

STRUCTURAL RIGIDITIES, PRODUCTIVITY MISALLOCATION, AND THE POLITICAL ECONOMY OF GROWTH PERSISTENCE IN NIGERIA

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Article History	Abstract
<p>Original Research Article</p> <p>Received: 03-03-2026</p> <p>Accepted: 01-04-2026</p> <p>Published: 16-04-2026</p> <p>Copyright © 2026 The Author(s): This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.</p> <p>Citation: Nnordee Bariagara King David; Azeez Oyeniyi Okuku & Nafisa Iya Abubakar. (2026). STRUCTURAL RIGIDITIES, PRODUCTIVITY MISALLOCATION, AND THE POLITICAL ECONOMY OF GROWTH PERSISTENCE IN NIGERIA. UKR Journal of Economics, Business and Management (UKRJEBM), 2(4), 118-128.</p>	<p><i>Nigeria's economic growth trajectory has been marked by periods of expansion punctuated with stagnation, despite the country's enormous natural resources and massive labor force. This paper explores the link between structural rigidities, productivity misallocation, and the political economy of growth persistence in Nigeria. Structural rigidities, including infrastructure shortages, labor market segmentation, regulatory limits, and limited access to finance, inhibit the efficient deployment of capital and labor across sectors. These limits contribute to ongoing productivity gaps, as resources remain concentrated in less productive firms or regions, while high-potential organizations encounter impediments to expansion. Productivity misallocation is further fostered by weak institutions, policy inconsistency, and rent-seeking conduct, which distort incentives and limit the effectiveness of changes. The informal sector, despite providing employment, is poor in productivity and mostly outside formal institutional structures, further underlining the misallocation of labor and capital. The paper draws on empirical evidence and theoretical views from structuralist, institutional, and political economy approaches to evaluate these dynamics. Findings reveal that growth persistence in Nigeria is mostly driven by the combination of structural inefficiencies, resource misallocation, and political incentives that favor short-term benefits over long-term development. The study indicates that sustainable, inclusive growth requires a coordinated approach that addresses structural changes, institutional strengthening, sectoral diversification, human capital development, and political feasibility of reforms. Policymakers must tackle both economic and political restrictions to optimize resource allocation, boost productivity, and promote a robust economy capable of supporting long-term development and structural transformation.</i></p> <p>Keywords: Structural Rigidities, Productivity, Misallocation, Political Economy, Growth Persistence.</p>

Introduction

In developing economies, resource availability and institutional and structural factors that allocate and use resources affect economic growth. Inefficiencies in resource distribution between sectors and producing units cause economic problems in many developing countries. Nigeria exemplifies this dilemma. The country faces structural problems that limit long-term economic growth despite its enormous natural resources, huge labor force, and large market potential. Understanding structural rigidities, productivity misallocation, and political

economy dynamics that affect economic policy and institutional performance is necessary to explain these persistent inefficiencies.

The economy of Nigeria has cycled between growth and stagnation due to commodity shocks and institutional shortcomings (Enganya, 2025). Since the 1970s discovery and commercialization of crude oil, Nigeria's economy has relied significantly on petroleum exports for government revenue and foreign currencies (Olaniyi-Quadri, 2026).

Although oil wealth originally boosted economic growth, it also caused structural distortions that hurt agriculture and industries. This reliance on a single dominant industry led to economic weakness, inadequate diversification, and inefficient resource allocation.

In Nigeria, structural rigidities are a major obstacle to economic reform. Institutional, legal, and market barriers hinder the efficient flow of labor and capital between economic sectors (Gou et al., 2025). In flexible, well-functioning economies, resources naturally move from less productive to more productive activity, improving efficiency and growth. In inflexible economies, regulatory hurdles, institutional flaws, infrastructure deficits, and entrenched political interests limit this process. These rigidities limit resource allocation and economic productivity (Giombini et al., 2023).

