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Urbanization without structural transformation in Lagos, Nigeria

Abiodun O. Folawewo*

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Abstract: This study examines the relationship between urbanization and structural transformation in Lagos. Specifically, the study focuses on spatial distribution of economic activities, and the patterns and drivers of, as well as constraints to, structural transformation in the city of Lagos from a political settlement perspective. Both quantitative and qualitative analytical techniques are applied to data derived from primary and secondary sources. Findings show a significant variation in spatial distribution of business establishments in Lagos, with dominance of the services sector in terms of share of establishments and employment. This is reflected with varying degree in the large informal employment across the city. Although there is a shift from agriculture, there is little or no structural transformation as the movement is largely into the low-productive services sector with moderate movement into manufacturing. The dominance of services establishment and employment shares suggests that even though Lagos has booming economic activities, these activities are low-income generating with low capacity for labour employment and productivity growth. It is also found that the ‘narrow-concentrated’ pattern of political settlement of the city coupled with other factors have effects on economic activities and structural transformation in the city.

Key words: employment, productivity, urbanization, structural transformation, Lagos

JEL classification: O11, R10, R11

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* Department of Economics, University of Ibadan, Ibadan, Nigeria; email: abiodun.folawewo@gmail.com; ao.folawewo@mail.ui.edu.ng

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1 Introduction

Nigeria has witnessed tremendous movement of people (labour force) away from rural areas and agriculture activities to urban centres over the years, leading to increased urbanization. Though the rapid urbanization has resulted in decline of importance of the agriculture sector for its contribution to gross domestic product (GDP) and its share of employment and productivity, it has not led to structural transformation. For example, value-added contribution of the agriculture sector declined significantly from an average of about 60% between 1960 and late 1970s to about 24.2% between 1981 and 2021. Manufacturing value-added contribution to GDP also fell from an average of about 20.1% between 1981 and 1995 to 12.6% between 1996 and 2021. On the other hand, services sector contribution has maintained consistent rise with an average of about 46.3% from 1981 to 2021. Similarly, employment in agriculture as share of total employment surpassed that of both industrial and services sectors between 1981 and late 1990s; however, services employment has risen above employment in other sectors since 2001, with an average of about 50.8% between 2011 and 2021, while the share of manufacturing employment remained significantly low at an average of about 14.0%.

While urbanization has brought about shift of labour from the agriculture sector, it has also led to rising services sector employment with little effect on manufacturing in Nigeria. Urbanization has also boosted development of the informal sector that is largely populated with low-productive services and economic activities. The significant increase in services activities has contributed to economic growth without translating into reduction in unemployment and poverty as well as improvement in welfare. Consequently, movement of labour away from agriculture and increasing urbanization have neither yielded industrial growth nor increased the share of manufacturing employment. This has made effective structural transformation elusive in the country (Adam 2005; Anyanwu 1992; Bangura 1991; Lall and Wangwe 1998; Obadan and Ekuehara 1989; Okereka 2015; World Bank 2021).

With a landmass of about 3,500 km² and an estimated population of about 22 million, Lagos is the most densely populated state in Nigeria with a population density of approximately 8,000 persons/km², which is about 40 times Nigeria's average of 200 persons/km² (Lagos State Ministry of Economic Planning and Budget 2022). The city of Lagos is the largest city in West Africa and third in Africa. Lagos state as a whole, comprising 20 local government areas (LGAs) and 37 local council development areas (LCDAs), plays a significant role in the national economy and that of sub-Saharan Africa. Lagos is home to most of Nigeria's manufacturing firms, as well as many service industries such as finance, information and communication technology (ICT), construction, and others. According to Budget (2018) and Lagos State Ministry of Agriculture and Food Systems (2022), the state accounts for around 27% and 50% of national GDP and non-oil GDP, respectively. It also contributes more than 80% and 50% of the national foreign trade and national port incomes. According to the Lagos Bureau of Statistics, the state's GDP rose from an estimated value of US\$91.04 billion in 2010 to US\$145.14 billion in 2016 and about \$157.73 billion in 2018. Apart from contribution to Nigeria's GDP, Lagos state is also the highest revenue-generating state among the 36 federating states and the federal capital territory. For example, out of the 625 billion naira (₦) value-added tax generated by the Federal Government of Nigeria (FGN) in Q3 2022, about 50% was realized from Lagos. Hence, Lagos is ranked fourth among African cities behind Johannesburg, Cape Town, and Cairo. In Nigeria, the state accounts for more than 70.2% and 58.3% of international and domestic air travel traffic, respectively.

Over the years, economic and commercial activities in Lagos have continued to boom. The boom in economic activities has served as an impetus for migration of people from different parts of the

country into Lagos, leading to its large population size and the large urbanization of the city. However, due to sluggish expansion of the industrial sector, economic activities in Lagos are dominated by trade and commerce mainly by micro, small, and medium enterprises, majority of which are domiciled within the informal sector. Thus, like many African cities, Lagos, has evolved over time to become a highly urbanized city with little or no structural transformation, and without corresponding rise in income and welfare of residents, as many of them are engaged in low-productive informal activities.

Owing to the potential of structural transformation in fostering economic diversification and inclusive growth, understanding the drivers of structural transformation at the city level is of utmost policy importance. It is also critical to understand the patterns of structural transformation in Lagos and the implications for inclusive growth and welfare (McMillan and Headey 2014). Consequently, economic growth and structural transformation in Lagos is expected to yield a big pay-off in the form of rent.

We present the results from the study of structural transformation in Lagos metropolitan city. In particular, the study uses quantitative and qualitative methods to examine the spatial distribution of economic activities, the patterns of structural transformation, and the drivers of, and constraints to, structural transformation in the city of Lagos. It also focuses on the configuration of power within Lagos and its interactions with national/city political settlements and institutions, and how they shape structural transformation and sustainable development of Lagos.

1.1 Political settlement and the Lagos city business environment

It is often said that the economy cannot be divorced from politics, as political outcomes shape economic development. The pattern of political and economic governance in Lagos demonstrates various features of the ‘narrow-concentrated’ political settlement type defined in Kelsall et al. (2022). Just as economic transformation and development can be aided by good political structure, a bad political settlement/structure can hinder the process of economic development (Osei et al. 2022). Economic development and structural transformation in Lagos, also known as the ‘Centre of Excellence’, has been greatly influenced by political factors both nationally and in the city over the years (Filani 2012). Lagos was the administrative base of Nigeria’s colonial ruler, Britain, and served as the capital city of Nigeria until it was changed to Abuja in 1991. Since the return of democratic governance to the country on 5 May 1999, Lagos has continued to be ruled by the progressive party first for eight years under Senator Bola Ahmed Tinubu on the platform of Alliance for Democracy and Action Congress of Nigeria (ACN), and then by Governors Babatunde Raji Fashola and Akinwumi Ambode (ACN and All Progressive Party (APC)).

Until 2015, when Governor Akinwumi Ambode came into power as the executive governor of Lagos state under the APC, which also controlled the national government, Lagos used to be governed by the opposition party. Between 2003 and 2007 when Lagos was governed by Tinubu under the ACN party, it was the only southwest state being ruled by the opposition party. The FGN led by President Olusegun Obasanjo of the People’s Democratic Party (PDP) did everything possible to stifle Lagos of economic survival in a bid to win over the state to the side of PDP that was at the helm of affairs at the national level. For example, when the existing 37 LCDAs were created in 2003 by the government of Bola Tinubu of the ACN, the FGN refused to release the monthly revenue allocation to Lagos, because the creation of the LCDAs was seen as unconstitutional. Despite pleas for the release of the allocated revenue belonging to state and the legally recognized 20 LGAs in the state, the FGN held on to the allocation for several years, claiming that the LCDAs must be cancelled. However, instead of snuffing life out of Lagos, the state government stood its ground and embarked on an aggressive internally generated revenue drive for survival. The outcome of this is the tax burden on businesses, which has negatively

affected economic activities and the pace of economic growth and structural transformation in the city.

