Kingsgate Advisors Institute

Commentary

Unlocking the Southwest Economy:
Productivity, Jobs and Fiscal Independence

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A state's budget shows what it has received. Productivity shows what it has created.

The Strategic Overlay

By Dr. Oluwanbepelumi Olanubi

In this commentary, Adesoji Farayibi places Southwest Nigeria's development question where it belongs: not in the narrow language of allocations, headline IGR or state rankings, but in the deeper discipline of productivity. His central argument is clear. A state is not productive because it collects more, receives more or has more people. A state is productive when it converts land, labour, capital, institutions and infrastructure into higher value, better jobs, stronger firms and improved welfare.

My strategic overlay on this commentary is that the Southwest is now facing a competitiveness test that goes beyond any single state. Lagos may remain the region's dominant commercial and financial anchor, but the future of the Southwest will not be secured by asking every state to become a smaller Lagos. The more important task is to build a complementary regional economy: Ogun as an industrial and logistics corridor, Oyo as an agro-processing and commercial base, Ondo, Osun and Ekiti as platforms for agro-industry, education, light manufacturing, skills and emerging value chains.

The intellectual shift required is to move from fiscal dependence to productive federalism. Fiscal independence should not mean extracting more from the same households and businesses under pressure. It should mean expanding the productive base that generates employment, income, enterprise growth and taxable capacity over time. That is why productivity, not taxation, must become the organising principle of subnational economic strategy.

As you read this commentary, look beyond the familiar debate about FAAC, IGR and state revenue. The larger question is whether the Southwest can act as a coordinated economic bloc, using shared transport, power, security, data, skills and agricultural value chains to turn geographic proximity into real competitiveness. That is the strategic question that matters for governors, investors, development partners and business leaders.

Introduction

Southwest Nigeria is one of the most economically important regions in the country. It includes Lagos, Ogun, Oyo, Osun, Ondo and Ekiti, and together these states hold major advantages in trade, agriculture, manufacturing, transport, education, technology, logistics and professional services. Yet the region is not one economy in any simple sense. It is a group of six states at different stages of development, with different strengths, different constraints and different levels of institutional readiness.

The central question is productivity. A state is not productive simply because it has a large budget, a large population or high internally generated revenue. True productivity is about how effectively a state uses land, labour, businesses, infrastructure and public resources to create value. More importantly, that value must translate into better jobs, higher incomes, stronger businesses, improved public services and a better quality of life for citizens. Fiscal independence will not come from taxing already stretched households and businesses more aggressively. It will come from building more productive state economies.

Productivity Is Value Creation, Not Size

The starting point is a clear definition. Productivity means output per unit of the factors of production. In the context of a state economy, it is the value a state generates from its land, labour, capital, institutions and public investment. It may be measured per worker, per hectare, per naira of public spending or through the wider efficiency of sectors and firms. The underlying point is simple: productivity is about results, not receipts.

This distinction matters because public debate often confuses fiscal size with economic performance. A budget tells us what a state has collected or received. Internally generated revenue tells us something about the revenue effort of the state. Population tells us the scale of the market or labour force. But none of these, on its own, proves that the state is productive. A state can receive a large federal allocation and still create little value. Another state can have more modest revenue and still use its resources efficiently. What matters is what the state creates with what it has.

The practical test of productivity is therefore not whether a state looks large on paper. It is whether growth is broad-based, whether firms are becoming more competitive, whether workers are becoming more skilled, whether household incomes are rising, whether infrastructure is being used efficiently and whether citizens experience development in their living standards. Productivity is ultimately a welfare question, not only a technical economic term.

No Single Indicator Tells the Whole Story

State productivity cannot be captured by one number. A serious assessment requires a basket of indicators. Output per worker remains central because it shows labour productivity and gives a direct sense of how much value is being generated by the workforce. But labour productivity alone is not enough. Sector performance must also be assessed because the composition of growth matters. A state may record economic expansion, but the quality of that growth depends on whether value-added sectors are growing or whether the economy remains trapped in low-productivity activities.