Productivity misallocation is linked to structural rigidities (Lai & Kumbhakar, 2025). When resources are not allocated to enterprises, sectors, or activities with the highest returns, productivity misallocation occurs (Hambur & Andrews, 2023). Less productive firms may continue to function with capital, labor, or government backing, while more productive firms face impediments to expansion. This lowers aggregate productivity and slows economic growth. Productivity misallocation in Nigeria includes poor loan allocation, legislative barriers to business expansion, and the prevalence of informal economic activities.

Sector productivity in Nigeria is highly uneven (Erumebor, 2025). For instance, the oil sector generates a lot of government revenue but employs few people (Rinz, 2022). Despite employing a large section of the population, agriculture has low productivity due to insufficient technological adoption, infrastructure, and institutional support. Manufacturing, which drives industrialization and productivity in developing countries, is undeveloped in Nigeria. These sectoral imbalances show resource misallocation that reduces economic efficiency.

Political economy dynamics shape Nigerian growth and resource allocation beyond structural and economic considerations (Ivorgba, 2024). Political economy is the relationship between political institutions, economic policies, and power distribution (Oatley, 2022). Political incentives and influential individuals often impact economic decisions, not only efficiency. Nigerian economic policy have been shaped by political institutions and competition for state resources. This typically leads to policies that favor short-term political benefits over economic efficiency.

Rent-seeking is a major factor in Nigeria's political economy. Rent-seeking is when people use politics to make money (Facchini, 2024). In resource-rich economies like

Nigeria, state revenue concentration encourages political players to compete for public resources rather than invest in productive industries. Competition can distort policy objectives and reduce structural reform incentives. Thus, economic measures may promote inefficiencies rather than address structural hurdles to productivity development.

Institutional deficiencies complicate structural rigidities and productivity misallocation. Institutions shape economic incentives, enforce property rights, regulate markets, and ensure economic efficiency (Botah, 2024). Institutional issues include regulatory ambiguity, inadequate contract enforcement, corruption, and bureaucratic inefficiency hinder economic actors' productivity in Nigeria. Institutional constraints raise transaction costs, discourage investment, and hinder resource allocation.

The informal-formal economic relationship in Nigeria is another key component in growth persistence (Badejo et al., 2024). In Nigeria, the informal sector dominates employment and economic activity. Informality supports millions of people but also shows systemic flaws in the formal economy, such as low job generation, regulatory costs, and business formalization impediments. Finance, technology, and markets are scarce for informal sector firms, limiting their productivity and growth (Sultana et al., 2022). Additionally, informal economic activity hinders government efforts to adopt efficient economic policies and raise public income.

Nigerian production is also hampered by infrastructure shortages. Efficient manufacturing and trade require reliable infrastructure including energy, transportation, and telecommunications (Mahmood et al., 2025). However, Nigeria struggles to provide appropriate infrastructure for economic activity. Power shortages, weak road networks, and restricted logistics capacity raise business costs and reduce domestic enterprises' competitiveness. Infrastructure constraints increase sector and regional productivity differences.

Human capital development affects productivity and economic growth alongside infrastructure issues. Human capital, labor force skills, knowledge, and health—adds productivity (Bykova et al., 2024). Nigeria has a huge and young population, but education and skill development have not kept pace with a modernizing economy. Many organizations struggle to recruit individuals with the technical and managerial abilities needed to adopt new technology and boost production. Labor supply and skill demand mismatches cause labor market inefficiencies and restrict structural transformation.

Structural rigidities and productivity misallocation affect Nigeria's long-term development. Economic growth may remain volatile and dependent on global commodity prices

without addressing these fundamental restraints. A more diversified, productivity-driven economy with efficient resource allocation across sectors and enterprises is needed for sustainable economic development (Li & Liu, 2024). Economic, institutional, and political reforms that encourage productive investment and innovation are needed to achieve this shift.

This paper examines Nigeria's structural rigidities, productivity misallocation, and political economics of growth persistence (Lambe, 2025). The study seeks to explain productivity growth and economic transformation by evaluating structural and institutional elements that affect economic results. The study also examines how political and institutional dynamics affect policy choices and economic reform efficacy.