The stiff political power play between the state and the FGN led to a re-engineering of the state and laid the foundation for the marginal levels of structural transformation and economic development being witnessed today. First, as a means of buying the confidence of the citizens and voters in Lagos, the Tinubu administration felt strong pressure from the media and the citizens on the need to address the city's problem. The administration faced this challenge by concentrating on building schools and providing extensive free health services. Under the Tinubu administration, the Lagos State Ministry of Economic Planning and Budget was created in June 1999 out of the erstwhile Plans, Programmes and Budget Bureau with the aim of empowering the ministry to prepare a solid development plan for the state. Thus, the government was able to bring about improvement in welfare of the citizens. As a result, despite political manoeuvring by the FGN, ACN was able to win the state gubernatorial election in 2007, that saw the emergence of Babatunde Raji Fashola as the governor of Lagos. On assumption of office in 2007, Fashola's administration embarked on aggressive infrastructural development which attracted more investment into Lagos and spurred rapid expansion of economic activities.

The stable governance system aided by the narrow-concentrated political settlement has helped develop and strengthen political and economic institutions in Lagos. This has further laid a pattern of continuity in the economic development planning and policy implementation for the state, with each successive governor right from the Tinubu era following what is known as the 'Lagos Development Blue Print'. The effect of this has been the creation of an environment that attracts investors to the state and facilitates economic activities and businesses. Thus, Lagos has continued to witness a boom in economic activities and growing job creation, with bulk of the jobs domiciled in small and medium enterprises within the informal sector.

Since the days of the Tinubu administration, the political configuration of Lagos has changed drastically, especially in the area of economic stakeholders' influence. While the Tinubu administration embarked on empowerment of informal sector groups, such as the National Union of Road Transport Workers (NURTW), Road Transport Employers Association of Nigeria (RTEAN), market trader associations, and the various artisan unions, Fashola built on this and strengthened the organized private sector (OPS), business membership organizations (BMOs) and government relationship. Within the state structure, the LGAs and LCDAs are very active with complementary development efforts of the community development associations. The present Sanwo-Olu administration, which came into power in 2019, has continued with the political structure of the state and even fostered it.

One notable effect of the change in the political configuration is the active participation of the different groups in the socio-economic development of Lagos. The OPS and BMOs are able to build more confidence in the government and hence lead to increased investment, boost in production, and other commercial activities. These account for the continuous rise in economic activities and number of business establishments in such areas as Ikeja, Eti-Osa, and Lagos Island. Thus, political factors have bolstered economic development and enhanced the degree of structural transformation in Lagos. However, the importance given to some of the informal groups such as NURTW and the RTEAN has emboldened them in their disruptive activities, causing volatility in the business environment.

Further more, the political structure in Lagos has given rise to a situation in which economic deal space is closed especially to those outside of the party that controls power in the state. In most cases, business organizations often face bottlenecks to get things done, especially transactions that have to do with government agencies and institutions without having connections with power

brokers within the governing party. This has limited the growth of businesses, and hindered the pace of economic development and structural structural transformation.

2 Research design and methodology

The examination of structural transformation in Lagos is done using an eclectic approach involving a mixture of different analytical techniques covering both quantitative and qualitative methods. Owing to the lack of time series data at the city level in Lagos, this study exploits available cross-sectional datasets using administrative data from the Lagos Chamber of Commerce and Industry (LCCI), general household surveys, and national living standards surveys to construct relevant indicators to proxy structural transformation at the city level for Lagos. To understand the patterns of economic activities and structural change at the city level, we compute and discuss relevant indicators such as location quotients (LQs), share of manufacturing employment, and capital productivity at the sub-city level. The LQ figures present a quantitative assessment of the degree of specialization and concentration of economic activities within each sector at sub-city level. The shares of employment and capital productivity across sectors over time paints a general picture of structural transformation (the movement of labour to high productivity sectors) at the city level.

The data used for the study are derived from secondary and primary sources. Specifically, quantitative analysis is based on secondary data obtained from the membership database of LCCI, National Bureau of Statistics (NBS) General Household Survey (GHS) panel dataset for 2010/11, 2012/13, 2015/16, and the National Living Standards Survey (NLSS) 2018/19. Information for Lagos households is extracted from the GHS panel dataset and the NLSS. The qualitative analysis is based on primary data obtained through key informant interviews conducted for relevant economic stakeholders in Lagos across government/public sector, organized private sector, business enterprises, media, academia, and informal sector. The qualitative analysis focused on understanding the constraints to structural transformation from a political settlement perspective.

3 Analysis and findings

This section contains findings from analysis of the data collected on structural transformation in Lagos. Thus, analysis of scope and patterns of structural transformation, drivers and constraints, and the political economy are presented.

3.1 Scope and pattern of structural transformation

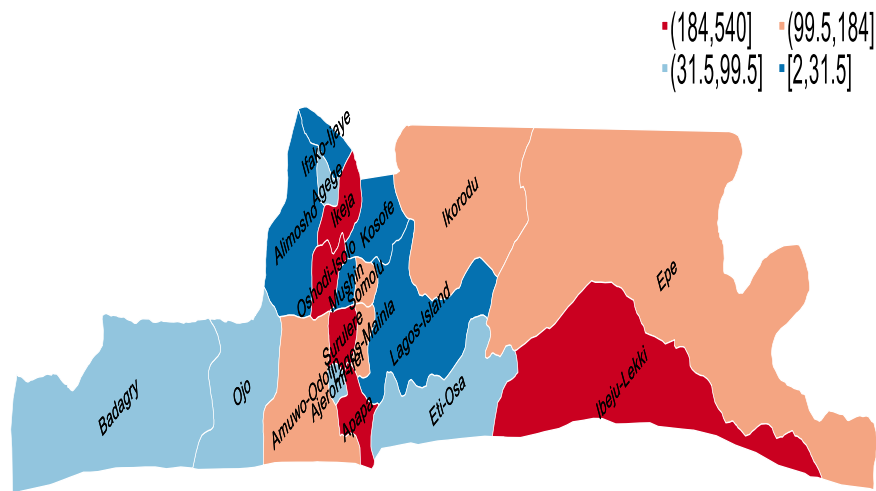
In this section we use data from the LCCI membership directory, NBS, GHS panel dataset for 2010/11, 2012/13, 2015/16, and the NLSS 2018/19 to examine the spatial distribution of economic activities and the patterns of structural transformation in Lagos.

Spatial distribution of economic activities

There is marked variations in the spatial distribution of business establishments in Lagos metropolitan city. Using the LCCI directory that covers 2,707 business establishments, a cursory look at the spatial distribution of business enterprises across the 20 LGAs in Lagos reveals that Ikeja has the highest concentration of economic activities as it hosts 540 (20.0%) of the business enterprises, followed by Eti-Osa with 502 (18.5%) and Lagos Island with 221 (8.2%), while Epe takes the rear position with 2 (0.1%) (Figure 1, derived from Appendix Table A1). The concentration of business firms in Ikeja can be adduced to the fact that it is the capital of Lagos

state and has several industrial layouts that house majority of industrial and manufacturing firms. Ikeja also hosts a major international airport, the Murtala Muhammed Internal Airport, as well as two domestic airports, thus, serving as the gateway to the country. Similarly, Eti-Osa is home to Ikoyi and Victoria Island, which are the high-brow centres of the state where majority of business organizations, especially the banks have their corporate headquarters, and Apapa is where the seaports in the country are found, while Lagos Island is where major merchandise markets are located. Further, the structure of Lagos is such that each geographical areas and districts have peculiar and unique characteristics in terms of business activity and economic clusters. For example, Alaba is known for electronics and automobile parts sales, Ikeja is known for industries and Ikorodu and Epe are known for agricultural produce and farming.

Figure 1: Number of establishments



Source: generated based on data from LCCI membership directory.

The distribution of economic activities across a broad category of economic sectors in Table 1 shows that the agriculture sector accounts for a total of 146 (5.4%) of the entire business enterprises, manufacturing for 207 (7.6%), and the services sector takes the bulk of economic activities with 2,354 (87.0%) enterprises. The distribution of economic activities suggests a move away from agriculture-related activities towards manufacturing and services, which is in line with the postulates of structural transformation. However, like at the national level, there appears to be a sort of leapfrog, as the evolution of the industrial sector has not fully materialized before the big boost in the services sector. At sub-city level, Ikeja has the highest shares of business firms across agriculture, manufacturing, and services sectors, followed by Eti-Osa and Lagos Island (Appendix Table A2). Epe has no agriculture and manufacturing-based business establishments and has the least shares of services-based firms.

