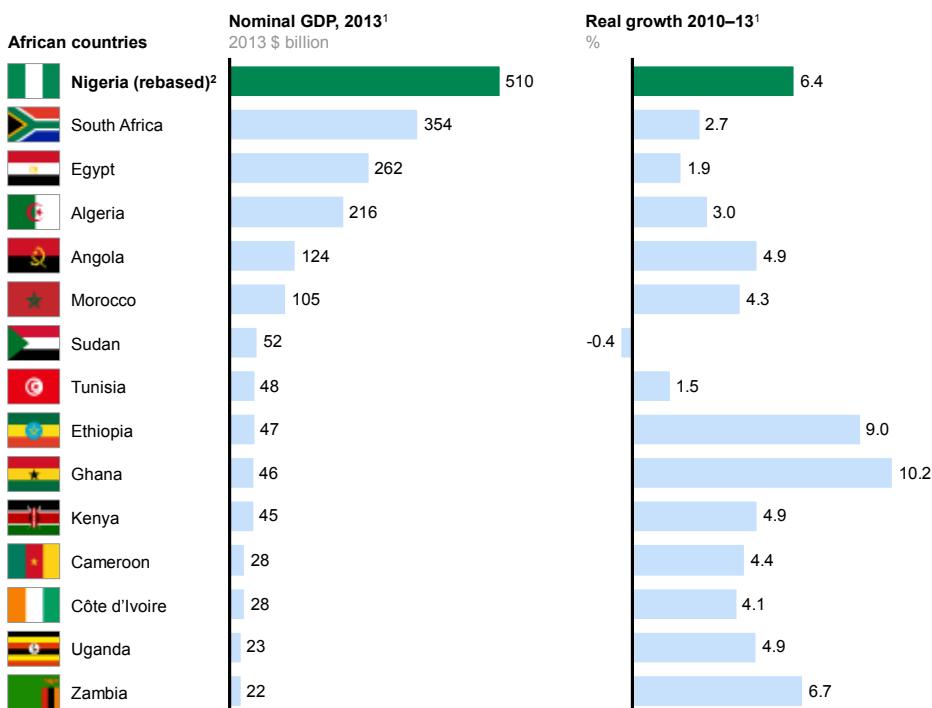
Executive summary

Global investors and business leaders are paying increasing attention to Africa, which is widely regarded as the next frontier for the type of transformative growth that has been seen in Asia in the past two decades. In this report, we assess the immense potential of Nigeria. While global media have focused on violent unrest in parts of the country, less has been written about the significant economic progress that has been made in recent years.

With about 170 million inhabitants, Nigeria has long been the largest nation in Africa, but it is only now also acknowledged as the continent's largest economy. In April 2014, the government began to release "rebased" data that show GDP of \$454 billion in 2012 and \$510 billion in 2013 (compared with the \$259 billion and \$270 billion that were reported previously), confirming Nigeria's lead over South Africa as the continent's largest economy (Exhibit E1).¹ This rebased data, using updated prices and improved methodology, also reveals an economy that is far more diverse than was previously understood.

Exhibit E1

"Rebasing" confirms that Nigeria is the largest economy in Africa



1 Economic data for some countries in 2013 estimated by the International Monetary Fund (IMF).

2 Data for Nigeria rebased GDP are based on basic prices, the headline figure used by the National Bureau of Statistics.

SOURCE: IMF; National Bureau of Statistics; McKinsey Global Institute analysis

1 The government continues to provide further updates on the rebasing exercise. In July 2014, it released another set of updated economic figures for the 2010–2013 period. The 2013 GDP number was basically unchanged (\$509 billion vs. the \$510 billion previously reported), but the reported growth rate from 2010 to 2013 was reduced somewhat (5.0% vs. 6.4%) due to an upward revision of 2010 GDP.

Our report examines how Nigeria can live up to its economic potential and make growth more inclusive, which can bring more Nigerians out of poverty and up to the McKinsey Global Institute (MGI) “Empowerment Line”—a level of income and access to vital services that provides a decent standard of living.² The Empowerment Line, we believe, provides a more realistic picture of well-being and development progress than common poverty measures, which tend to be based on pure income metrics, usually \$1.25 per day in purchasing power parity terms in 2005 prices.

Among the major findings of this research:

- Since 2010, Nigeria’s GDP growth has been driven primarily by improving productivity, which has contributed 55 percent of total growth, more than labour-force expansion.³ Most GDP growth is coming from beyond the resources sector, which is now just 14 percent of GDP. However, historical weaknesses in the agricultural sector and a poorly functioning urbanisation process have prevented most Nigerians from benefiting from this growth. Poverty has barely declined, and approximately 130 million Nigerians, or about 74 percent of the country’s population, live below the Empowerment Line.
- Nigeria has the potential to expand its economy by roughly 7.1 percent per year through 2030, raising GDP to more than \$1.6 trillion in 2030 (Exhibit E2). This could move Nigeria from being the 26th-largest economy today to a top-20 economy by 2030 and would potentially make it bigger than the Netherlands, Thailand, or Malaysia. Trade and infrastructure represent the majority of the growth potential, likely contributing about a third of GDP expansion through 2030.⁴ In addition, we estimate that nearly 120 million Nigerians could move above the Empowerment Line and 70 million could be lifted out of poverty if growth can be made more inclusive than it has been.⁵
- Strengthening government capabilities will be essential to capturing the growth opportunity and making growth more inclusive. On health and literacy metrics, Nigeria lags behind other developing economies that spend a similar proportion of GDP in these areas. By employing well-established global practices to improve delivery of programmes and projects, Nigeria can achieve better results.
- Nigeria is developing a large consuming class. By 2030, some 160 million Nigerians (out of a projected population of 273 million) could live in households with sufficient incomes for discretionary spending. That would be more Nigerian consumers than the current populations of France and Germany

2 The MGI Empowerment Line was created to define a meaningful, economically empowered standard of living. The Empowerment Line is the income required to fulfil eight basic household needs (food, energy, housing, drinking water, sanitation, health care, education, and social security). For further details on the methodology, see *From poverty to empowerment: India’s imperative for jobs, growth, and effective basic services*, McKinsey Global Institute, February 2014.