The study has three goals. The study first examines Nigeria's structural rigidities and their effects on resource distribution (Gbadebo, 2025). 2) It examines productivity misallocation patterns and effects across industries and enterprises (Guner & Ruggieri, 2022). Third, the study examines political economy dynamics that affect economic policy and growth restrictions (Porcile et al., 2023). This analysis adds to resource-dependent economies' economic development, institutional reform, and structural transformation discussions.

Effective policy interventions to promote sustainable economic growth require understanding structural rigidities, productivity misallocation, and political economy issues (Ganawah, 2024). Policymakers must acknowledge that economic development is a political and institutional process that needs resolving entrenched interests and institutional hurdles (Prabhakar, 2025). This paper identifies the main factors that maintain Nigeria's economic inefficiency, which might inform policy reforms to boost productivity, resource allocation, and inclusive growth.

Nigeria's growth issues demonstrate the need for significant structural reforms that address economic and institutional impediments (Ajuwon et al., 2024). Without such reforms, the economy may cycle between growth and stagnation, limiting its ability to progress and raise living conditions.

Literature Review

A theoretical framework that explains how structural rigidities, productivity misallocation, and political economy dynamics affect economic outcomes is needed to understand Nigeria's economic growth issues (Erumebor, 2025). In development economics, these three elements are linked. Productivity misallocation is the result of structural rigidities, and political economy dynamics determine the incentives and institutional arrangements that sustain or resolve these inefficiencies. Therefore, this part clarifies

these fundamental principles and places them in pertinent theoretical perspectives in economic development literature.

Institutional, regulatory, and market barriers limit resource flow among sectors, businesses, and geographies in an economy (Gou et al., 2025). Labor and capital naturally move to sectors and activities with higher productivity and returns in an efficient economy. This dynamic reallocation is necessary for structural change, which gradually moves resources from low-productivity sectors like subsistence agriculture to manufacturing and contemporary services. In many developing economies, structural rigidities impede adjustment. Restrictive rules, inadequate financial systems, insufficient infrastructure, limited credit, and institutional inefficiencies can cause these rigidities. Productive firms may struggle to expand while less productive firms remain running due to protection, subsidies, or political connections. The economy's efficiency decreases because resources remain in low-productivity activities.

In Nigeria, structural rigidities take several forms. The oil industry has always shaped the economy. Oil income have increased government spending and employment, frequently at the expense of productive investment in other industries (Rasheed, 2023). This has reduced diversification incentives and exacerbated economic imbalances.

Nigeria has infrastructure restrictions that add structural rigidity. Industrial production and trade require reliable electricity, transportation, and communication (Kommaragiri et al., 2022). However, persistent infrastructural shortfalls raise company costs and weaken local industry competitiveness. The limits discourage manufacturing investment and hinder enterprises' economies of scale.

Labor market rigidities cause structural inefficiencies (Donovan & Schoellman, 2023). Nigeria has a huge and young labor force, yet the labor market is highly segmented between formal and informal employment. Many workers engage in informal activities with minimal productivity growth. Formal sector enterprises also suffer regulatory and administrative costs that limit growth and employment development. This fragmentation inhibits labor mobility and limits the economy's flexibility to reallocate human resources to productive activities.

Financial market defects exacerbate structural rigidity (Chakrabarti et al., 2025). Small and medium-sized firms in Nigeria struggle to get financing. Due to perceived lesser risk, commercial banks prefer lending to large enterprises or governments, limiting credit for smaller firms. Thus, many potentially productive companies cannot expand or

invest in new technology, while cash may remain in less productive industries.

Productivity Misallocation

Productivity misallocation occurs when enterprises and sectors are not allocated labor, capital, and other productive resources according to productivity (Guner & Ruggieri, 2022). Higher productivity enterprises should attract more resources in an efficient economy since they can produce more with the same inputs (Taschereau-Dumouchel, 2025). In contrast, less productive enterprises should downsize or leave the market. Allocating resources to their most efficient applications increases aggregate production over time.