Table 1: Sectoral classification of economic activities

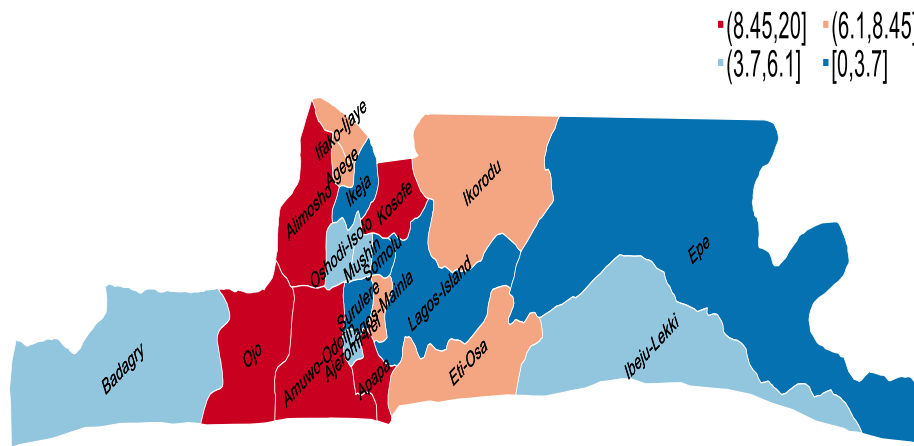
Sector	Number of establishments	Percentage
Agriculture	146	5.4
Manufacturing	207	7.6
Services	2,354	87.0
Total	2,707	100.0

Source: LCCI membership directory.

Turning to spatial distribution of agriculture and agro-allied business enterprises at the sub-city level, the LQ is used to show the degree of concentration for agriculture at the city level. Owing to unavailability of sectoral sub-city level employment data, the LQ for each sector is derived as

the shares of sub-city establishments to the total number of sector establishments for Lagos. Figure 2 shows that Ikeja, Eti-Osa, Lagos Mainland, and Surulere have an LQ greater than one, indicating that they have higher concentration for agriculture establishments than other LGAs with an LQ less than one.¹

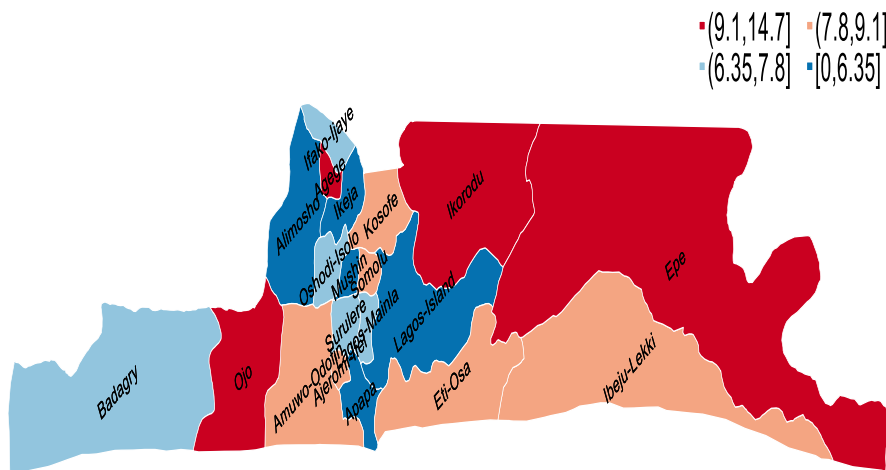
Figure 2: Location quotient for agriculture



Source: generated based on LCCI membership directory.

The distribution of manufacturing establishments (Figure 3) indicates a large concentration of firms that are engaged in manufacturing activities in Ikeja, Eti-Osa, Ibeju-Lekki, Lagos Island, Alimosho, Apapa with LQ greater than one, whereas Agege, Ajeromi-Ifelodun, Badagry, Epe, and Ifako-Ijaye are among the least concentrated having an LQ less than one. A similar pattern is observable for the distribution of services establishments (Figure 4).

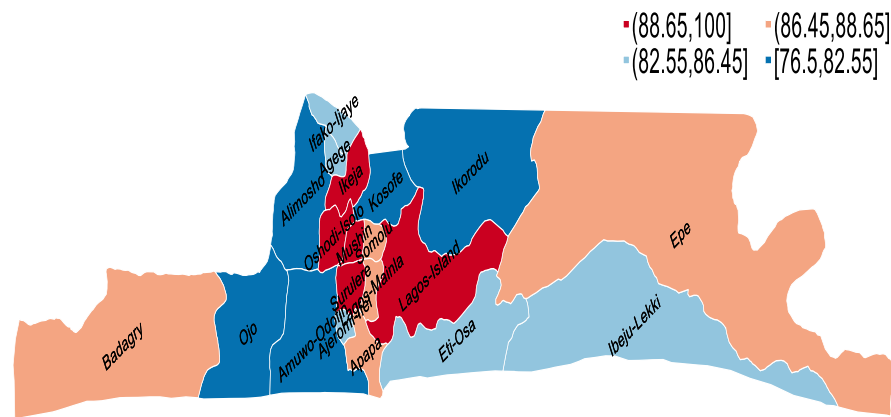
Figure 3: Location quotient for manufacturing



Source: generated based on LCCI membership directory.

¹ All the figures in the map keys are in tens; that is, they are multiplied by 10 to reduce the decimal numbers. Thus, the actual figure is obtained when the numbers are divided by 10. This is also applicable to Figures 2–4.

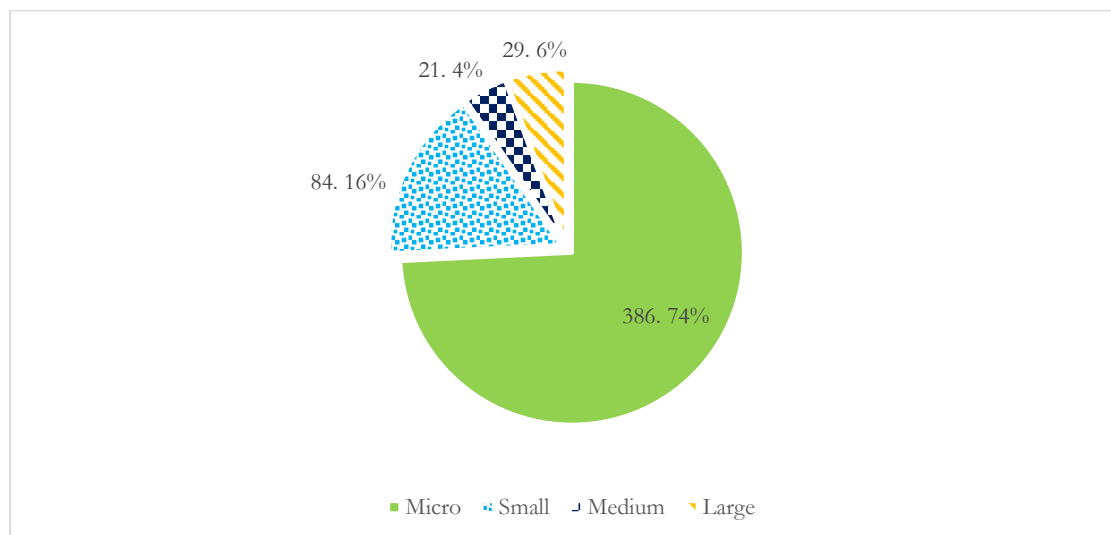
Figure 4: Location quotient for services



Source: generated based on LCCI membership directory.

