**PRIVATE SECTOR AS A CATALYST FOR UNLOCKING ECONOMIC OPPORTUNITIES, ECONOMIC DIVERSIFICATION AND DEVELOPMENT IN NIGERIA**

**By**

**PROF. VICTOR A. ADEYEYE**

**AG. DIRECTOR GENERAL**

**NIGERIAN INSTITUTE OF SOCIAL AND ECONOMIC RESEACH (NISER) IBADAN**

**AUGUST, 2016**

**Introduction**

The role of government is to protect the social, political and economic interest of the governed with the overall goal of improving their welfare. Towards achieving this, government requires adequate fund to pursue the provision of the wherewithal that will enhance the well-being of the citizenry in all ramifications. Adequate revenue could only be guarranteed if the economy is buoyant and that buoyancy is sustained. Sustaining a buoyant economy requires maximum development of all the economy potentials of the country. However, over several decades in Nigeria, reliance has been on the oil sector as the major revenue generating sector. The volatility in the oil sector with respect to production and pricing, has led to suggestion for economic diversification.

The need for economic diversification is underscored by the trend of economic development in Nigeria. The premise for this is laid by the submission of Kale (2016)[[1]](#footnote-2). The performance of economic indicators between 2010 and 2014 was impressive. According to Kale: GDP growth was at 7.98% in 2010 and was driven by a household consumption of N36. 4 trillion which rose to N63.5 trillion by 2014; inflation averaged 13.7% in 2010 and dropped to 85 a few years later; Export Merchandise Trade was up 75%, year on year portfolio and foreign direct investment stood at US$5.9 billion in 2010 rising over US$20 billion a few years later; Crude oil prices averaged above $70 a barrel in 2010 rising to over US$100; exchange rate of the naira to the dollar was relatively stable at N150 to the dollar at 2010. This was the good time.

Presently, things have changed. Since June 2014: oil prices fell 66.8% from $114/barrel recorded in June 2014, to $38 by December 2015, falling further in 2016 to $31.4 as at 22nd February, 2016; economic growth slowed to about 3% in 2015, the slowest growth since 1999; Foreign Direct and Potfolio investments have declined from a high of US20.9 billion in 2014 to about US$9.6 billion in 2015; Exports are down 12%; Manufacturing has slowed considerably and trade is now growing at about 4% from a high of 74% and previous low of 9.4%.

Consequent upon all these, government revenue has declined following declining oil prices, slower economic activities and hence lower corporate taxes, declining consumption and hence lower value added taxes, exchange rate adjustments and lower trade related tariff revenues, as well as slower portfolio and foreign direct investment accretion.

As further observed by Kale, while the falling price of crude oil is a big problem, a bigger one lies with oil price volatility, especially since the nation relies on oil for a large chunk of its revenue. This gives staggering and pervasive multiplier effects for the entire economy. As a survival strategy, the country needs to expand its revenue base thus necessitating the need to diversify the economy and focus on creating opportunities in the non-oil sector. A way towards realising this is to explore the possibility of engaging the private sector to create opportunities in the non-oil sector for economic growth and development. This is most necessary sinced almost hal of the country’s economy is informal and out of the (fiscal) control of the government.

Shediac et al(2008) stresses the importance of infrastructure and the need for private sector involvment to strengthen infrastrutue base and enhance its contribution to economic growth and development. For instance they observe that water, transportation, energy, and telecom infrastructure are essential to the growth and survival of a nation. When infrastructure is planned, funded, and maintained well, infrastructure plays a vital role in supporting a high standard of living and facilitating commerce and trade, thereby extending a nation’s global reach. In spite of this it is observed that despite the well-documented link between high-caliber infrastructure and economic expansion, governments operating on razor-thin budgets, especially in countries experiencing rapid population growth and urbanization, may not be equipped to make the necessary investments. In a bid to address this proble, government organizations are tapping the private sector for capital, technology, and expertise to finance, develop, and manage public-sector infrastructure projects. They also observe that policy makers have realised that when coupled with the right sets of policies and instituional environments, the public-private partnerships (PPPs) can become catalysts for economic growth.

It is further observed that d**development cannot be achieved by public sector initiatives alone.**[[2]](#footnote-3) **The private sector, as an engine of economic growth, plays a key role in any nation’s drive to eradicate poverty and foster an inclusive society.** In many developing countries, the private sector – in particular through its micro-businesses as well as its small and medium-sized enterprises (SMEs) – is the main source of employment. The case of Nigeria should not be an exception.