Household income and consumption trends are equally important because growth can break down at the point of transmission. If growth does not reach households, then productivity gains remain distant from lived reality. Employment quality also matters. It is not enough to ask whether jobs exist; policymakers must ask whether the jobs are formal or informal, secure or insecure, skilled or low-skilled, temporary or career-building. A state may appear active economically and still have a labour market dominated by underemployment.

Business activity indicators provide another important lens. The number of new businesses registered, the survival rate of MSMEs, the ease of doing business, the quality of infrastructure, road density, logistics throughput, power availability and IGR relative to GDP all help reveal how efficiently a state converts its economic base into value. The lesson is that productivity analysis must be composite. A state can look strong on GDP and weak on jobs. It can look strong on IGR and weak on household welfare. A basket of indicators protects decision-makers from misleading headline figures.

The Data Problem Is Itself a Development Constraint

A major challenge in state-level productivity analysis is the weakness of subnational data. Nigeria has made progress with national statistics, including more recent rebasing exercises for GDP and the consumer price index, but state-level data still remains uneven. Many states lack timely, comparable and disaggregated releases. Payroll data is weak, household surveys are infrequent, business registries are incomplete, and methodologies for reporting IGR and capital expenditure are not always harmonised.

This matters because states often plan next year's policy with data that is already old, incomplete or not comparable across jurisdictions. Without reliable data, it becomes difficult to identify which sectors are actually productive, where jobs are being created, which investments are working and which reforms are failing. Productivity is not only about producing more; it is also about knowing where value is being created and where it is being lost.

The solution begins with better coordination between state bureaus of statistics, regional institutions and the National Bureau of Statistics. Definitions must be harmonised. Comparable data should be published more regularly. Regional data systems should be strengthened so that investors, policymakers and citizens can see the economic story more clearly. Data is not a side issue. It is part of the infrastructure of productivity.

The Southwest Is Not One Economy

One of the most important insights in the commentary is that the Southwest is not one uniform economy. It is six economies loosely bound by geography, history and shared regional identity. Lagos dominates in commerce, finance, technology and trade, but it also faces congestion, flooding, high business costs and infrastructure pressure. Ogun has become an industrial and manufacturing corridor, benefiting from its proximity to Lagos, with strengths in cement, food processing and logistics, but it also faces road and logistics constraints.

Oyo has a strong agricultural, agri-processing and informal commercial base centred around Ibadan. Osun, Ondo and Ekiti are more agrarian, with underexploited potential in cocoa, cassava, timber, agro-industry and education. These differences matter because a single development strategy cannot work equally for all six states. The region's strength lies not in uniformity, but in complementarity.

The major productivity gaps across the region are linked to infrastructure, logistics, farm competitiveness, skills alignment and investment coordination. States outside Lagos and Ogun need strategies that address their own binding constraints rather than measuring themselves against Lagos alone. The goal should not be sameness. The goal should be a connected regional economy in which each state becomes more productive by building on its own advantages and linking them to the strengths of others.

The Losing Strategy of Becoming Another Lagos

For many state governments, Lagos is treated as the model to copy. This is understandable, but it can also be misleading. Lagos has a distinctive history as Nigeria's former federal capital, a major port city, a financial centre, a commercial hub and an agglomeration economy with deep skills, networks and infrastructure concentration. These advantages are not easily replicated.

Trying to become a smaller Lagos can therefore become a losing strategy. Ogun should lean into manufacturing, industrial clusters and logistics. Oyo and Osun should deepen what they already grow and process. Ondo can push agro-industrial development and the blue economy. Ekiti can position around education, agriculture, a business-friendly environment and light industry priced out of Lagos. The issue is not which state can imitate Lagos. The issue is how each state can become more economically coherent.

This is where regional coordination becomes important. The role of the DAWN Commission is not to make the six states identical, but to help them avoid duplication, reduce destructive competition and build complementary roles within a single investment corridor. A region becomes more credible when it can present investors with a coordinated value proposition rather than six isolated pitches.

The Productivity Potential Is in Existing Value Chains

The largest gains in the Southwest may not come from discovering entirely new sectors. They may come from making existing sectors more productive. Agriculture is one obvious example. The region already produces cocoa, cassava, rice and oil palm. The major opportunity is to process more locally rather than export raw materials and re-import processed goods. Agro-processing can raise value, create jobs, improve farm incomes and expand the tax base.