We further examine the nature of firms in Lagos in terms of their sizes to determine their employment capacity and production using the LCCI dataset. Out of the 2,707 establishments in the LCCI directory, only 520 (19.2%) have information on their capital base and 43 (1.6%) have information on the number of employees without sales turnover information. Thus, the firms are categorized into different sizes based on their assets (capital). The firms are classified into different sizes in line with NBS and the Small & Medium Enterprises Development Agency of Nigeria (SMEDAN) classification of business enterprises. Both the NBS and SMEDAN classified firms with an asset base (capital) of less than 10 million naira (₦10,000,000 ≈ US\$13,514) as micro, those with assets between ₦10,000,00 and ₦100,000,000 (approximately US\$13,514–US\$135,135) as small, those with assets between ₦101,000,00 and ₦500,000,000 (US\$135,136–\$675,675) as medium, and enterprises with more than ₦500,000,000 (above US\$676,000) as large.² Based on this classification, it is found that 386 (74.2%)—the majority—business establishments with information on capital base (investment) are micro, 84 (16.2%) are small, 21 (4.0%) medium sized, and only 29 (5.6%) are large-scale firms (Figure 5).

Figure 5: Classification of business enterprises by size



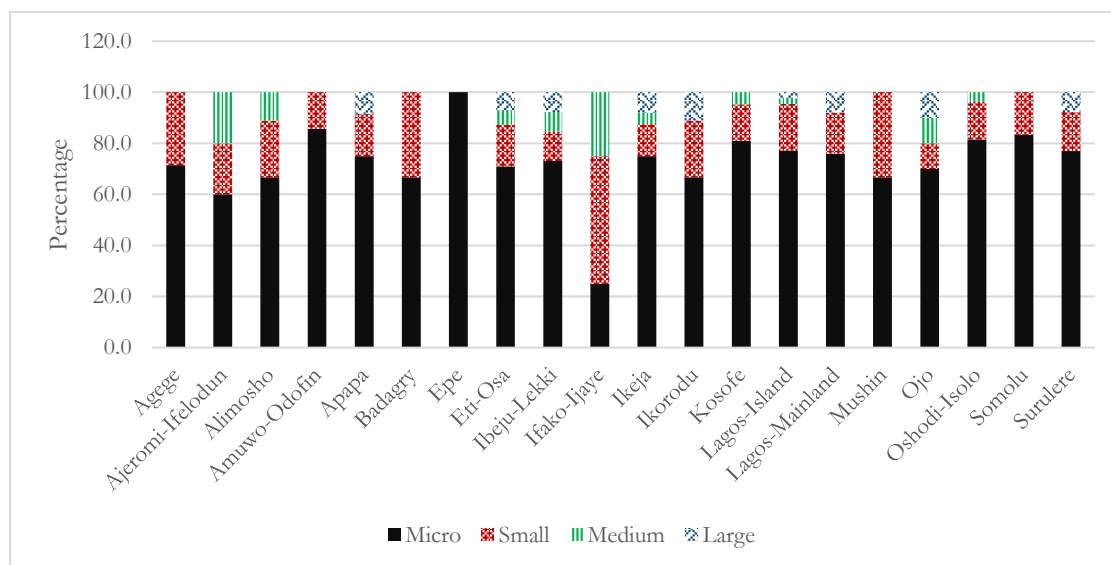
Source: author’s calculation based on the LCCI membership directory.

² As at the time of data collection, Nigerian naira exchange rate to US dollar was US\$1=₦740.

Only 55 (2.0%) of the entire 2,707 business enterprises covered by this study export their goods and services whereas the remaining 98% engaged in domestic economic activities. The nature and distribution of businesses and economic activities in Lagos has implications for structural transformation in Lagos state at large, and particularly Lagos metropolitan city. First, the dominance of micro and small enterprises suggests that even though Lagos has booming economic activities, these activities are low-income generating with low capacity for labour employment. This accounts for the large number of city residents engaged in informal activities.

Across the city, more than half of business firms in all the LGAs are micro except for those in Ifako-Ijaye that has just about one-quarter of its business enterprises being micro (Figure 6). Small- and medium-scale business establishments are found more in Agege, Badagry, Ifako-Ijaye, and Mushin, whereas the existing few large-scale firms are located around Apapa, Eti-Osa, Ikeja, Ikorodu, Lagos Island, Lagos Mainland, Ojo, and Surulere.

Figure 6: Spatial distribution of business enterprises by size



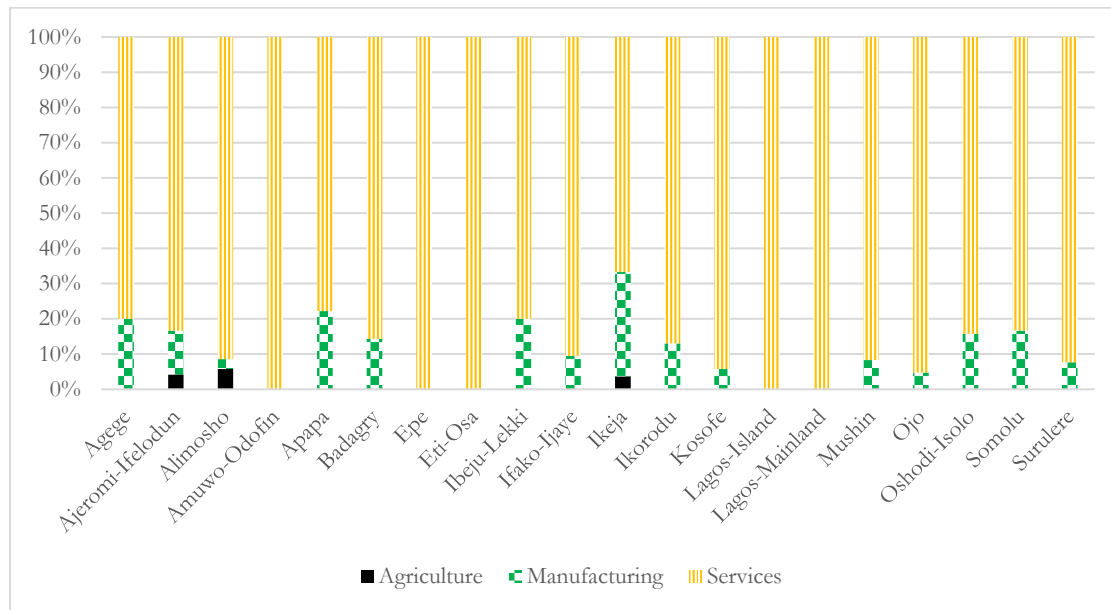
Source: author's calculation based on the LCCI membership directory.

Pattern of structural transformation at city level

Structural transformation in an economy is also reflected in resource allocation, as resources are expected to shift from low productive and primary sector to modern sectors such as industry and services, indicating an economy is being transformed. Consequently, we take a deeper look at the pattern of structural transformation by considering sectoral employment shares across sub-city level. The distribution of labour employment by economic activities and sectors is not easily derived from a single data source; hence, available information on Lagos is extracted from the GHS panel dataset for 2010/11, 2012/13, 2015/16, and 2018/19 and the NLSS 2018/19.

