Policy **Brief**

No. **26**

K E Y   P O I N T S

🔒 *The current administration in Nigeria has job creation as an important item on its agenda.*

🔒 *But the adoption of a globally-acceptable methodology recently shows that 76.7% of working-age Nigerians are already working with the unemployment rate at just 4.1%.*

🔒 *The dilemma for the policymaker is whether to shift attention to other socio-economic problems with worse statistics or to critically look at the unemployment numbers again and see how to redefine the targets.*

🔒 *The policymaker should be interested in the type of jobs Nigerians are doing and how well such jobs contribute to meeting their basic needs.*

🔒 *A broader view of the economy should be taken to relate the new unemployment numbers with the macroeconomic objectives of full employment, high and sustainable GDP growth and a low and stable price level.*

When Changes in Employment Methodology Achieves What Planning Cannot:
A Policymaker's Dilemma

Job creation is one of the 'Eight-Point Agenda of the current administration in Nigeria. If achieved in a sustainable manner, it can aid the attainment of the other items on the agenda, namely; food security, poverty eradication, economic growth, access to capital, a level-playing field, improving security, rule of law, and fighting corruption.

The objective of creating jobs and reducing unemployment is found in almost all of Nigeria's plan and strategy documents. For instance, the National Development Plan, NDP (2021-2025) has the goal of reducing the unemployment rate from 33.3% in 2020 to 19.6% in 2025 through the creation of 21 million new full-time jobs. The Nigeria Agenda (NA) 2050 takes this further with the target of reducing the unemployment rate to 9.0% in 2030, 6.5% in 2040, and 6.3% in 2050.

In most of the discussions and analyses that led to setting these targets, it was widely acknowledged that Nigeria would need to be more committed to implementing relevant policies, particularly in human capital development and industrialization for such low unemployment figures to be attained.

Interestingly, however, the National Bureau of Statistics (NBS) recently released the new unemployment figures, using a more globally acceptable definition, which now put Nigeria's unemployment rate at 5.3% and 4.1% for 2022'Q4 and 2023'Q1, respectively. Although not comparable, these figures are far lower than even the 2050 targets.

The new statistics on Nigeria's unemployment rate have generated a lot of debates on whether it adequately reflects the experience of most Nigerians. While such debates are necessary for improved statistical systems in the country, the NBS has equally tried to put forward some arguments in support of its adoption of the new methodology.

These debates notwithstanding, the current reality is that Nigeria's unemployment rate, as reported by the country's statistical authority, is far lower than what we used to know and adopted in setting previous targets.

Now that the figures are lower and even comparable to those of advanced countries, the policymaker's dilemma is whether to shift attention to other socio-economic problems with worse statistics or to critically look at the unemployment numbers again and see how to redefine the targets. The argument in this *Policy Brief* is in favour of the latter option.

The Policy Brief therefore aims to make a case for a review of the country's unemployment target in light of these new figures and to offer some recommendations for consideration in the way the concepts of employment, output, and prices are studied and related in Nigeria.

Methodology Changes and Nigeria's Unemployment Rate

Prior to 2014/2015, any member of the working age population (15-64 years) who did not work for at least 40 hours during the reference week was considered unemployed in Nigeria. In May 2015, a revised methodology was introduced that defined the unemployed as those in the working age population (15-64 years) working below 20 hours or did not work but were searching and available

within the reference week of the survey. The concept of underemployed was also introduced as those working between 20 and 39 hours a week.

Moreover, in August 2023, the NBS further revised the methodology for measuring Nigeria's unemployment in line with the resolutions of the 19th International Conference of Labour Statisticians (ICLS) of the International Labour Organisation (ILO).

The latest methodology expands the scope of the labour force from persons of 15-64 years to those from 15 years and above. It also defines the unemployed as persons who did not work for at least 1 hour in the last 7 days, but are available and searching for work; while the underemployed are those who are employed for 1-39 hours in the reference period but are willing and available for additional hours of work.