This process is altered by misallocation. Policy distortions, subsidies, credit market biases, and political ties may keep less productive enterprises receiving resources (Li & Li, 2025). Meanwhile, more productive firms may encounter impediments to growth. This lowers economic efficiency and productivity growth.

Several structural and institutional variables cause production misallocation in Nigeria. One is the informal sector's large share of economic activity. Informal enterprises have low technology and capital, limiting their production (Takyi et al., 2022). However, legal restrictions and hefty compliance costs keep many enterprises in the informal economy. This hinders business growth and innovation.

Another source of misallocation is credit distortions. Economic viability, political influence, and risk perceptions can influence financial institution lending allocation (Huang & Thakor, 2024). Smaller but possibly more innovative enterprises struggle to get capital, while large firms with connections get preferred financing. Such distortions prevent dynamic enterprises from entering and growing, which might boost productivity. Government subsidies and protectionist measures for unproductive industries can also cause misallocation (Huang & Thakor, 2024). Such policies may increase local production but shelter inefficient enterprises from competition. This diminishes incentives for innovation and technical upgrading, diminishing economic productivity. Regional inequalities in Nigeria highlight production misallocation (Guner & Ruggieri, 2022). Lagos and Abuja, with stronger infrastructure and market access, are economic hubs. Rural areas often lack the infrastructure and institutions needed to attract investment and boost productivity. This uneven distribution of resources underutilizes labor and capital in many regions.

Political Economy of Growth Persistence

Nigeria's growth issues are explained by structural rigidities and productivity misallocation, but the political economy

framework in which economic decisions are made is also essential. Political economy studies how political institutions, economic policies, and power distribution affect society.

In many developing economies, political factors influence economic policy decisions that may hinder efficiency or growth (Adanma & Ogunbiyi, 2024). Governments often under pressure from political elites, economic groups, labor unions, and regional constituencies. These groups may pursue measures that benefit them despite reducing economic efficiency.

Political competition and resource rents have impacted Nigerian economic policy. Oil earnings, which make up a large amount of government income, encourage political actors to control state resources rather than promote productive economic activity (Adom, 2023). This can foster rent-seeking, as people try to gain economic advantages through political influence rather than constructive investment.

Rent-seeking has several economic effects (Fu et al., 2022). First, it diverts resources from productive operations to seeking political or regulatory favors. Promoting corruption and eliminating accountability hurts institutions. Third, it hinders rent-reduction reforms.

Policy inconsistency is another major aspect of Nigeria's political economy (Karkare et al., 2022). Due to political leadership changes, electoral pressures, or competing government objectives, economic policies may change often. Because enterprises cannot forecast regulatory or policy settings, long-term investment is discouraged. Investors may use short-term methods or shun investing, limiting economic growth.

2022 (Usman). Federal, state, and municipal governments allocate resources and enforce policies. Policy implementation and public investment can be hampered by coordination issues between different levels of government. Political competition across areas may also affect public resource distribution, sometimes favoring politics above efficiency.

Theoretical Perspectives

Several theoretical approaches provide insights into the relationship between structural rigidities, productivity misallocation, and economic growth. One important perspective is the structuralist theory of development, which emphasizes the importance of transforming the economic structure of developing countries from primary commodity dependence toward industrial and diversified production. Structuralist economists argue that market forces alone may not achieve this transformation due to institutional constraints and market failures (Xu &

Gallagher, 2022). Therefore, strategic government intervention may be necessary to support industrialization and structural change.

Institutional economics provides another important framework for understanding economic development (Engerman & Sokoloff, 2025). This perspective highlights the role of formal and informal institutions in shaping economic incentives and outcomes. Institutions determine how property rights are protected, how contracts are enforced, and how markets are regulated. When institutions are weak or poorly designed, economic actors may face high transaction costs and uncertainty, which reduces investment and productivity growth.

Political economy theory complements these perspectives by emphasizing the role of power relations and political incentives in shaping institutional arrangements and policy outcomes (Benkler, 2022). According to this approach, economic policies cannot be understood solely in terms of efficiency considerations; they must also be analyzed in relation to the political interests they serve. In many cases, policies that sustain inefficiencies persist because they benefit powerful groups that have the ability to influence political decisions.