**Overview of the Nigerian Economy**

In order to appreciate the need to diversify the country’s economy, it is imperative to have a look at the strcuture of the country’s economy with respect to sectoral growth and contributions to the the economy. As presented in table 1, the contribution of the agricultural sector to the country’s GDP fell from 23.91 per cent in 2012 to 23.11 per cent in 2015. The contribution of industries to the GDP also fell from 25.61 per cent in 2012 to 23.71 per cent in 2015 while the contribution of the services sector increased from 50.48 p3er cent in 2012 to 53.18 per cent in 2015. Again, growth in the agricultural sector dropped from 6.70 per cent in 2012 to 3.72 per cent in 2015, growth in the industrial sector dropped from 2.43 per cent in 2012 to -2.4 per cent in 2015 while growth in the industrial sector increased from 2012 to 4.78 per cent in 2015. This implies that activities in the services sector have been booming compared to the situation in the agriculturals and industrial sector. The problem is that the services sector is being fed by imports rather than domestic industrial production. This structure underscores the need to focus on the industrial sector and promote activities in these sectors to enhance economic growth, create employment opportunities and widen the revenue base. This again calls for economic diversification which should be driven by the private sector.

**Table 1: Structure of Nigerian economy (2012-2015)**

****

**Source: NBS (2016) Nigeria Gross Domestic Report, Quarter 4, 2015, NBS Abuja. March 2016)**

**The Role of and The Need for Private sector Participation**

As the monetary consensus emphasised, private investment is a powerful catalyst for innovation, economic growth and poverty reduction.[[3]](#footnote-4) It is noted that vigorous and sustained economic growth, fuelled by investments and enterpreneurship, is needed for the private sector to create more jobs and increase incomes of the poor. In turn this will generate the revenues that governments need to expand access to health, education and infrastructure services and so help improve productivity.

The important role the private sector can play in sustainable development is recognized by the United Nations. According to the body, this include the development of a broader set of relevant productive capacities in agriculture, manufacturing and the services sector, and the redeployment of resources into activities with higher productivity lie at the heart of self-sustaining and lasting economic growth. It is further observed that as governments establish stable macro economic environments, enact policies to facilitate economic diversification, and have primary responsibility for education, infrastructure and other public goods, the private sector plays a role in enhnacing productive capacities and enterpreneurship. In this regard, the private sector helps lead investment in productive capacities and builds enterprenuership. In addition, the sector can drive development of technology, provide capital, build sklills and capacities of employees and suppliers, and engage in dialogue around policy and institutional constraints.[[4]](#footnote-5)

It is in recognition of the important role of the private sector that the African Development Development bank (AfDB) made the development of the sector one of the four priorities of its Medium Term Strategy (MTS) for 2008-12 along with infrastructure, governance, and higher education.

Private sector development affects populations, including the informal sector and the poor, at several levels:[[5]](#footnote-6)

* as employees:

Many poor people see getting a job – whether through self-employment or from receiving a salary – as their most promising path out of poverty. Better employment opportunities also increase incentives for people to invest in their education and skills. Competitive, profitable and growing businesses, including those in the informal sector, can also pay better wages and invest more in training.

* as entrepreneurs:

The innumerable businesses in the informal economy, including its wide variety of small and medium-sized enterprises, face many of the same problems as officially established companies. These challenges include insecure property rights, corruption, policy unpredictability, and limited access to finance and public services. Tackling difficulties such as these increases entrepreneurs’ incomes and enables them to expand their activities. It also increases incentives to join the formal economy.

* as consumers:

The private sector has a major role in providing everybody with access to basic goods and services, such as clean water and sanitation, energy, financial services, communication technologies, housing, medicines and many other inclusive innovations. In doing so, they can help improve poor peoples' lives not only by serving them as consumers, but more importantly by providing them with the factors they need to develop their own productive activities.

* as citizens:

A growing private sector will ultimately enable governments in developing countries to generate the tax revenues contributing to funding of wider development strategies and also as a civil society actor that can contribute to democracy and state-building.