The effects of these methodology changes are reflected in Nigeria's unemployment figures. As shown in Figure 1, unemployment rate rose from 21.4% in 2010 to 24.7% in 2013. Following the methodology revision in 2015, an unemployment rate of 6.4% was reported for 2014, with an underemployment rate of 17.9%. These figures increased to 33.3% and 22.8% in 2020 for unemployment and underemployment, respectively. Also, the latest revision shows an unemployment rate of 5.3% and an underemployment rate of 13.7% in 2022'Q4; which reduced to 4.1% and 12.2% respectively in 2023'Q1.

In sum, it is difficult to compare these numbers over time and to determine if consistent or sustainable achievements have been made in job creation and unemployment reduction. For instance, a policymaker that developed unemployment

reduction strategies based on the figures in 2013 would definitely need to revise his/her target in 2014, same for the targets set in the NDP (2021-2022) and NA 2050, which are now rendered irrelevant given the new unemployment statistics.

Cross-Country Comparisons of Unemployment Definitions

The ILO's definition of unemployment adopted by the 19th ICLS includes "all working-age persons **who are not in employment**, but carried out activities **to seek employment** during a specified recent period and are **currently available** to take up employment given a job opportunity". The working age also refers to persons aged 15 and older. This definition also includes the one-hour criterion, that is, persons who work in a job for at least one hour are classified as employed.

Most countries adopt the ILO definition, with slight variations (also see Table 1 in the appendix). In the case of the United States for instance, to be employed, a worker must have been at a job with pay for at least 1 hour or worked at least 15 hours on a nonpaid job (such as the family farm). To be unemployed, a worker must either be on a temporary layoff from a job or have no job but be actively looking for work in the four-week period prior to the reference week.
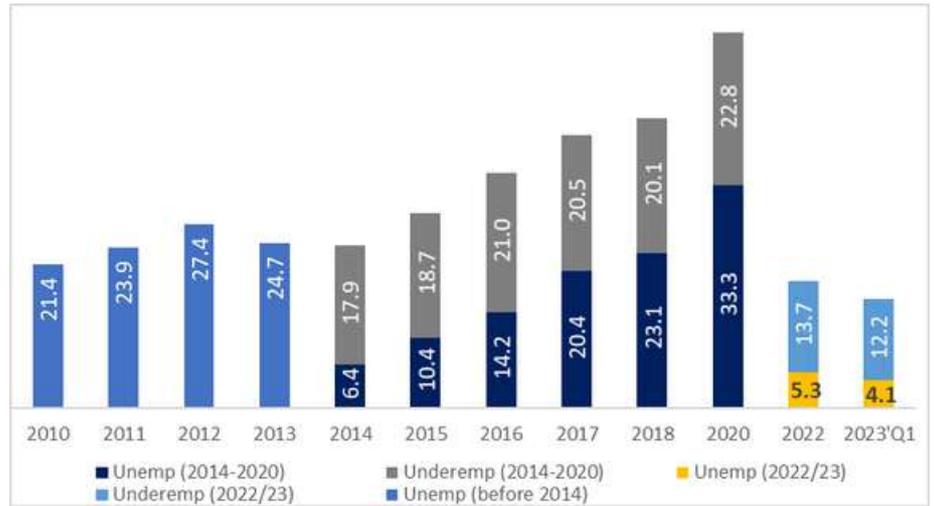

Fig 1: Trend of Nigeria's Unemployment and Underemployment Rates
Source: NBS, ADSR Research

1 WORKING AGE

For most countries, the working age population is the same as ILOs, that is, 15 years and above. Countries such as Egypt, Kenya, South Africa, Thailand, the UK and the US however use 15-64 years as their working age. Also, few countries, such as Ethiopia and Pakistan, include persons aged 10 years and above. Up till 2020, Nigeria's working age was 15-64 years; however, this has just been changed to 15 years and above, just like for many other countries, in line with the ILO definition.