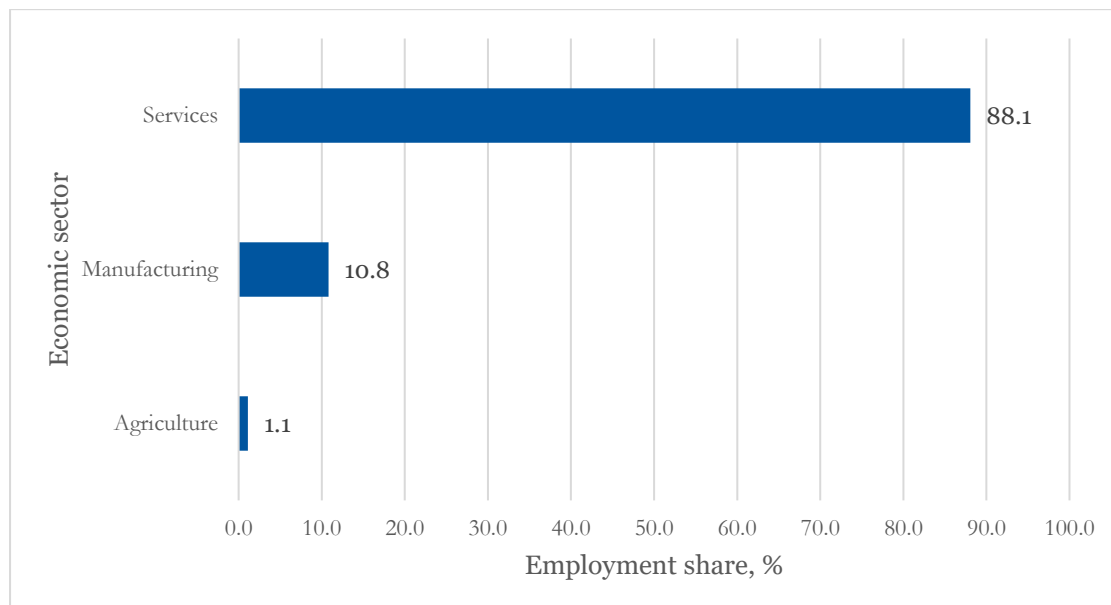
First, using the NLSS 2018/19 data, the spatial distribution of sectoral employment share shows that agriculture and agro-allied employment could only be found in three LGAs: Ajeromi-Ifelodun with 4.2%, Alimosho with 5.7%, and Ikeja with 3.7% employment share (Figure 7). Manufacturing employment has the highest concentration in Ikeja (29.6%), Apapa (22.2%), Agege and Ibeju-Lekki with 20.0% each, and Somolu (16.7%). On the other hand, all employment in Amuwo-Odofin, Epe, Eti-Osa, Lagos Island, and Lagos Mainland is found in the services sector, which is not unexpected as these areas are known to serve as residence of headquarters of major financial institutions. On average, the services sector has the highest employment share (88.1%) and agriculture has the least share of 1.1% (Figure 8).

Figure 7: Spatial sectoral employment share



Source: author's illustration based on NLSS 2018/19.

Figure 8: Average sectoral employment share



Source: author's illustration based on NLSS 2018/19.

In terms of changes in the sectoral employment shares over time, using the GHS data for 2015/16 and 2018/19, employment share of agriculture rose marginally by 5.0% from its level in 2015/16 to 0.5 in 2018/19, while the employment share of manufacturing in 2018/19 almost doubled its share from 2015/16. On the other hand, services employment fell by 7.8% in 2018/19 to 85.0 from its 2015/16 share of 92.2% (Table 2).

Furthermore, given the extent of informality of Lagos economy, we look at the employment share between the formal and informal sectors using the NLSS 2018/19 data. Across the city, the spatial distribution of employment share indicates that apart from Lagos Island with 80.0% and Epe with 62.5% of formal sector employment, all the LGAs in Lagos predominantly have informal employment (Figure 9). The average employment shares in Lagos shows that 80.6% of available

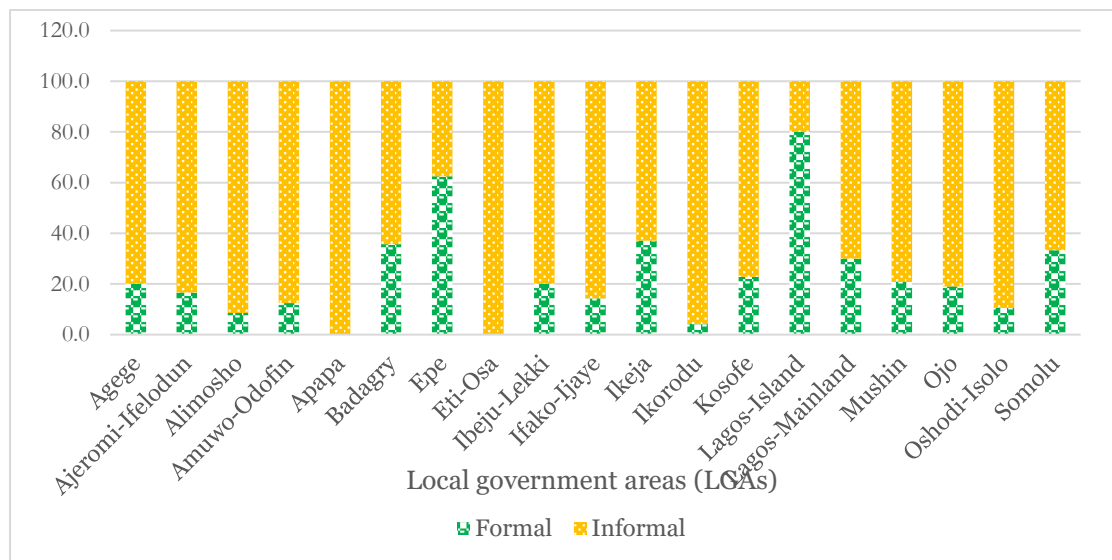
employments to households were domiciled in the informal sector whereas only 19.4% could be found in the formal sector (Figure 10). This suggests that a greater percentage of jobs in Lagos are precarious and low-wage and could be classified as not decent. This has implications on livelihood and standard of living of residents in the city.

Table 2: Changing sectoral employment share (%)

Economic activity (broad sector)	2015/16	2018/19	Average
Agriculture	0	0.5	0.3
Manufacturing	7.7	14.5	11.1
Services	92.2	85	88.6

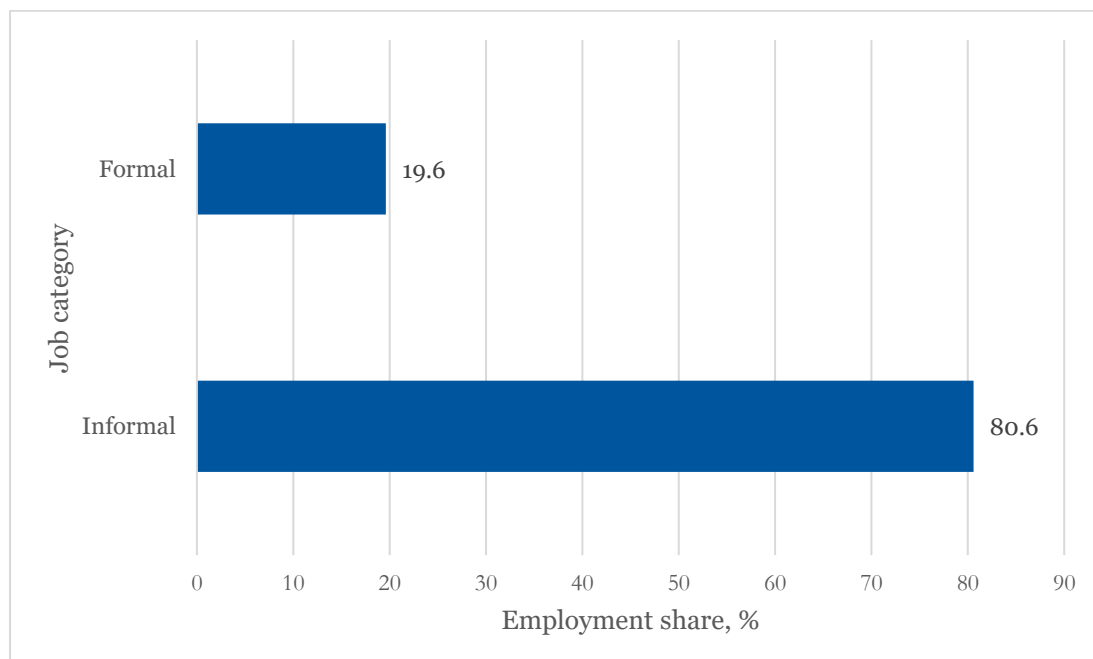
Source: author's calculation based on the GHS panel dataset.

Figure 9: Spatial formal–informal employment share



Source: author's illustration based on NLSS 2018/19.

Figure 10: Average formal–informal employment share



Source: author's illustration based on NLSS 2018/19.

A further probe into the distribution of employment within job categories reveals that wage employment (both formal and informal) continued to expand over the years with an average growth rate of 21.0% over the entire four waves of the GHS (Table 3). Although self-employment in non-agriculture businesses that cover all forms of services, commerce, and petty trading declined over time, it remains a significant source of employment. On the other hand, self-employment in agriculture-related activities has continued to decline over time. Also, the relatively low and insignificant share of self-employment in agriculture is not unexpected given the cosmopolitan and urbanized nature of Lagos. In all, since the bulk of self-employment is domicile within the informal sector, this reinforces the dominance of informal employment in Lagos.