As noted by the CBL Economic Review (2009)[[6]](#footnote-7)The role played by the private sector development in economic growth and its impact on eradicating poverty is currently at the centre of national development plans for many countries around the world. Private enterprises do not only promote economic growth and reduce poverty, but they contribute greatly in the provision of employment opportunities for the poor, better standard of living. This means that supporting the private sector development, through conducive environment and increased entrepreneurial capacity building, is a critical step towards achievement of sustainable economic growth.

**Efforts at Enhancing Private Sector Participation in Nigeria**

Kolawole and Omobitan (2014)[[7]](#footnote-8) gave an overview of Private sector participation in economic development in Nigeria. According to the authors, prior to the introduction of the Structural Adjustment Programme (SAP) in 1986, the Nigerian economy was largely dominated by the public sector. The introduction of SAP radically shifted emphasis to the private sector as the catalyst of economic development. Many programmes policies and programmes were later introduced to to support private sector activities in the country. Some of these included the financial policy of recapitalization which set the minimum paid up capital at N25 billion (about $208 million); Small and Medium Industries Equity Investment Scheme (SMIEIS) in which Banks contributed 10 per cent of profit after tax; Micro credit fund requiring banks and each state government to contribute 5 per cent each; and Vision 20-2020 which aims at making Nigeria the 20th largest economy by the year 2020.

The authors observed that the government got interested in privatisation in orde to achieve the following objectives:

* Increasing productive efficiency;
* Strengthening the role of the private sector in the economy which will guarantee employment and higher capacity utilization;
* Improving the financial health of public services with savings from suspended subsidies;
* Freeing more resources for allocation to other needy areas of governmental activities (for example, finances that would have been applied for subsidies should now be channelled to the development of rural communities)
* Reducing corruption because interference by politicials will cease;

Towards achieving the above objectives, privatization in Nigeria was formally introduced by the Privatization and Commercialization Act of 1988. This Act later set up the Technical Committee on Privatization and Commercialization (TCPC) with a mandate to privatize 111 public enterprises and commercialize 34 others. By 1993, the TCPC, having privatized 88 out of the 111 enterprises listed in the Act, concluded its assignment and submitted its report and recommendations, based on which the the Bureau of Public Enterprises (BPE) Act of 1993 was promulgated and the Act of 1988 was repealed. The BPE was to implement the privatization program in Nigeria. Much later, in 1999, the the Public Enterprise (Privatization and Commercialization) Act was enacted. This Act created the National Council on Privatization. The functions of the council include the following:

* Making policies on privatization and commercialization
* Determining the modalities for privatization and advising the government accordingly;
* Determining the timing of privatization for particular enterprises;
* Approving the prices for shares and the appointment of privatization advisers;
* Ensuring that commecializedpublci enterprises are managed in accordance with sound commercial principles and prudent financial practices;
* Interafacing between the public enterprises and the supervising ministries in order to ensure effective monitoring and safeguarding of the managerial autonomy of the public enterprises.

The 199 Act also established the Bureau of Public Enterprises (BPE) as the secretariat of the National Council on Privatization. The Bureau was charged with the following functions:

* Implement the council’s policies on privatization and commercialization;
* Prepare public enterprises approved by the council for privatization and commercialization;
* Advise the council on capital restructurin needs of enterprises to be privatised;
* Ensure financial discipline and accountability of commercialized enterprises;
* Make recommendations to the council in the appointment of consultants, advisers, investment bankers, issuing houses, stockbrokers, solicitors, trsutees, accountants, and other professionals required for the purpose either privatization and commercialization; and
* Ensure the success of privatization and commercialization implementation through monitoring and evaluation.

In a bid to also invlove the private sector in the efforts of the government to diversify the economy, the Private Sector Development Programme (PSDP) was introduced and aimed at growing the non-oil resource base and creating wealth for the poor through the concept of ‘inclusive markets’. It was designed to make the market work better for for the poor as enterpreneurs, wage employees and consumers of goods and services by boosting employment, value added production and incomes. The programme was expected to tackle unmet needs of the productive sectors in the areas of reliable and affordable credit and energy to meet the following four outcomes:

* Increased access to affordable and reliable sources of reneable energy for Small and medium-scale Enterprises (SMEs), rural and urban settlements;
* Developed and/or expanded growth and linkages in agriculture and agro-industry to meet demands in domestic, regional and international markets while boosting productivity, value addition, employment and incomes, especially in rural and peri-urban areas;
* An expanded base of private sector-based service providers targeting business and market development for SMEs, including microfinance and enterpreneurship training;
* Application of innovative corporate social responsibility (CSR) models that integrate SMEs with the core business of large and medium sized corporate organizations.