Linkages Between Structural Rigidities, Misallocation, and Growth Persistence

The interaction between structural rigidities, productivity misallocation, and political economy dynamics creates a cycle that can sustain economic inefficiencies over long periods (Giombini et al., 2023). Structural rigidities limit the ability of markets to allocate resources efficiently. This leads to productivity misallocation, where resources remain concentrated in less productive activities. At the same time, political economy dynamics may reinforce these inefficiencies by creating incentives for policymakers to maintain existing institutional arrangements rather than pursue difficult reforms.

In the Nigerian context, these interactions help explain why economic growth has often been volatile and why structural transformation has been slow despite the country's considerable resource endowment. Breaking this cycle requires not only economic reforms aimed at improving market efficiency but also institutional and political changes that strengthen accountability, reduce rent-seeking, and create incentives for productive investment.

A comprehensive understanding of these interconnections provides the foundation for analyzing empirical evidence on Nigeria's economic structure and growth patterns. The next section therefore examines the empirical characteristics of the Nigerian economy, highlighting key structural features and patterns of productivity distribution

that illustrate the challenges discussed in this conceptual framework.

Empirical Evidence and Stylized Facts on Nigeria

Empirical patterns must indicate how structural rigidities, productivity misallocation, and political economy dynamics affect Nigeria's growth persistence. The country's economic growth trends, sectoral contributions, structural characteristics, resource misallocation, and political economy affect economic performance. These stylized facts prepare to examine structural and institutional restrictions on long-term growth.

Due to resource dependence and institutional difficulties, Nigeria has seen rapid growth and stagnation (Isah, 2024). Oil price fluctuations have harmed GDP growth, making the economy vulnerable to external shocks. GDP growth in Nigeria exceeded 5–7% during the 1970s and 1980s oil boom. Many of these riches were unsustainable because the oil industry disregarded agriculture and manufacturing.

The 1980s oil price shocks slowed Nigeria's economy, requiring structural reform to diversify and liberalize markets. Despite efforts, development was uneven and structural transformation was delayed. GDP grew 6% in the 2000s due to oil revenues, banking sector expansion, and domestic consumption. We saw modest productivity gains and no fundamental change.

Historical and institutional factors cause sectoral imbalances in Nigeria's economy (Enganya, 2025). Although oil and gas dominate export revenues and government income, only a small part of the workforce is employed. This concentration has reinforced the “resource curse” dynamic, which states resource riches induce macroeconomic volatility, undercut diversification incentives, and distort political incentives to favor rent-seeking.

Agriculture employs a major portion of the workforce, especially in rural areas. Low agricultural production results from lack of mechanization, modern inputs, infrastructure, and institutional support (Kirui et al., 2023). High employment and low productivity cause rural underemployment and income stagnation.

Manufacturing, which promotes industrialization in emerging nations, is underdeveloped in Nigeria. Manufacturing companies struggle with high energy costs, weak transport infrastructure, uncertain policies, and limited finance (Falcone, 2023). Manufacturing adds little to GDP and cannot use rural or informal labor.

Nigeria's output and jobs are mostly informal. Unregulated informal companies operate in cities and rural areas. Due to capital, technology, and market constraints, these activities

support millions of Nigerians but are low-productivity and hard to scale. (Yépez, 2025).

Empirical studies and firm-level statistics show considerable productivity variations in Nigerian industries and firms. Capital is concentrated in large, less productive corporations with political connections, whereas smaller, possibly more productive firms struggle to secure finance (Lu et al., 2024). Low-productivity agricultural and informal companies employ many workers, but high-productivity industry, technology, and modern services lack trained personnel.

TFP volatility between enterprises shows misallocation (Xiao et al., 2023). Studies reveal that a few companies produce a disproportionate amount of output relative to inputs, while many others are inefficient. This indicates that resources are not efficiently deployed, resulting in lower aggregate productivity than in the most efficient firms. Regional disparities aggravate misallocation. Lagos, Abuja, and Port Harcourt are economically active, but northern Nigeria and rural areas are underdeveloped (Udo, 2023). Infrastructure constraints, market access issues, and institutional deficiencies underutilize human and natural resources, creating geographic inequalities.