Table 3: Distribution of employment across job categories (%)

Job category	2010/11	2012/13	2015/16	2018/19	Average growth
Wage employment	30.7	35.2	32.5	50.8	21.0
Self-employment (agriculture)	4.9	3.8	3.8	1.6	-27.5
Self-employment (non-agriculture businesses)	64.3	61.0	63.8	47.6	-8.6
Total	100.0	100.0	100.0	100.0	

Source: author's calculation based on the GHS panel dataset.

Generally, the implications of the employment share for structural transformation are that Lagos has experienced a shift of labour away from agriculture to industry and services, with the services sector gaining more than the others. This is in line with the expectation of structural transformation, although with the industrial employment share not performing up to expectation. This could be accountable for the average low income and poor welfare of residents of Lagos.

Productivity of business enterprises

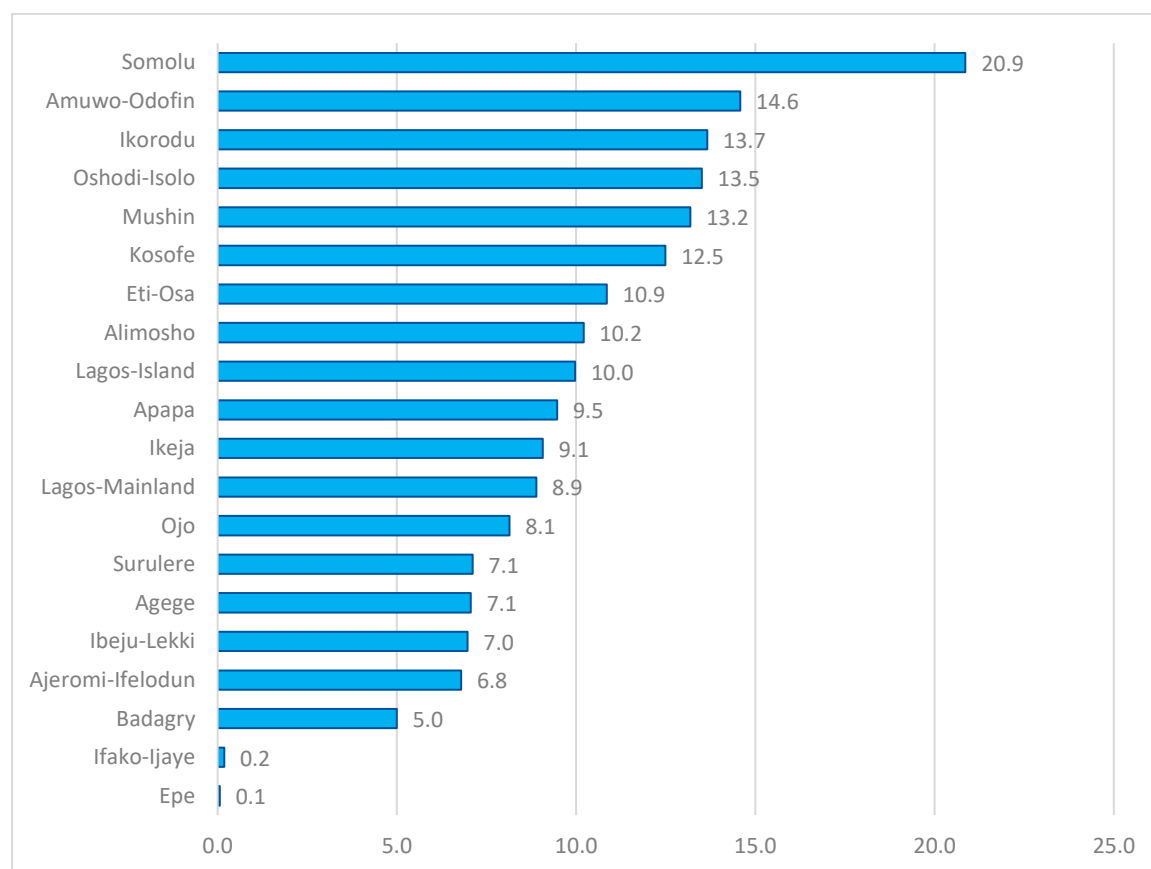
Analysis of the productivity of business enterprises is based on their capital base and their turnover (i.e. using capital productivity). Capital productivity is calculated as the ratio of a firm's turnover (sales or profit) to the value of its capital base (or investment). This measures how well a business uses its capital in providing goods and services. Productive use of capital is also an important indicator of high productivity sectors. In Lagos, organizations are more concerned with the yield on their investment or capital rather than output of employees; thus, capital productivity serves as a good measure of structural transformation in Lagos. This approach is adopted owing to the lack of meaningful and useful information on employment (number of employed persons) for majority of the enterprises covered by the present study, which precludes the possibility of deriving labour productivity. Out of the 2,707 enterprises covered by the LCCI database, only 520 (19.2%) have complete information on capital base and turnover and are thus used for productivity analysis.

The city-level analysis of the capital productivity of firms reveals that business enterprises within Somolu LGA, on average, have the highest capital productivity of 20.9 and those in Epe are the least productive with average productivity of 0.1 (Figure 11). Observably, the LGAs with large productivity indexes have more concentration of micro and small-scale enterprises as in the case of Somolu and Amuwo-Odofin. Further, it is observed that LGAs with a large concentration of business firms are average performers with respect to productivity of firms. A major reason for this phenomenon is that both micro and small-scale firms have low capital-intensive businesses but with fast and high turnovers. Conversely, large-scale firms have high capital requirement, but their turnover is often gradual over time.

Across a broad sectoral classification, manufacturing is found to be the most productive sector with an average productivity index of 13.6, followed by the services and the industrial sector as a whole with 10.4 and 10.3, respectively, while the agriculture sector is the least productive with a

productivity index of 8.0 (Table 4). Again, it needs to be highlighted here that the bulk of firms going into manufacturing are small and medium scale with a high turnover that accounts for the level of productivity in the sector. The level of productivity in the agriculture sector shows the relative importance of agriculture and agro-allied activities in Lagos. A look at the components of the services sector, following Osei et al. (2022), reveals that business services (comprising financial services, real estate, and all forms of wholesales and retails trading and commerce) are more productive in the services sector than non-business services (educational services, construction and engineering, transportation, ICT, logistics, hotels and tourism, and professional services) that has a productivity index of 9.8. The sectoral productivity further reflects the extent of structural transformation in Lagos, whereby economic activities and productive resources are shifting away from agriculture to manufacturing, industry, and services.

Figure 11: Spatial distribution of capital productivity of business enterprises



Source: author's calculation based on the LCCI database.

Table 4: Sectoral capital productivity

Economic sector	Mean	Std. Dev	Max	Min
Agriculture	8.0	10.8	36.0	0.02
Industry	10.3	12.5	44.6	0.01
Manufacturing	13.6	14.3	44.6	0.01
Services	10.4	11.7	40.9	0.43
Business	10.3	12.3	55.0	0.01
Non-business	9.8	11.3	52.0	0.01
<i>Total</i>	<i>10.6</i>	<i>12.3</i>	<i>41.5</i>	<i>0.12</i>

Source: author's calculation based on the LCCI database.

Productivity across enterprise size reveals that micro enterprises are the most productive (11.6), followed by medium-sized (6.9), small-scale (5.2), and large-scale (3.5) enterprises (Table 5). A plausible explanation for the observed high productivity of the micro enterprises is that the bulk of them are engaged in fast-sale retail commercial activities that require little capital but have a high turnover. Conversely, large-scale enterprises have the lowest productivity because their operations are capital intensive, with long-term returns. Similarly, high operational costs arising from infrastructural deficit in the city, such as irregular electricity and poor transportation network, and foreign exchange bottlenecks may have negative effects on turnover, hence productivity.

Table 5: Firm productivity by size

Economic activity (firm size)	Mean	Std. Dev	Max	Min
Micro	11.6	12.2	55.0	0.01
Small	5.2	7.9	44.9	0.02
Medium	6.9	13.5	44.6	0.02
Large	3.5	7.1	35.0	0.01

Source: author's calculation based on the LCCI membership directory.