In spite of all these efforts in Nigeria, involvement of the private sector in economic development has not yielded the desired results. As observed by Kolawole and Omobitan, most factor affecting private sector investment in Nigeria have not shown a significant increased investment. Specifically, the financial liberalisation has not improved the level of savings, a possible source of improved investment; the share of private sector credits in the total credits still remain low. Consequently, the private sector, especially SMEs, did not feel the impact of fianncial liberalization policy.

**Structure of and Space for Private Sector Participation**

It is imperative to examine the structure and space for Private sector participation in economic development. As illustrated in figure 1, the public sector has a role to play with resct to provision of policy support, especially in the areas of trade liberalization, promotion of FDI, and econcouraging private sector investment with respect to maintenance of law and order, legal enforcement and provision of required infrastructure in adequate quantity and quality. On the other side, the private sector is expected to mobilize and accumulate capital and investments for industrial development. Thus in all the sectros of the economy, especiall the real sector and nono-oil sector that should be diversified, the government must ensure the expected role is playe adequately to enhance private sector participation. ****

Figure 1: The Role of the Public and private sectors in industrial development

As noted by European Commission Directorate-Regional Policy (2003)[[8]](#footnote-9) recent years have seen a marked increase in cooperation between the public and private sectors for the development and operation of infrastructure for a wide range of economic activities. Such Public-Private Partnerships (PPP) arrangements were driven by limitations in public funds to cover investments needs but also by efforts to increase the quality and efficiency of public services.This is particularly true, given the enormous financing requirements to bring these infrastructures up to the standards.

A number of reasons were given while PPP is being given consideration. Basically, it is recognised that PPP arrangement becomes necessary due to financial shortages in the public sector and secondly because PPPs have demonstrated the ability to harness additional financial resources and operating efficiencies inherent to the private sector. Apart from these, PPP arrangement has some advantages as highlighted below:

* ***Acceleration of infrastructure provision*** - PPPs often allow the public sector to translate upfront capital expenditure into a flow of ongoing service payments. This enables projects to proceed when the availability of public capital may be constrained (either by public spending caps or annual budgeting cycles), thus bringing forward much needed investment.
* ***Faster implementation*** - the allocation of design and construction responsibility to the private sector, combined with payments linked to the availability of a service, provides significant incentives for the private sector to deliver capital projects within shorter construction timeframes.
* ***Reduced whole life costs*** - PPP projects which require operational and maintenance service provision provide the private sector with strong incentives to minimise costs over the whole life of a project, something that is inherently difficult to achieve within the constraints of traditional public sector budgeting.
* ***Better risk allocation*** - a core principle of any PPP is the allocation of risk to the party best able to manage it at least cost. The aim is to optimise rather than maximise risk transfer, to ensure that best value is achieved.
* ***Better incentives to perform*** – the allocation of project risk should incentivise a private sector contractor to improve its management and performance on any given project. Under most PPP projects, full payment to the private sector contractor will only occur if the required service standards are being met on an ongoing basis.
* ***Improved quality of service*** - international experience suggests that the quality of service achieved under a PPP is often better than that achieved by traditional procurement. This may reflect the better integration of services with supporting assets, improved economies of scale, the introduction of innovation in service delivery, or the performance incentives and penalties typically included within a PPP contract.
* ***Generation of additional revenues*** – the private sector may be able to generate additional revenues from third parties, thereby reducing the cost of any public sector subvention required. Additional revenue may be generated through the use of spare capacity or the disposal of surplus assets.
* ***Enhanced public management*** – by transferring responsibility for providing public services government officials will act as regulators and will focus upon service planning and performance monitoring instead of the management of the day to day delivery of public services. In addition, by exposing public services to competition, PPPs enable the cost of public services to be benchmarked against market standards to ensure that the very best value for money is being achieved.

Four principal roles are identified for the private sector in PPP arrangement. These are stated as follows:

* to provide additional capital;
* to provide alternative management and implementation skills;
* to provide value added to the consumer and the public at large;
* to provide better identification of needs and optimal use of resources.