Credit and investment misallocation occurs. Energy and large-scale trade are low-risk sectors that banks like to lend to (Nwani et al., 2023). Small and medium-sized enterprises with significant productivity potential face high collateral requirements, financial ignorance, and regulatory issues. Inefficiency and economic slowdown result from selective allocation.

Political economy shapes structural rigidity and misallocation in Nigeria. State oil rent concentration fosters rent-seeking, which affects resource allocation and policy (Elmakki, 2025). Politicians value state resource control over productivity, efficiency, and structural change.

Policy turmoil, corruption, and accountability hamper structural inefficiency reduction (Thakkar, 2025). Political players may misapply industrialization, agricultural modernization, and entrepreneurial programs. Due to instability, investors lose confidence and avoid high-productivity sectors.

Regional competition and elections effect economic policy. Politicians may prioritise politically crucial regions or constituencies over efficiency or national growth (Ogami, 2024). Thus, resource allocation may privilege political expediency above productivity, worsening misallocations and structural rigidities.

Rent-seeking and inefficient allocation exacerbate economic inequality and reduce productivity due to weak institutions and unbalanced incentives (Facchini et al.,

2024). Cracking this loop requires reforming market structural restrictions and political and institutional frameworks that favor inefficiency.

Mechanisms Linking Rigidities to Growth Persistence

Understanding why Nigeria's growth remains persistent yet uneven requires analyzing the mechanisms through which structural rigidities, productivity misallocation, and political economy dynamics interact. This section synthesizes the empirical patterns highlighted in Section 3 with the theoretical insights from Section 2 to explain how inefficiencies become entrenched and self-reinforcing.

Institutional Constraints and Economic Efficiency

One of the major factors linking structural rigidities to growth persistence is the function of institutional restrictions (Callais & Young, 2022). Institutions both official and informal impact the incentives encountered by economic actors, the enforcement of contracts, property rights, and the overall efficiency of markets. In Nigeria, inadequate institutions impede the ability of enterprises to invest, expand, and reallocate resources efficiently. For example, poor enforcement of business regulations and corruption in bureaucratic processes increase transaction costs for organizations, particularly for small and medium-sized enterprises (SMEs) attempting to formalize or expand.

These institutional deficiencies inhibit the natural exit of inefficient enterprises and the expansion of more productive ones. As a result, resources such as capital and labor stay imprisoned in low-productivity activities, limiting aggregate productivity development (Giombini et al., 2023). The lack of dependable legal frameworks for property and contract enforcement further inhibits long-term investment, as enterprises cannot be confident that their returns will be safeguarded from expropriation, government meddling, or market manipulation.

Resource Allocation Distortions Across Sectors

Growth persistence is also maintained via resource allocation distortions. The Nigerian economy is imbalanced between the oil-dominated official sector and labor-intensive sectors like agriculture and informal trade (Abid et al., 2023). Due to high oil sector returns and preferential lending and infrastructure, capital and skilled labor are diverted from other sectors, producing a "resource trap" where particular activities are rewarded regardless of productivity.

The most efficient manufacturers and farmers don't always get funding and labor. Politically connected corporations may receive subsidies regardless of productivity, while innovative small-scale firms suffer growth restrictions. Misallocation lowers the economy's aggregate productive

potential, making growth more vulnerable to exogenous shocks like oil price variations.

Political Incentives and Reform Resistance

Nigeria's political economy maintains structural rigidity and misallocation. Political incentives favour maintaining the status quo over making tough but necessary improvements (Persson, & Sundell, 2025). Politicians and elites may benefit from oil rent-seeking or public resource control, resisting initiatives that would improve economic efficiency but lessen political capture.

Policy inconsistency worsens it. Low implementation capacity and frequent economic policy changes deter investment in high-productivity sectors (Jacob, & Umoh, 2025). Due to taxation, regulation, and government involvement uncertainty, entrepreneurs and enterprises may take short-term approaches or delay formalization. This political dynamic increases structural rigidities by directing resources to sectors or enterprises favored by political power rather than productive potential.

