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T H E M E :

**ENHANCING
PRIVATE SECTOR-LED
GROWTH IN NIGERIA**

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ENHANCING PRIVATE SECTOR-LED GROWTH IN NIGERIA

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TABLE OF CONTENTS

Pages

1.	List of Members of Organizing Committee	v
2.	Report of the Conference	vi – xiv
PAPER 1:	"THEORETICAL AND CONCEPTUAL ISSUES IN PRIVATE SECTOR-LED GROWTH" By Dr. O. A. Oyeranti	1 – 23
PAPER 2:	INTERNATIONAL EXPERIENCE AND LESSONS OF PRIVATE SECTOR-LED GROWTH" By Prof. C.K. Eboh	25 – 45
PAPER 3:	"AN OVERVIEW OF THE CONTRIBUTIONS OF THE PRIVATE SECTOR TO ECONOMIC GROWTH IN NIGERIA" By Prof. C.C. Agu	47 – 61
PAPER 4:	"LEGAL FRAMEWORK FOR PRIVATE SECTOR DEVELOPMENT IN NIGERIA" By Mr. M. O. Sofowora	63 – 96
PAPER 5:	"PRIVATE SECTOR INITIATIVES IN THE AGRICULTURAL SECTOR" By Prof. Aloysius Nwosu	97 – 112
PAPER 6:	ROLE OF PRIVATE SECTOR IN THE DEVELOPMENT OF THE MANUFACTURING SECTOR" By Engr. Charles Ugwuh	113 – 120
PAPER 7:	"ROLE OF FINANCIAL INSTITUTIONS IN PRIVATE SECTOR-LED DEVELOPMENT" By Mr. C. N. I. Nwakoby	121 – 144

CONCEPTUAL AND THEORETICAL ISSUES IN PRIVATE SECTOR-LED GROWTH IN NIGERIA

BY

DR. O.A. OYERANTI

INTRODUCTION

Economic growth has remained a major concern on economic theorists for centuries. Yet, an important question that has continued to generate chain of answers¹ is: *what strategy should be adopted to achieve a sustained increase in production/output?* The current conventional wisdom in economics is that growth-oriented governments should concentrate on providing a conducive macroeconomic environment within which private enterprise can flourish. Specific sectoral programs may complement macroeconomic policies, but governments should generally disengage from direct involvement in production in order to allow market forces play a determinant role in the economy (Robinson and Tambunlertchai, 1993).

To date, the reality of the global economy is that —regardless of what one thinks about the vices and virtues of market-based economics (and globalization)—private enterprise has become one of the largest and most powerful levers available to foster development and this will remain essentially so even in the foreseeable future. Thus, a vibrant private sector building on the combined strength and linkages between large, medium, small and micro enterprises is an essential prerequisite for triggering economic dynamism, enhancing productivity, transferring and diffusing new industrial technologies, maintaining competitiveness, and

¹ See Appendix 1 for the summary of answers provided by different theories of development to the question of 'what strategy to be adopted to bring about economic growth and development'.

contributing to entrepreneurship development and ultimately poverty reduction, as called for in the Millennium Development Goal 1.

Since the mid-1980s, the widespread adoption of an economic development model based on policies to strengthen market forces, increase competition and refocus the role of the state has heightened the importance of private sector development. Coincidentally, the collapse of the socialist system in the former Soviet Union and Eastern Europe occurred about the time when throughout the world recent economic growth and development came about predominantly through private endeavour (GCA, 2001). However, as cautioned by Naya and McCleery (1994), the private sector serving as the engine of growth and the implementer of the development vision of countries, does not diminish the role of the government in economic development. Indeed, letting the private sector be the engine room of growth does not equate with the Western idea of laissez-faire. The new economic rules of the 'growth game' suggest that market and state are complementary rather than alternative policy instruments. The state, along with markets provides a context for the interaction of private agents in a manner that promotes egalitarian economic growth.

Recognizing the leading role of the private sector in economic growth does not necessarily mean that the nature of its role is fully understood. With so much focus on the role of the private sector throughout the world, the key question to ask is how can the private sector be harnessed to bring about economic growth and a sufficient quality of life to the people. Providing answers to this question is the sole objective of this paper, and doing this is more important to developing countries like Nigeria who are always at the receiving end of different development paradigms. It needs be said again that, posing such a question as the sole aim of the paper in no way discounts the essential and invaluable role of the public sector. In fact, few serious-minded people in development ever frame the public and private sector as antithetical or exclusive solutions

anymore. At best, the question turned objective statement is simply a frank acknowledgment that the levers of economic growth (and poverty reduction in poor developing countries) have changed.