3 By productivity, we mean GDP generated per worker.

4 Retail and wholesale trade, as defined in the national accounts, which consist of the sale (but not the manufacture) of consumer goods and other products.

5 This is the estimate of the maximum potential for poverty reduction and empowerment, based on the maximum 7.1 percent GDP growth rate and assuming improvements in government delivery of services, rising farm incomes, and more formal hiring in cities.

combined.⁶ Therefore, we estimate that sales of consumer goods could more than triple by 2030, to almost \$1 trillion. To succeed in Nigeria's evolving consumer markets, companies will need to deal with a fragmented wholesale and retail environment that favours local players. New players will need to manage distributors effectively and take a city-level view of markets.

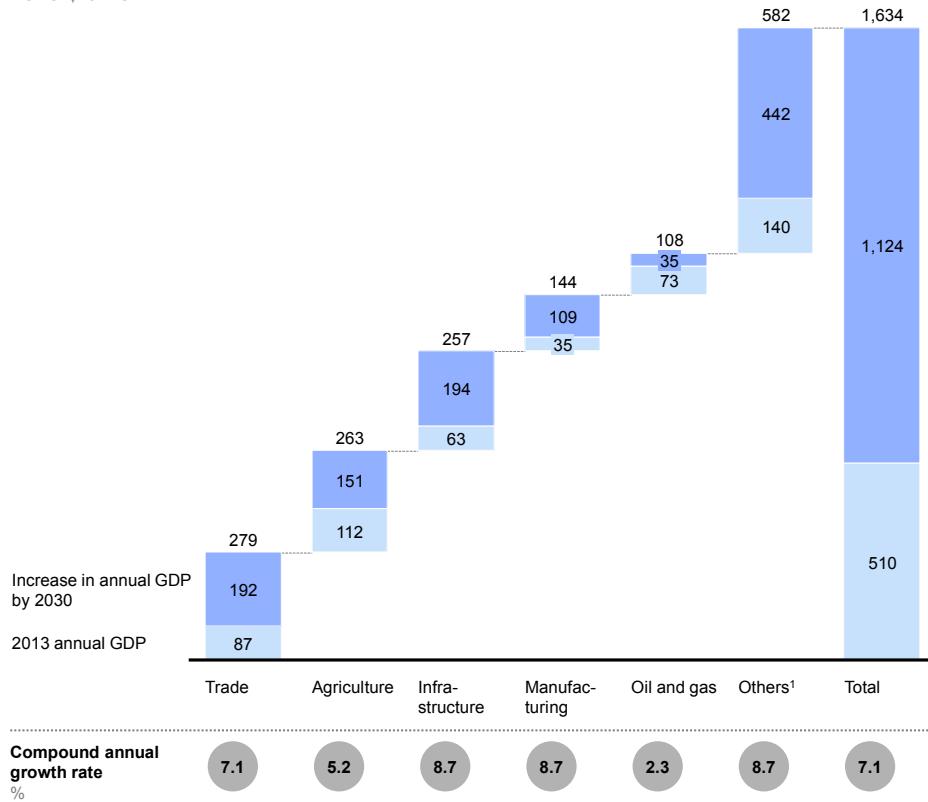
Exhibit E2

Should Nigeria reach its full potential, annual GDP could exceed

\$1.6 trillion by 2030

GDP contribution

2013 \$ billion



¹ Assumes growth rate from 2010 to 2013 will be maintained for these sectors; includes financial and insurance services, real estate, motion pictures, education, health, and other service industries.

NOTE: Numbers may not sum due to rounding.

SOURCE: National Bureau of Statistics; IHS Global Insight; UN FAOSTAT; World Bank; Canback Global Income Distribution Database (C-GIDD); McKinsey Global Institute analysis

6 We define the “consuming class” as households with annual incomes of \$7,500 per year and up. In Nigeria, we use an estimate of average household size of 4.7 people, based on the Canback Global Income Distribution Database (C-GIDD).



Related MGI and McKinsey research



Connecting Brazil to the world: A path to inclusive growth (May 2014)

To raise incomes and living standards, Brazil must accelerate productivity growth. Building new connections with the rest of the global economy could provide the opening to do just that.



From poverty to empowerment: India's imperative for jobs, growth, and effective basic services (February 2014)

India has made encouraging progress in reducing its official poverty rate. But the nation has an opportunity to help more than half a billion people attain economic empowerment and better living standards.



Lions go digital: The Internet's transformative potential in Africa (November 2013)

A majority of urban Africans own Internet-capable devices and go online regularly. If infrastructure investment continues, the Internet could take hold on a much larger scale in the coming decade—potentially adding \$300 billion a year to Africa's GDP.



Africa at work: Job creation and inclusive growth (August 2012)

Africa is the world's second-fastest-growing region, and around 90 million of its households have joined the world's consuming classes—an increase of 31 million in just over a decade. But African economies must create wage-paying jobs more quickly to sustain these successes and ensure that the benefits of growth are shared widely.



Lions on the move: The progress and potential of African economies (June 2010)

Africa's economic growth is creating substantial new business opportunities that are often overlooked. Consumer-facing industries, agriculture, resources, and infrastructure together could generate as much as \$2.6 trillion in revenue annually by 2020, or \$1 trillion more than today.



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