3.2 Drivers and constraints of structural transformation in Lagos

Configuration of power, national political settlement, and structural transformation

The findings from the qualitative analysis show that politicians in Lagos are very powerful in urban governance, and therefore in state–business relationships within the structural transformation domain. Analysis of how the narrow-concentrated national political settlement interacts with Lagos city and businesses shows that the settlement is ill-disposed to investment growth, particularly in more productive sectors such as manufacturing and tradable services. The deep-seated contestations following the interactions have resulted in poor and uneven delivery of infrastructure and services, which is not conducive to enterprise development. The lack of support, especially in public infrastructure in Lagos, hinders agglomeration economies, which decreases productive employment in the city.

In Lagos, the findings show that the city is central in the political calculation of the political elite because of the huge economic and political relevance. Population size and economic power make Lagos a major focal point in the political landscape of the nation. Political elites and parties jostle for the control of Lagos, because it is believed that whoever has control of Lagos has control over the economic engine of the nation. Lagos is expected to deliver big pay-offs in the form of rents and votes. During periods of electioneering, politicians and political elites manipulate everything possible to secure the highest number of votes from electorates in Lagos. This has made Lagos a hotspot of political power struggle over the years.

The perceived critical position of Lagos has led to intense political contestation between political actors at the national and in the city over the years, which has negatively influenced structural transformation. For instance, because Lagos state was governed by an opposition political party to that of the central/national government, the state was victimized by the PDP government between 1999 and 2015. Several infrastructural facilities in Lagos under the jurisdiction of the federal government were left unmaintained and allowed to dilapidate. The federal secretariat in Ikoyi and the Oshodi-Apapa road are case studies. Despite the importance of the Oshodi-Apapa road, it was left without repairs for several years; even when the Lagos state government made attempts to repair the road, it was stopped by the federal government. Similarly, there was also contestation between Lagos and the FGN about provision of electricity/power. Until the passage of the Electricity Act of 2022, which replaced the Power Sector Reform Act of 2005, no state was

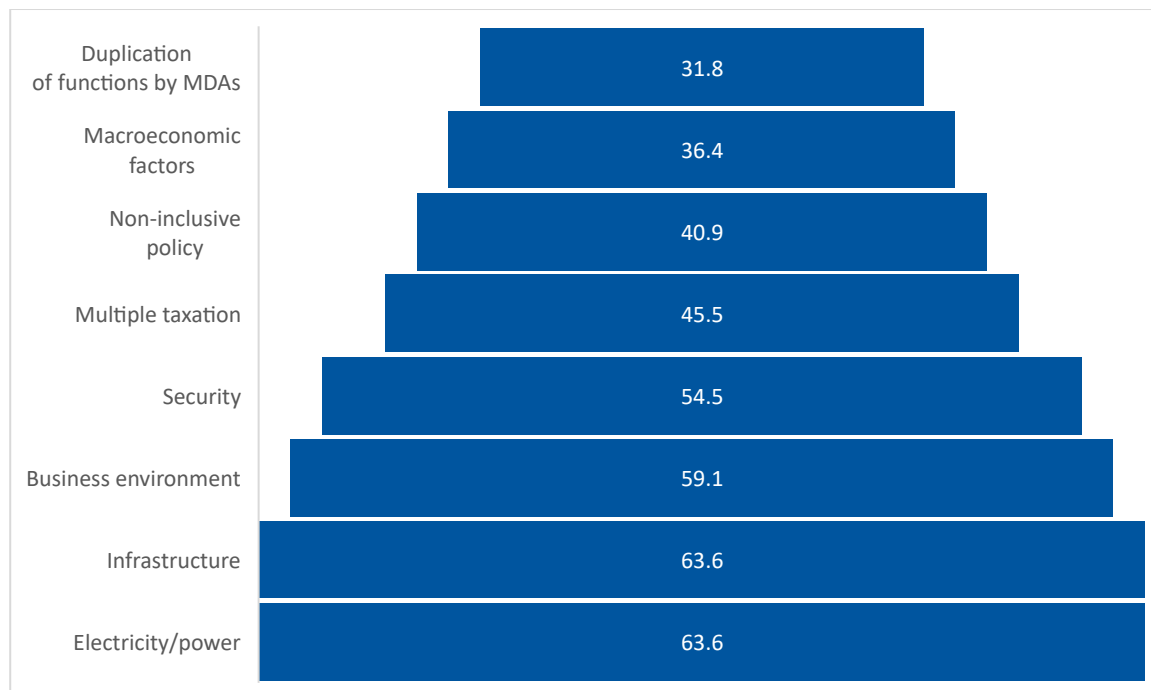
allowed to venture into electricity provision. These contestations prevent the city from developing the critical infrastructure to facilitate the growth of enterprises.

Other constraints to structural transformation

There are several pull factors for the investment boom and the thriving economic activities in Lagos. However, there also exist other constraints that have limited the growth of economic activities and businesses and, hence, the degree of structural transformation in the city. The major constraints identified are discussed below.

(i) *Inadequate electricity/power supply*: a major development challenge to structural transformation in Lagos is inadequate electricity/power supply. As Lagos is the commercial nerve housing the bulk of industries in the nation, the need for constant and steady power supply in the city cannot be overemphasized. As a result, one would have expected that the city should be enjoying better electricity supply than any other cities or part of the country. However, this is far from the reality as most of the companies in Lagos struggle to keep their business running at huge costs because of insufficient power supply. As of 2017, electricity generation for Lagos was 2,000 MW as against the needed 10,000 MW. Consequently, both business firms and residents rely more on self-power-generation sources either by using diesel or petrol power generators. Apart from leading to the high cost of doing business and the subsequent frequent increase in prices of goods and services, this situation has hampered the growth of economic activities and the pace of structural transformation. Even though the level of business and economic activities could be considered booming in Lagos at face value, many businesses have been forced (and are being forced) to shut down because of a lack of ability to cope with the cost of self-providing electricity/power. It is a common saying that many business organizations operating in neighbouring countries such as Benin Republic and Ghana have their roots in Lagos. Overall, 63.6% of stakeholders believed electricity/power supply is a major development challenge to structural transformation in Lagos (Figure 12).

Figure 12: Constraints to structural transformation (%)



Source: author's computation from key informant interviews.

(ii) *Poor infrastructure*: poor infrastructure, such as poor transportation (roads and water ways) systems and insufficient gas supply, especially for the industries, is another big development challenge for the structural transformation domain in Lagos. Just like many urbanized cities are faced with an infrastructure deficit challenge, the situation in Lagos is more worrisome for its high population rate and the small land mass. In 2017, Lagos had only 16,000 km of road network with a daily traffic of 2.8 million cars (Ogunbiyi 2022). The effects of an inadequate, poor, and dilapidated transport network are manifested in loss of productive work-hours, as well as disruptions in production and delayed delivery of good and services. In fact, unlike what is found in major advanced cities, it is extremely difficult to predict travel time in Lagos as it concerns road transport and because the city is notorious for unpredictable traffic jams even within short distances. Alternative means such as water and rail transport that could easily provide support to the poor road transport system are not fully developed. The intra-city rail system is just evolving with the commencement of the blue line in 2023. Just as with the case of electricity, the supply of gas for industrial operations is also poor and grossly insufficient. Over 60% of stakeholders believed that poor infrastructure is a key development challenge.

(iii) *Inconducive business environment*: another challenge to economic and business activities is the hostile and unfriendly business environment in terms of high cost of living and disruption to economic activities usually caused by touts and members of the road transport union Ágberos and Omo-Oniles (land grabbers), that is, ‘town boys’, who often extort businesses. The activities of different touts make the business environment in Lagos highly volatile and unpredictable. This set of people can cause disruptions to economic activities and unrest at any time without notice. In most cases, once there is any form of unrest or protests in any part of Lagos, they are usually hijacked by hoodlums and touts; these always cause businesses to shut down. Even though there are laws prohibiting the actions of Omo-Oniles, this has not in any way stopped their activities. Also, there is the alleged exploitation by miscreants who often claim to be working for LGAs and normally impose different kinds of levies on firm vehicles. The volatile and unfriendly business environment is rated as the third (59.1%) most common development challenge with respect to structural transformation in Lagos.