All these opportunities can be tapped in the various sectors of the Nigerian economy, from mining, to housing development, transportation and the manufacturing sector. The various PPP options are as presented in figures 2 and 3 while details of contractual arrangement are as presented in table 2.

****

**Figure 2: PPP Procurement Options**

**Source:** European Commission Directorate-General Regional Policy (2003) Guidelines for successful Public-Private partnerships, March, 2003

The figure shows four major options which are as stated below:

* Traditional Public sector Procurement where the public sector or the government is the owner, operator and financier and the private sector is the engineer and the contractor
* The Build-Operate –Transfer option where the public sector or the government is the owner and financier but the private sector is the contractor, the engineer and the operator
* Design-Build-Finance-Operate Concession where the public sector (government) is the owner and the private sector is the Concessionaire, Contractor, Engineer and the Operator.
* Build-Own-Operate where the private sector is the owner, the Contractor, the Engineer and the Operator.

There is also the modified Tradtional Public sector Procurement Option where the public sector (government) is the owner, operator and financier but the private sector is the Leasee, Contractor, Engineer and Contractor/Operator.

****

**Figure 2: Modied PPP Traditional Public sector procurement option**

**Source:** European Commission Directorate-General Regional Policy (2003) Guidelines for successful Public-Private partnerships, March, 2003

These various options have their peculiarities the degree to which they can be adopted in the various sectors of the econonmy varies. Their characteristics have to be studied carefully to ascertain which sector can any of them be best adopted. Some guidelines are as presented in table 2 below which shows the peculiar characteristics of each of the options.

**Table 2: Characteristics of the various PPP options**

****

**Source:** European Commission Directorate-General Regional Policy (2003) Guidelines for successful Public-Private partnerships, March, 200

In adopting any of the PPP options, it is essential to adhere to the provisions illustrated in figure 4.The road map to successful implementation of PPP states the need to ask three key questions which are:

* Can PPP be Implemented?
* What is to be provided?
* Will a PPP deliver value for money and the best use of resources?

For any sector of interest, application of PPP approach must satisfactority answer these questions.

****

**Figure 4: Roadmap to Successful PPP Development**

**Source:** European Commission Directorate-General Regional Policy (2003) Guidelines for successful Public-Private partnerships, March, 2003

**Benefits of Diversification and What should be diversified**

Nigeria is richly endowed in human and material resources. According to Yemi Kale, the country is ranks among the most richly endowed nations of the world in terms of natural, mineral and human resources. Thus, economic diversification will unlock untapped potentials of the country and the outcome will certainly address most of the social ane conomic probless confronting the country. The country has a variety of both renewable and non-renewable resources, some of which have not yet been effectively tapped. The process of economic diversification will unearth these resources and harness them for social and economic gains. Specifically, solar energy, one of the most extensive of the underutilized renewable resources is yet to be fully tapped. Similarly, the vast reserves of natural gas produced with crude oil are yet to be fully utilized and economic diversification is also expected to utilize this vast resource element to increase revenue base and fund sectors in need of financial attention for the benefit of the citizenry.

The country also has highly enterprenueral, hardworking. Largely youthful populationn of over 170 million people, over 32 million Micro Small Medium Enterprises and a labour force of about 76 million. The country is Africa’s most populous country and its largest market and economy with a household consumption expenditure of over N63 trilliuon in 2014.[[9]](#footnote-10) Thus economic diversification will maxcimize utilization of these potentials for social and economic gains for the country.

There is need to diversify the country’s economy and government revenue. Almost half of the economy is informal and out of the (fiscal) control of government. Thus, there is need to deploy policies that would draw in the the informal sector if sources of revenue are to be diversified and we are to achieve sustainable transformation of the economy. Again, there is need to enhance growth in all the economic sectors. This is because as GDP or output grows, companies will earn more income, employ more labour, pay higher taxes to government and government will in turn have money to fund development projects. All these cannot be achieved without effective involvement of the private sector.

There has been a change in the structure of the country’s economy. According to kale, Agriculture used to about 35% of GDP but is now 22%; Industry which included crude oil and gas production used to be 36% of GDP but is now 25%, while servises that used to be 39% of GDP is now over 50%. This runs contrary to the expected in development theory which postulates transformation from agriculture to industry and to services. Demands forservices in the country are met by imports due to constrained manufacturing sector. This has caused lots of economic problems for the country. Thus diversification should focus on processing of agricultural products and manufacturing. Doing this will require active involvement of the private sector.