Interaction Between Informality, Institutions, and Productivity

A major part of Nigeria's economy is informal, which shows how structural rigidities, institutional deficiencies, and political incentives limit productivity (Nzereogu, & Nzereogu, 2025). Limited access to funding, technology, and markets limits informal enterprises' growth and innovation. High regulatory constraints and bureaucratic impediments impede formalization, placing these enterprises outside growth-supporting institutional structures.

Informality also affects political economy (Gottlieb, 2024). Informal firms may be tax-exempt but lack assistance since they are less regulated. This reinforces sectoral and regional imbalances by creating a dual economy that underutilizes productive opportunities. The continuation of informality shows how structural and institutional impediments hinder resource allocation and productivity-boosting innovation.

Feedback Loops and Growth Persistence

The foregoing strategies form feedback loops that exacerbate Nigeria's growth persistence issues. Structures that restrict resource allocation cause productivity misallocation (Chen, et al., 2023). Misallocation diminishes reform and investment incentives, entrenching inefficiencies. Political economic dynamics perpetuate this cycle by favoring elites and politically linked actors.

Nigeria has seen GDP growth without structural change due to this self-reinforcing loop. Capital-intensive or natural resource-dependent sectors grow while labor-intensive sectors stagnate (Juhari, et al., 2025). Without resolving

institutional and political constraints that cause resource misallocation, economic growth will remain uneven, volatile, and sensitive to external shocks.

Implications for Long-Term Development

Understanding these mechanisms has important implications for policy and development strategy. Efforts to stimulate growth must go beyond traditional macroeconomic measures, such as fiscal or monetary policy, to address the structural and institutional factors that limit efficiency. Reforms that reduce barriers to resource mobility, improve governance, strengthen institutions, and enhance the investment climate for productive sectors are essential (YOGANANDHAM, 2024). Additionally, policies must be designed with an awareness of the political economy context to ensure that reforms are feasible and sustainable, rather than blocked by entrenched interests.

Policy Implications

Nigeria's structural rigidities, productivity misallocation, and political economy dynamics demonstrate the necessity for a comprehensive policy that addresses economic and institutional restrictions. Sustainable growth needs resource allocation, governance, sectoral diversity, and human capital improvements. This section discusses policy implications from the previous debate.

Removing structural barriers to capital and labor flow to productive sectors is a top policy aim. This includes reducing business registration, licencing, and operation regulations to reduce formalization costs and complexity. Eliminating obstacles to market access for SMEs boosts competitiveness and allows productive firms to grow, enhancing aggregate efficiency.

Infrastructure development is crucial to structural restructuring. Electricity, transportation, and logistics investments can cut production costs, improve market access, and boost manufacturing and agro-processing. Reducing infrastructure bottlenecks helps organizations allocate resources more efficiently and focus personnel and capital on higher-productivity tasks.

Financial market reform is necessary for efficient capital allocation. Policies should boost loan access for productive enterprises, especially SMEs and startups. Encourage financial institution competition, establish alternative financing methods like venture capital, and reduce collateral requirements to ensure capital flows to high-productivity sectors and enterprises.

Maintaining growth-enhancing reforms requires addressing institutional shortcomings. Stronger property rights, contract enforcement, and dispute resolution laws reduce uncertainty and encourage investment. Anti-corruption and accountability policies in public administration can reduce

rent-seeking and ensure resource allocation based on productivity rather than political ties.

Effective policy implementation must be part of institutional transformation. Consistent legislation, transparent government procurement, and streamlined administrative processes produce a predictable corporate climate that encourages long-term investment. Enhancing regulatory agencies and audit bodies can reduce policy capture and improve resource allocation. Nigeria needs economic diversification to reduce oil dependence and strengthen its economy. Policies should encourage investment in high-productivity industries including manufacturing, technology, and agro-processing. Targeted subsidies, tax incentives, and public-private partnerships can boost innovation and industrial upgrading.