Manufacturing is another important platform, especially in Ogun and other states where industrial clusters can grow if power and logistics constraints are addressed. Recent constitutional changes that allow states to generate, transmit and distribute power create an opportunity for subnational energy strategies. If states can reduce power unreliability and improve logistics, industrial productivity can rise significantly.

Technology and the creative economy also offer strong opportunities, particularly because the Southwest already has a base of talent, enterprise and urban demand. Remote work, digital services and creative production can generate high-value jobs if skills, infrastructure and financing are aligned. Logistics and trade facilitation are the productivity multipliers that connect all these sectors. Without efficient logistics, no sector can scale properly. The strategic point is clear: productivity will come from upgrading value chains that already exist.

Fiscal Independence Requires Growth, Not Extraction

Fiscal independence is often misunderstood. FAAC allocations are a constitutional entitlement of states, not merely evidence of weakness. The real issue is not whether states should receive FAAC. The real issue is whether states can broaden their own revenue base by growing productive activity. A state that becomes fiscally stronger through growth is different from a state that merely taxes the same struggling households and firms more aggressively.

When internally generated revenue becomes the target rather than the by-product of growth, policy can become extractive. If the number and size of businesses, formal jobs and household incomes are not growing, aggressive tax collection simply draws more from the same shrinking pool. Over time, that becomes economically damaging. The better strategy is to grow the tax base. When business activity expands, employment rises, incomes improve, transactions increase and firms formalise, revenue grows more naturally.

That requires better ease of doing business, incentives for MSME formalisation, digital tax administration, support for sectors with high turnover but low formalisation, and policies that reduce leakages without raising tax rates indiscriminately. States should pursue growth first. Revenue should follow as a consequence of a broader, healthier and more formal economy.

The Reform Agenda: Power, Land, Skills, Finance and Institutions

Building more productive state economies requires a reform agenda that is practical and sequenced. Infrastructure comes first. Power, roads, rail and logistics determine the cost structure of firms. Unreliable power can erase the value of almost any tax incentive. Poor road access can make a potentially attractive state unattractive to investors. If infrastructure reduces operating costs, firms become more competitive and employment becomes easier to generate.

Land administration is another major reform area. Investors need predictable land titling, faster registration and fewer unresolved disputes. When land processes are unclear, investment is delayed or discouraged. For manufacturing, agro-processing, housing, logistics and commercial development, land certainty is central to productivity.

Skills alignment must also improve. A mismatch often exists between what training institutions produce and what growing sectors require. Agro-processing, logistics, digital services, manufacturing and light industry need workers with practical technical skills. Education and vocational systems must therefore be tied more deliberately to productive sectors. Access to finance is equally important, especially for MSMEs and agro-processors that drive employment but may not be well served by commercial banks. Finally, institutions matter. Regulatory predictability, streamlined approvals and capable public agencies reduce uncertainty and make investment easier.

Growth Must Reach Jobs, Incomes and Welfare

Growth and welfare are not the same thing. A state can report stronger economic numbers while citizens continue to feel no improvement in their daily lives. The transmission mechanism matters.

Growth improves living standards when it happens in sectors that employ many people and pay above subsistence wages. If growth is concentrated only in narrow, capital-intensive sectors, GDP may rise without reducing poverty or improving household income.

For the Southwest, labour-absorbing sectors such as manufacturing, agro-processing, logistics and parts of the digital economy are especially important. These sectors can create jobs that go beyond survival work. They can support wages, skills, formalisation and productivity. Public services also matter because health and education are productivity multipliers. A workforce without quality education and adequate healthcare cannot sustain high productivity for long.

The goal should therefore be to ensure that productivity gains translate into better employment, higher incomes and reduced poverty. That means identifying sectors with high employment potential, supporting firms to grow, helping workers acquire relevant skills and ensuring that public services improve the quality of human capital. The point is not growth for its own sake. The point is growth that reaches people.