2 HOURS WORKED (UNEMPLOYED)

Most countries also use the definition of working for less than 1 hour to classify the unemployed. The definition for Nigeria was less than 40 hours until 2014 and less than 20 hours from 2014 to 2020. The latest methodology now makes it less than 1 hour.

3 HOURS WORKED (UNDEREMPLOYED)

To be considered underemployed, those of working age must have worked for less than 35 hours in most countries. The few exceptions include the UK (less than 40 hours), Canada and Malaysia (less than 30 hours). Before 2023, Nigeria classified those who worked between 20 to 39 hours as underemployed, but the new methodology uses those working for less than 40 hours that are willing and available for additional hours of work.

4 AVAILABLE & SEARCHING FOR WORK

To be considered unemployed, those of working age must be available and searching for jobs in most countries. However, in Botswana, the unemployed may not necessarily be available and searching for work, while in Ethiopia, they must be available but not necessarily searching for jobs. Some of these countries recognise that people may be discouraged from searching, hence their incorporation as part of the unemployed.

5 PERIOD OF SEARCHING FOR WORK (REFERENCE PERIOD)

For most countries, it is a week before the survey, except for countries such as Egypt, Ghana, Kenya, the United Kingdom, and the United States that use a period of 1 month.

Figure 2 shows the most recently available unemployment numbers sourced directly from each of the respective countries vis-à-vis figures reported by ILO. It is generally observed that the two figures are close to each other, hence the dots are clustered and close to the line of best fit. It is shown that South Africa (SA), Botswana (BW), and Nigeria (NG old) before the latest revision, are the outliers among the selected sample countries. However, the new methodology revision now makes Nigeria (NG new) closer to most of the other countries.

Focusing on Decent Jobs

There is a tendency for the headline of a lower unemployment rate to overshadow some important information contained in the recently released Nigeria Labour Force Survey NLFS (2022'Q4 and 2023'Q1) by the NBS. If not properly examined, this may lead to incomplete information which can be used for or against the effect of a policymaker's actions.

For instance, beyond a low unemployment figure of 4.1% in the first quarter of 2023, the NLFS shows the following key results that should be given critical attention:

- **76.7% of working-age Nigerians are engaged in some type of job for at least one hour a week, for pay or profit:** The policymaker should be interested in the type of jobs these Nigerians are doing and how well such jobs contribute to meeting their basic needs.

- **12.2% are still underemployed:** Measurable targets with timelines need to be set to move most of the people in this category to the employed category.

- **75.4% of those with jobs operate their own businesses or engage in farming activities**: What type of businesses are these Nigerians doing and how well can they be termed as decent jobs?

- **Only 11.8% are in wage employment**: We need to determine the advantage of being in wage employment and the optimal proportion of working-age Nigerians needed in this category.

- **10.6% are engaged in helping (without direct pay or profit) in a household business:** This needs to be unbundled to determine if it is not a form of disguised or hidden unemployment.

- **3.6% of working-age Nigerians are subsistence (own-consumed) farmers**: It will also be important to know the degree of subsistence practice even among those farmers that are classified as commercial.