Agricultural modernization should be prioritized due to its job share and productivity growth potential. Mechanization, irrigation, storage, and market access can boost rural income and agricultural efficiency. Such initiatives, along with land tenure reforms and cooperative support, can improve labor and capital allocation across regions and sectors.

Regional development policies matter too. In lagging regions, reducing infrastructural, education, and market access gaps can mobilize labor and capital. Policymakers can promote balanced growth and avoid resource concentration in urban centers by establishing regional economic clusters.

Human capital improvement boosts production and reduces misallocation. Education, vocational training, and skill development can give workers technical and managerial skills for high-productivity sectors. Policies should promote STEM education, link curricula with labor market needs, and support lifelong learning to adapt to technological change.

Also important is encouraging innovation. Establishing R&D institutions, fostering technological adoption, and facilitating knowledge transfer can boost industry and service productivity. High-productivity enterprises can scale by encouraging private sector participation in innovation environments including incubators, innovation centers, and startup finance.

Political economy context is essential for policy change feasibility and sustainability. To reach consensus on reform priorities, policymakers must involve stakeholders across industries and regions. Open and participatory decision-making can lessen entrenched interests' resistance and boost public support for efficiency-boosting measures.

Reforms should mitigate harmful effects on politically vulnerable groups. Social safety nets, retraining initiatives,

and targeted support for affected communities should accompany progressive subsidy elimination or public employment restructuring. Political economy can aid structural change by matching incentives with development goals.

Thus, structural changes, institutional strengthening, sectoral diversification, human capital development, and politically informed policymaking are needed to overcome Nigeria's growth persistence issues. Sustainable, productivity-driven growth requires coordinated economic and political resource allocation initiatives.

Conclusion

Nigeria's growth shows a complicated interaction between structural rigidities, productivity misallocation, and political economy. The country has enormous natural resources, a huge labor force, and great market potential, but inefficiencies restrict long-term development. This study explored how structural and institutional variables limit resource allocation, productivity gaps across industries and regions, and political incentives affect policy results. The mechanisms that preserve inefficiencies explain why Nigeria's economic growth is uneven, sectorally concentrated, and subject to external shocks. Infrastructure shortages, labor market segmentation, regulatory complexity, and financial constraints impede resource flow to high-productivity sectors. Productivity misallocation concentration of capital and labor in inefficient businesses and regions reduces aggregate efficiency. Political economic variables including rent-seeking, policy inconsistency, and governance issues compound systemic flaws and hinder reform. These causes create self-reinforcing loops that limit productivity and structural change.

Understanding Nigeria's structural, institutional, and political economics is necessary to address these issues. Narrow policy actions are unlikely to sustain economic development. Instead, genuine reforms must address market inefficiencies, strengthen institutions, diversify sectors, improve human capital, and incorporate political economy. This method can boost productivity, inclusive growth, and resilience to economic shocks.

Recommendations

1. Nigeria must implement reforms aimed at removing structural rigidities that hinder efficient resource allocation. Simplifying business regulations, reducing bureaucratic bottlenecks, and improving access to credit and markets for SMEs can allow productive firms to expand, thereby enhancing aggregate productivity.

2. Strengthening institutions is critical for sustainable growth. Reforms should focus on enforcing property rights, improving contract enforcement, enhancing regulatory transparency, and combating corruption
3. Nigeria should actively promote diversification away from oil dependency by incentivizing investment in manufacturing, agro-processing, technology, and services. Agricultural modernization, industrial upgrading, and regional development programs can mobilize underutilized labor and capital, reduce regional disparities, and promote inclusive growth.
4. Improving the skills, knowledge, and capabilities of the labor force is essential for productivity enhancement. Investments in education, vocational training, and STEM programs can prepare workers for high-productivity sectors.
5. Policy interventions must account for the political and institutional context to ensure sustainability. Engaging stakeholders, building consensus around reform priorities, and designing mechanisms to mitigate potential resistance from politically sensitive groups can facilitate the adoption of efficiency-enhancing policies.

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