**Constraints against effective participation of Private Sector in Economic Development**

In many developing countries, investment rates are too low, productivity gains are insufficient, incentives for innovation are inadequate, returns on investment are not sufficiently predictable, and not enough secure, safe and adequately paid jobs are being created in the formal economy.[[10]](#footnote-11)

The Private sector in African countries faces common challenges but the impact varies according to the stage of economic development. Fundamentally, the constraints include insufficient transport networks, and lack of access to power and finance.[[11]](#footnote-12)

One of the biggest inhibitors of Nigeria’s economic growth is the lack of steady power supply which is estimated to reduce between three and four per cent off the country’s GDP expansion each year[[12]](#footnote-13)

With particular reference to Nigeria, there are challenges in the business enviromment which are likely to discourage private sector participation. Information on this was sourced from the World bank/IFC report on Enterprise Surveys in Nigeria[[13]](#footnote-14). Aspects examined include Business Environment Obstacles, Regulation, Taxes and Business licensing, Corruption, Crime and Informality, Finance, and Innovation.

*Business Environment Obstacles*

As presented in figure five, the five most serious obstacles identifed by firms operating in Nigeria, in order of importance are access to finance, electricity, corruption,Tax, and Transportation. Thus in encouraging private sector participation, these obstacles have to be aggressively addressed.



Figure 5: identified Obstacles in Nigeria Business Environment

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

*Infrastructure*

It is noted that a strong infrastructure enhancesthe competitiveness of an economy and generates a business environment conducive to firm growth and development.Good infrastructure efficiently connects firms to their customers and suppliers, and enables the use of modern productive technologies. However, the enterprise survey in Nigeria shows, as illustrated in figure 6 that the number of power outage is more thaharan Africa and those in the Lowwer middle income range. This is a disincentive for private sector participation in economic development in nigeria.



Figure 6: Electricity Provision

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

Adequate and regular water supply is also critical for the activities of the manufacturing firms. As presented in figure 7, the number of water shortages in a typical month for Nigerian firms is greater than the average for the countries in Sub-Saharan Africa but lower than the average for countries in lower Middle Income category but average duration of the water shortage in hourse is shorter compared to te average for Sub-Saharan countries and those in the Lower Middle income. This suggests that the water situation is poor but still better compared to some countries. The water situation still has to be fully addressed to enahnce productive activities of private sector actors.



Figure 6: Water Provision

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

There could be delays in infrastructure connection which is likely to increase cost of connection and have adverse impact on the commencement of production by private sector firms. Figure 7 shows that relatively, the situation is better in Nigeria, with respect to electricity and water connection, compared to other Sub-Saharan countries and those in the class of lower Middle income. However, the situation could be improved upon.



Figure 7: delay in Infrastructure connection

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

*Regulations, Taxes, and Business Licensing*

It is observed that good economic governance in the areas such as taxation, regulations, and business licensing is a fundamental pillar for the creation of a favourable business environment. Effective regulations address market failures that inhibit productive investment and reconcile private and public interests.

As presented in figure 8, number of days to obtain import licesnse is more than the avreage for countries in Sub-Saharan Africa and those in Lower Middle Income category. This could be discouraging to private sector actors and should be addressed. However, the number of days spent to obtain construction-related permits and Operating license is lower compared to other countries. This should also be improved upon.



Figure 8: Business licensing and Permit Delays

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

Regulation Burden has to do with the time spent by senior management in meetings with public officials as well as the average number of tax inspections or meetings with tax inspectors in a given year. As illustrated in figure 9, more stime is spent by senior management in Nigeria compared to other sub-saharan countries butless than the average time spent in other lower middle income countries. However, average number of visits or required meeting with tax inspectors is higher in nigeria compared to average for countries in Sub-Saharan Africa and Lower Middle Incomcategory. There is need to improve on all these in order to encourage private sector participation in diversifying the country’s economy.



Figure 9: Regulation Burden

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

*Corruption*

Corruption by public officials is likely to create a major administrative and financial burden on firms. Corruption creates unfavourable business environment by undermining the operational efficiencyof firms and raising the costs and risks associated with doing business. Figure 10 shows that the proportion of firms expected to give graft in meetings with Tax inspectors is higher in Nigeria compared to the average for other countries. However, the proportion of the firms expected to offer grafts to secure government contract is lower comapred to average for other countries. The issue of tax has to be critically addressed as this could also affect revenue generation for goverment negatively which may in turn weaken the capacity required to provided needed infrastructure that could enhance privaate sector participation.