(iv) *Security*: although Lagos remains relatively more secure than other cities in the country, insecurity remains a big challenge to development in the state as a whole, because it threatens and poses danger to business and economic activities. Lagos is characterized by a high level of crime. A crime index rate published by Numbeo (2024) rated Lagos among the top 50 most insecure cities in the world, with scores of 80.9 and 68.4 out of 100 for the years 2022 and 2024, respectively. Similarly, another report by World Atlas (2023) rated Lagos as the sixth most dangerous city in Africa. While acknowledging efforts of the government and the different security service agents at ensuring adequate protection of lives and properties and maintenance of peace in and around Lagos, more than half of stakeholders believe that insecurity is a big challenge to economic development and structural transformation. Securing properties and lives of workers is a major concern for business firms, which often results in many of them having to engage the services of private security companies and pay the police for providing protection for their business premises and key officials for those that are able to afford the costs.

(v) *Multiple taxation*: almost half of the interview respondents (45.5%) equally complained that the issue of multiple taxation is a burdensome yoke on business organizations. Aside from the company and personnel income taxes, there are various forms of taxes and levies such as property, advertisement, land-use taxes, and premises taxes that are imposed on business organizations by both the Lagos state government and the LGAs. The issue of multiple taxation is further complicated for businesses in Lagos because of various forms of illegal charges and fees demanded by touts who often claim to be collecting such fees on behalf of LGAs or LCDAs. For example, if a company vehicle is conveying goods from one place to another within Lagos, such a vehicle

would have to pay trade and goods taxes as it moves from one LGA or LCDA to another. Also, while businesses are charged taxes on outdoor advertising, they are also levied taxes on premise names among other things. In fact, it is argued by business firms that they pay more than 50 different taxes and charges within a year. While the argument of the firms subsists, the state government has tried to streamline the existing taxes, but the issue remains far from being solved.

(vi) Non-inclusive policy: about 40.9% of stakeholders argued that non-inclusive policy formulation by the government is also a challenge to the development of business and economic activities in Lagos. Non-inclusive policy formulation deals with situations in which opinions and inputs of relevant stakeholders are not usually considered in the formulation of policies especially those that have a direct impact on business enterprises. For example, many business owners and even private residential building owners are angered by the recently passed law that imposes charges on parking space outside a building and business premises. Non-inclusive policy formulation not only affects the efficacy of policies but it also imposes constraints on businesses as they struggle with compliance when they are not aware that such policies exist.

(vii) Macroeconomic factors: macroeconomic environment and changes have implication for business activities. Although a macroeconomic situation is usually outside the control of the Lagos government, whatever happens to the nation's economy usually has more effect on businesses in Lagos, being the nation's commercial centre. A macroeconomic situation such as the continuous depreciation of local currency against major international currencies especially the US dollar has led to difficulty in sourcing foreign exchange for business transactions and the rising cost of imported raw materials and goods, with the resultant increase in cost of production. Aside the unstable exchange rate, rising inflation is another macroeconomic condition that is compounding the difficult business environment in Lagos. The gravity of the macroeconomic situation on economic activities and structural transformation is attested to by 36.4% of stakeholders.

(viii) Duplication and multiplicity of functions by ministries, departments, and agencies (MDAs): other identified challenges to economic activities and structural transformation in Lagos is duplication or multiplicity of function among government MDAs. Some of the stakeholders (31.9%) opined that multiplication and duplication of functions by MDAs constrain economic activities. For example, it is alleged that while the Lagos State Safety Commission is doing the same thing as the Ministry of Health regarding workplace inspection, the Ministry of Environment and that the Ministry of Commerce are also doing the same thing, all of which imposes unnecessary and avoidable costs on business organizations.

4 Conclusion

This study has used both quantitative and qualitative methods to examine the spatial distribution of economic activities, the patterns of structural transformation, and the drivers of, and constraints to, structural transformation in the city of Lagos. It also focused on the political settlement of the city and how this has shaped structural transformation in Lagos. The quantitative analysis is based on secondary data obtained from the membership database of LCCI, departments and NBS-GHS panel dataset for 2010/11, 2012/13, 2015/16, and the NLSS 2018/19. Information for Lagos households is extracted from the GHS panel dataset and the NLSS. The qualitative analysis is based on primary data obtained through key informant interviews conducted for relevant economic stakeholders

Findings show a significant variation in spatial distribution of business establishments in Lagos, with a dominance of the services sector in terms of share of establishments and employment. This

is reflected in the large informal employment with varying degree across the city. Although there is a shift away from agriculture, there is little or no structural transformation as the movement is largely into the low productive services sector with moderate movement into manufacturing. The dominance of services establishments and employment shares suggests that even though Lagos has booming economic activities, they are low-income generating with a low capacity for labour employment and productivity growth. This is reflected in the low productivity across spatial distribution and sectors, with the manufacturing sector having the highest productivity gains. There are also productivity differentials among firms with micro enterprises having the highest productivity index. The results generally reflect that rapid urbanization and booming economic activities have not resulted in significant structural transformation.

The pattern of political and economic governance in Lagos shares various features of the narrow-concentrated political settlement and has shaped the evolution of economic activities and structural transformation of the cosmopolitan city. Furthermore, economic activities and structural transformation in Lagos are driven by key factors such as the population size, government macroeconomic and industrial policies, the presence of sea and airports, infrastructure (electricity, transportation network, and ICT), industries, and relative security in the city. On the other hand, some of these factors and others also pose a challenge to structural transformation in the city.

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Appendix A

Table A1: Number and shares of establishments by local government areas (LGAs)

LGA	Enterprises	Percentage
Epe	2	0.1
Ajeromi-Ifelodun	10	0.4
Badagry	11	0.4
Ifako-Ijaye	19	0.7
Agege	29	1.1
Ikorodu	34	1.3
Ojo	34	1.3
Somolu	48	1.8
Amuwo-Odofin	64	2.4
Mushin	78	2.9
Alimosho	121	4.5
Oshodi-Isolo	124	4.6
Lagos Mainland	140	5.2
Ibeju-Lekki	165	6.1
Kosofe	181	6.7
Surulere	187	6.9
Apapa	197	7.3
Lagos Island	221	8.2
Eti-Osa	502	18.5
Ikeja	540	20.0
<i>Total</i>	<i>2,707</i>	<i>100.0</i>

Source: author's compilation based on LCCI membership directory.

Table A2: Shares of business establishments across LGAs and broad sectors

LGA	Number of business establishments				Sectoral shares of establishments		
	Agriculture	Manufacturing	Services	Total	Agriculture	Manufacturing	Services
Agege	2	2	25	29	0.014	0.010	0.011
Ajeromi-Ifelodun	2	0	8	10	0.014	0.000	0.003
Alimosho	9	13	99	121	0.062	0.063	0.042
Amuwo-Odofin	4	6	54	64	0.027	0.029	0.023
Apapa	7	12	178	197	0.048	0.058	0.076
Badagry	1	1	9	11	0.007	0.005	0.004
Epe	0	0	2	2	0.000	0.000	0.001
Eti-Osa	22	34	446	502	0.151	0.164	0.189
Ibeju-Lekki	6	15	144	165	0.041	0.072	0.061
Ifako-Ijaye	1	1	17	19	0.007	0.005	0.007
Ikeja	28	48	464	540	0.192	0.232	0.197
Ikorodu	3	5	26	34	0.021	0.024	0.011
Kosofe	12	12	157	181	0.082	0.058	0.067
Lagos Island	4	15	202	221	0.027	0.072	0.086
Lagos Mainland	16	11	113	140	0.110	0.053	0.048
Mushin	3	6	69	78	0.021	0.029	0.029
Ojo	2	3	29	34	0.014	0.014	0.012
Oshodi-Isolo	4	12	108	124	0.027	0.058	0.046
Somolu	4	4	40	48	0.027	0.019	0.017
Surulere	16	7	164	187	0.110	0.034	0.070
	146	207	2,354	2,707	1.000	1.000	1.000

Source: author's compilation based on LCCI membership directory.