- **92.6% of workers are employed in the informal sector**: More information is needed on the Nigerian informal sector, whether it has the capacity to achieve the production, revenue, and export diversification that Nigeria desires, and how fast the sector is transitioning to being formal. It is equally important to determine factors pushing and keeping people in the informal sector.
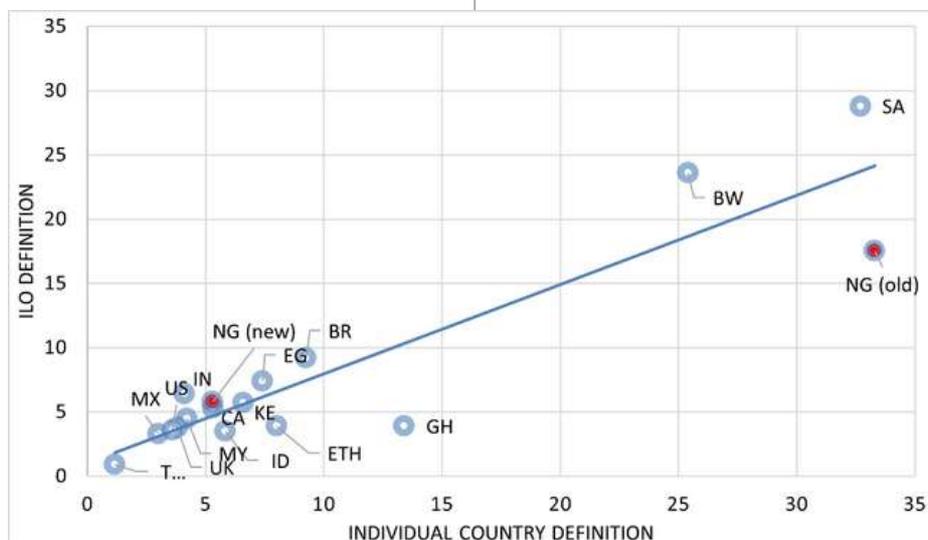

Figure 2: Unemployment Rate Comparison of ILO and Selected Countries
Source: ADSR Research

- **Only 2.2% are engaged as Apprentices/Interns**: Given that apprenticeships and internships provide the opportunity for industry-relevant skill acquisition, the policymaker should be interested in whether this percentage is adequate, or a higher target should be set.

- **20.1% of the working-age population is out of labour force:** The policymaker will also be interested in the characteristics of working-age Nigerians that are out of labour force and the factors contributing to their being economically inactive.

The foregoing themes are among the key implications of the NLFS that a policymaker can use to set new and realistic targets towards qualitative job creation, as against mere quantitative increase in numbers.

Broader Economic Views

Beyond revising the targets set by policymakers on job creation and unemployment reduction, economists, by now, will be trying to juxtapose the new unemployment numbers with their understanding of the fundamentals of the economy, especially as they relate to output, prices and the wage level. Among the questions that may require further inquiry are the following:

- **What is the lowest acceptable unemployment level that the Nigerian economy can sustain without creating inflation?** Economists call this the *natural rate of unemployment.* An economy will be seen to be in full employment when the actual unemployment rate equals its natural rate; the latter ranges between 4% and 6% for most advanced economies. Therefore, it will be beneficial to re-evaluate Nigeria's natural rate of employment in light of the revised methodology, which has produced an unemployment rate of 4.1% and an underemployment rate of 12.2%.

- **What is Nigeria's potential GDP and its determinants?** Defined as the value of output when labour and capital are fully utilised and the economy is at a stable inflation rate. At full employment, where unemployment is at its natural rate, a country's actual and potential GDP will be the same. However, an 'inflationary gap' will exist when the unemployment rate is lower than

expected. Given Nigeria's low unemployment rate in the presence of slow growth and high inflation, a likely question is whether Nigeria's natural unemployment rate is relatively low; hence, trapped in a low growth situation or whether the solution for raising the country's output lies in reducing its underemployment rate.

- **What is therefore the relationship between Nigeria's unemployment and inflation rates?** Economists explain this using the Phillips curve, showing that unemployment and inflation move in opposite directions. At a low unemployment rate, inflation is expected to be high. It will, therefore, be crucial to determine whether the current high inflation environment contributes to the relatively low unemployment rate. What will then be the impact of the current effort to reduce inflation on unemployment?

- **What is the implication of a low unemployment rate for GDP growth?** According to Okun's law, a reduction in unemployment tends to be accompanied by an increase in GDP growth. Depending on where Nigeria's natural rate of unemployment lies, and its drivers, a relatively low unemployment figure in the face of high inflation implies that sustainable GDP growth will require more than a quantitative increase in the number of jobs, but more of productivity growth, i.e., output per hour of work, which is dependent on capital investment.