Figure 10: Bribe Tax in Licenses and permits

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014



Figure 11: Bribe in Licenses and permits

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

As illustrated in figure 11, the proportion of frirms expected to give gifts to get import license and operating license is higher in Nigeria compared to the average for other countries. This is likely to discourage investors and should be addressed.

*Crime*

Effective and productive economic activities could only thrive where there is peace. As illustrated in figure 12, cost of crime and losses due to theft, robbery, vandalism and Arson against firm are higher in Nigeria compared to average for other countries. This implies that security issues have to be addressed if private investment in the country’s diversification of economy is to be encouraged.



Figure 12: Cost of crime

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

*Finance*

Access to Credit is very critical for the operation of the Private sector. Thus, the ease with which they have access to loans will determine the extent of their participation in economic diversification. As illustrated in figure 13, the proportions of firms with bank loans/line of credit or those with checking or savings account are lower compared to the average for firms in other countries. This is a critical obstacle that should be addressed.



Figure 13: Firms’ Use of Financial Services

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

*Innovation and Workforce*



Figure 14:Innovative Capacity

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

The status of the firms with respect to possession of recognized certificates and international quality certifications can ope doors to technology and innovation. As illustrated in figure 14, the proportions of firms with internationally recognized quality certification and those with annual financial statement reviewed by external auditor are lower compared to average for other countries. This has to be addressed.

Use of Internet

The use of ICT, especially the internet is an important tools for all firms because they provide even the smallest of enterprises with the ability to reach national and international markets at low cost. The proportions of firms using their own websites and those using email to communicvate with clients/suppliers in Nigeria are lower compared to average for those in other countries. This is a serious capacity gap that has to be addressed.



Figure 15: Use of Internet

Source: The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014

**Enhancing effective participation of the Private Sector**

The OECD offers some suggestions:[[14]](#footnote-15) Developing countries and their donor partners need to do much more to address the market failures and structural impediments that are holding back productive investment (both domestic and foreign), and to do it better, for longer periods and in a more strategic way; Developing countries can help foster an investment climate that enables the private sector to flourish and fulfil its role as the main engine of growth. In doing this, they should pursue macro-economic stability, improve the functioning of market-regulating instituions and strengthen procedures for contract enforcement and dispute settlement; They should also improve the coherence of their policies in a range of areas – such as trade, tax, competition and investment promotion – that affect the volume of investment and its development impact.

It is also noted that in order to flourish, the private sector requires a stable and predictable investment climate that comes from macro-economic stability, transparent and accountable government, rigorous enforcement of the rule of law, functioning markets and institutions, a skilled and productive labour force, a strong commitment to fighting bribe solicitation and corruption, affordable and accessible infrastructure, intellectual property right protection and political and social stability.

It is also stated that in order to improve investment climate, reforms should build on an analysis of the country and sector-specific constraints to private sector development and an assessment of the country’s competitive advantage.

***Peculiar attention to be given to specific private sector actors***

 The OECD[[15]](#footnote-16) recognizes various private sector actors and investors and the need to give them specific attention based on their peculiarities.

i. Small and Medium-sized enterprises (SMEs)

It is noted that private sector in developing countries is often made up of a very large number of small and medium-sized enterprises (SMEs) and a small number of well-established, larger firms. It is suggested that SMEs should be promoted by focussing on their specific needs such as expanded access to financial services and support to participate in processes that set the strategic framework for national development. It is also suggested that their access to associations and enterprises that will help them improve their competitiveness and raise their capacity to link up with larger firms, both domestic and foreign should be enhanced. Targeted initiatives should also be put in place to address gender biases while policies should be made to remove barriers to micro/informal enterprises joining the ranks of the SMEs, as well as to support the latter growing into large enterprises.

ii. Informal Economy

In many developing countries, just like in Nigeria, the informal economy forms a large part of the economies. The sector provides employment and income to many poor households, including those who lose or cannot find work in the formal economy. While informality distorts markets, excludes people from basic protections and reduces revenues for several and other public expenditures, there are substantial assets held in the informal economy. In order to promote movement of the informal economy towards a greater degree of formality, there is need to address associated constraints such as regulatory and administrative barriers, fees and financial requirements, corruption in public administration, socio-cultural attitudes and a lack of key business services.

iii. Foreign Direct Investment (FDI)

FDI brings extra capital and enhances, technology transfers, better human capital formation, deeper international trade integration and a more competitive business environment. In order to attract and sustain FDI, there is need to improve the functioning of financial markets, expand infrastructure, increase skill levels and connect up better with local enterprises. There is also the need to make available, accurate information on market conditions and experiences of other foreign investors.