Youth Underemployment Is a Skills-Matching Problem

Youth unemployment in the Southwest is not only a story of job scarcity. It is also a story of mismatch. Many young people are working, but they are trapped in low-productivity, informal or insecure activities that do not build transferable skills or long-term wealth. This is underemployment. It is different from having no job, but it can be just as damaging because it keeps people busy without moving them forward.

The solution must go beyond generic entrepreneurship programmes. Apprenticeships, technical and vocational education should be tied directly to growing sectors. If agro-processing, logistics, manufacturing, digital services and light industry are the sectors with real productivity potential, then training programmes should be designed around the skills those sectors require. Fashion design, baking and similar skills may have value, but they cannot be the whole youth-employment strategy.

State-backed MSME financing can also help, especially for youth-led enterprises and businesses located in inland states such as Osun, Ondo and Ekiti. The goal is not simply to create more survival jobs. The goal is to help young people move into sectors that build careers, skills and wealth over time. A productive region must give its young people a ladder, not only a hustle.

Regional Integration Is the Productivity Multiplier

Some problems do not respect state boundaries. Power, transport, logistics, security and agricultural value chains cannot be solved efficiently if every state acts alone. A road network is more valuable when it connects states than when it ends in isolated segments. A regional power strategy may be more credible than fragmented state-by-state solutions. Rural security threats and cross-border crime require coordinated security architecture. Agricultural value chains often run across multiple states.

A crop grown in Oyo may be best processed in Ondo and supplied or exported through Lagos. Agricultural produce from Ondo or Ekiti may depend on Lagos as a major consumption and logistics market. Coordinated planning can therefore capture more value across the region than isolated state action. Instead of moving raw products from one state to another without adding value, the region can organise production, processing, logistics and market access as a connected system.

The DAWN Commission's coordinating role is central to this logic. It has worked on regional power coordination, rail planning across towns and communities, harmonisation of development plans, regional data, security, agriculture, competitiveness and investment promotion. Its value lies in helping the states avoid duplication, pool resources, coordinate priorities and present the Southwest as a more coherent economic bloc. Coordination is often taken for granted until the cost of not working together becomes visible.

Key Takeaways

• **Productivity is not size; it is value creation.** Budgets, IGR and population are important, but they are not outcomes. The real test is what a state creates from land, labour, capital, infrastructure and institutions.

• **State-level productivity requires a basket of indicators.** Output per worker, sector value-added, household income, employment quality, MSME activity, infrastructure use and IGR-to-GDP all matter. No single number tells the whole story.

• **The Southwest should not pursue six versions of Lagos.** Lagos has unique and largely non-replicable advantages. Other states should build on their own strengths and connect them through a complementary regional corridor.

• **Fiscal independence should come from growth, not extraction.** States should broaden the tax base by expanding enterprise, formal employment, business activity and incomes, rather than squeezing the same taxpayers more aggressively.

• **Jobs and welfare are the real transmission test.** Productivity gains matter only when they create better jobs, higher incomes, stronger firms, improved services and reduced poverty.

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• **Regional integration is the strategic multiplier.** Transport, power, security, data, investment promotion and agricultural value chains are stronger when coordinated across the six states rather than handled in isolation.

Conclusion

The Southwest economy cannot be unlocked by rhetoric, rivalry or revenue targets alone. It will be unlocked by productivity. That means using land better, strengthening firms, improving infrastructure, aligning skills with sectors, making institutions more predictable and ensuring that growth reaches households through jobs and incomes.

The region's advantage is real, but it is uneven. Lagos is powerful, Ogun is industrial, Oyo has scale and agro-processing depth, while Osun, Ondo and Ekiti hold underused agricultural, educational and industrial potential. The challenge is not to make the states identical. The challenge is to make them complementary.

That is why fiscal independence must be understood as an economic-development project, not merely a revenue-collection project. A stronger tax base will come when businesses grow, workers earn more, firms formalise, sectors move up the value chain and investors see a coherent regional opportunity. If the Southwest can coordinate around power, transport, security, data, skills and value chains, it can become more than a collection of states. It can become a competitive regional economy.

Note: This commentary is adapted from Kingsgate Brief featuring Adesoji Farayibi and it is intended for education, public understanding and strategic reflection on state productivity, fiscal independence and regional economic development in Southwest Nigeria.

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