- **What is Nigeria's labour supply and how is it distributed across sectors and other social-economic groups?** Labour supply captures the total hours that workers are willing to work at given wage rates. This requires information on the size of the Nigerian labour force, the number of persons employed and the average hours worked; preferably disaggregated by sectors and other socio-economic groups. Such information are relevant in the determination of the average wage rates, reservation wage (point at which Nigerians are indifferent between working and not working), elasticity of labour supply (change in the labour supply caused by change in wage rates) as well as the income and substitution effect of wage increase (degree to which workers are willing to sacrifice leisure for work).

Conclusion

The NBS has revised Nigeria's unemployment methodology and statistics in line with the global best practices. But the new figures are not comparable with the previous ones, hence, it is difficult to measure the progress made by the policymakers in reducing the country's unemployment rate.

For a government that has job creation as an important item on its agenda, this non-comparability and the fact that the majority of working-age Nigerians are already engaged in some type of job suggests that the policymaker needs to pay more attention to the quality, as against the quantity of the jobs to be created.

In setting new targets for job creation and unemployment reduction, the policymaker needs to pay due attention to the type of jobs that the working-age Nigerians are doing, as well as the proportions of those in the underemployed, waged employment and informal sector categories.

In addition, the unemployment figures cannot be analysed in isolation; thus, a comprehensive analysis of the Nigerian labour market needs to be conducted to establish the relationship with other key macroeconomic objectives, especially the attainment of high and sustainable GDP growth and a low and stable price level.

The statistical authority has done its job based on the relevant methodology, it is now left for the policymaker to interpret, interrogate and use the figures in a manner that serves the country's development agenda.

APPENDIX

Table 1: Methodology Comparison between ILO and some Countries

Countries	Work hours for unemployed	Work hours worked for underemployed	Working Age	Available and searching for work
Nigeria (Before 2014)	Less than 40hrs	-	15-64 years	-
Nigeria (2015-2020)	Less than 20hrs	20-39hrs	15-64 years	✓
Nigeria (2023)	Less than 1hr	Less than 40hrs	15 years and above	✓
ILO (2013)	Less than 1hr	-	15 years and above	✓
Botswana (BW)	Less than 1hr /	Less than 35hrs	12 years and above	-
Brazil (BR)	Less than 1hr /	Less than 40hrs	16 years and above	✓
Canada (CA)	Less than 1hr /	Less than 30hrs	15 years and above	✓ +
Egypt (EG)	Less than 1hr	-	15 -64 years	✓
Ethiopia (ETH)	Less than 1hr /	-	10 years and above	✓ *
Ghana (GH)	Less than 1hr /	Less than 35hrs	15 years and above	✓ *
India (IN)	Less than 1hr	-	15 years and above	-
Indonesia (ID)	Less than 1hr /	Less than 35hrs	15 years and above	✓ *
Kenya (KE)	Less than 1hr /		15-64 years	✓
Malaysia (MY)	Less than 1hr /	Less than 30hrs	15 years and above	✓
Mexico (MX)	Less than 1hr /	-	15 years and above	✓
Pakistan (PK)	Less than 1hr	Less than 35hrs	10 years and above	✓
South Africa (SA)	Less than 1hr /	Less than 35hrs	15-64 years	✓ *
Thailand (TH)	Less than 1hr /	Less than 35hrs	15-64 years	✓
United Kingdom (UK)	Less than 1hr /	Less than 40hrs	16-64 years	✓
United States (US)	Less than 1hr /	Less than 35hrs	15-64 years	✓

Note:
* includes those who may be available for work but not necessarily searching because they are discouraged
+ consists of those on temporary layoff
/ not specifically stated, but less than 1 hour assumed given their respective definitions.

Source: ADSR Research

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