The financial systems have long been recognized to play an important role in economic development. They play a key role in the mobilization and allocation of savings for productive, provision of structures for monetary management, and services as the basis for managing liquidity in the system. [[16]](#footnote-17)

If Nigeria is going to diversify its economy, all these issues have to be addressed.

**Conclusions**

In Nigeria, there is need to diversify the economy due to the challenges associated with the present economic structure. The drop in the country’s revenue and increasing social burden point to the fact that the public sector cannot no loger fund provision of infrastructure and the process of fully integrating the private sector in the process of diversifying the economy. Thus there is need to consider discussions and submissions offered in this paper.

1. Yemi Kale (2016) Pushing Nigeria’s economic Diversification Forward: Issues and Options, an address read at the 7th Stanbic IBTC Bank Investors’s Conference: Unlocking Nigeria’s Potential....growing through diversification, at Eko Hotels and Suites, Victorial island, February 23, 2016. [↑](#footnote-ref-2)
2. **A thriving private sector at the heart of an inclusive society,** [**http://ec.europa.eu//europeaid/sectors/economic-private-sector-development**](http://ec.europa.eu//europeaid/sectors/economic-private-sector-development) [↑](#footnote-ref-3)
3. OECD (2006) Promoting Private Inve3stment for Development, The Role of ODA, OECD, DAC Guidelines and Reference Series, A DAC Reference Document. [↑](#footnote-ref-4)
4. United Nations (2011). Private Sector Statement: Promoting Opportunity, Growth and Development. Fourth United Mations Conference on the Least Developed Countries 9-13, May. [↑](#footnote-ref-5)
5. **A thriving private sector at the heart of an inclusive society,** <http://ec.europa.eu//europeaid/sectors/economic-private-sector-development> [↑](#footnote-ref-6)
6. Economic Review,(2009)*The role of Private Sector Development in economic growth: the case of Lesotho, November, 2009.* CBL Economic Review, No. 112 December 2009 Visit: *www.centralbank.org.ls/publications* [↑](#footnote-ref-7)
7. Bashir Olayinka Kolawole and Olufunsho Abayomi Omobitan 92014) Determinants of Private Sector Performance in Nigeria, *developing Country Studie,* Vol. 4, No.6, 2014. [↑](#footnote-ref-8)
8. European Commission Directorate-General Regional Policy (2003) Guidelines for successful Public-Private partnerships, March, 2003 [↑](#footnote-ref-9)
9. Yemi Kale (2016) Pushing Nigeria’s economic Diversification Forward: Issues and Options, an address read at the 7th Stanbic IBTC Bank Investors’s Conference: Unlocking Nigeria’s Potential....growing through diversification, at Eko Hotels and Suites, Victorial island, February 23, 2016. [↑](#footnote-ref-10)
10. OECD (2006) Promoting Private Inve3stment for Development, The Role of ODA, OECD, DAC Guidelines and Reference Series, A DAC Reference Document. [↑](#footnote-ref-11)
11. Op.Cit [↑](#footnote-ref-12)
12. Ibid [↑](#footnote-ref-13)
13. The World Bank-IFC, Enterprise Surveys Nigeria Country profile, 2014 [↑](#footnote-ref-14)
14. Op.Cit [↑](#footnote-ref-15)
15. OECD (2006) Promoting Private Inve3stment for Development, The Role of ODA, OECD, DAC Guidelines and Reference Series, A DAC Reference Document. [↑](#footnote-ref-16)
16. Kehinde James Sunday and Adejuwon Kehinde David (2011) Financial Institutions as catalyst to economic development: The Nigerian Experience. European journal of Humanities and Social Sciences, Vol. 8, No. 1 (Special Issues), 2011. [↑](#footnote-ref-17)