The paper is structured as follows after the introduction. Section 2 examines the conceptualization of the private sector. Section 3 focuses on the robust theoretical and empirical evidence on economic growth-private sector nexus. In section 4, features of and constraints to private sector within the context of a developing country like Nigeria are examined. The last section, section 5 concludes the paper by identifying some emerging issues in private sector-led growth in Nigeria.

2. CONCEPT OF THE PRIVATE SECTOR

There is no consensus in the literature on what constitutes the private sector. Nevertheless, the Development Assistance Committee of the OECD (DAC, 1994, p.4) defines the private sector as “a basic organizing principle for economic activity where private ownership is an important factor, where markets and competition² drive production and where private initiative and risk-taking set activities in motion.” It is added that this private sector principle can be “applied in all economic activities,” including the delivery of public services. Thus, the private sector is conceptualized as a basic organizing principle for ordering society, and is not simply confined to firms and enterprises.

To some experts, private enterprises are equivalent to either the private sector or the private economy. With this, enterprises are

² Private sector-led economies are essentially markets and competition based economies.

³ Joint-ownership enterprises refer to economic units established by two or more corporate enterprises or corporate institutions of the same or different ownership, through joint investment based on equality, voluntary participation and mutual benefits. They include state joint ownership enterprises, collective joint ownership enterprises, joint state-collective enterprises, and other joint ownership enterprises.

classified into state-owned and private enterprises, using ownership as a criterion. Some with a broader perspective insist that foreign-invested enterprises and non-public shareholding companies that are not controlled by the government should be included within the private sector. However, private enterprises having mixed ownership will make it difficult to determine to whom they belong. For example, a foreign-funded company may be a joint venture³, with 25% ownership by foreign companies and 75% ownership by indigenous private companies.

From the foregoing, the “private sector” seems to be a broader concept, though without a general definition. Put together, the “private economy” appears to be a concept that describes the portion of the economy that belongs to individuals. Hence, private enterprises refer to profit-making economic units invested and established by natural persons, or controlled by natural persons using employed labor. Included in this conceptualization of the private enterprises are private limited liability corporations, private shareholding corporations and private partnership enterprises and private-funded enterprises registered in accordance with the Corporation Law, Partnership Enterprises Law and other regulations on private enterprises (see Box 1). In short, private enterprises are firms whose assets belong to individuals.

Box 1: The Four Forms of Formal Domestic Private Companies

- a) ***Sole Proprietorship***: A sole proprietorship has only one single owner who has unlimited liability for both business and non-business debts. Full liability matters less for such firms, as they are small and rarely access bank financing, relying instead on savings and informal borrowing. Sole proprietorships also enjoy a special exemption from taxation during times of inactivity—a benefit of particular value for small firms in industries with seasonal fluctuations.
- b) ***Limited Liability Company (with one or more owners)***: Limited liability companies come in two forms. The first form has only one owner, which must be an organization, not an individual. The second and more common form is legally required to have two or more individuals as its owner. Owners' liability is limited to the owners' capital contributions. Financing can be obtained from family or banks (like sole proprietorship) but also by increasing capital through existing and new owners.

- c) **Shareholding Company:** Shareholding companies have two or more owners. They have the same limited liability as Limited Liability companies but differ from the latter in a number of respects. First, they are unaffected by death or bankruptcy or withdrawal of the shareholders. Second, management is carried out by a Board of Management and Meeting of Shareholders. Apart from family, banks and owners, financing can also be obtained by issuing bonds or shares.
- d) **Partnership:** This form of private enterprise offers alternative to sole proprietorship in case there is more than one owner. Partners are unlimited and jointly liable for all obligations of the partnership. Liability of capital contributors is limited to the amount of capital contributed. Financing can be obtained through family and bank loans, capital mobilization through owners and issuing of bonds.

Source: CIEM (2001)

In Nigeria, the private sector is said to include any self-employed person or any employer of labour who does not belong to the government or public sector (Jerome, 1999). Put differently, anyone who is an employer or self-employed and who does not belong to the government or public sector is believed to be operating in the private sector (Olayiwola and Busari, 2001). With this definition, the sizes of private enterprises vary from micro and small-scale enterprises (which are predominantly informal) to medium-and large-scale enterprises. Structurally, the private sector falls into two broad categories: the formal group and the informal group. The formal group embraces:

- a. Companies that are incorporated as public limited companies otherwise known as (Plcs), usually quoted in the stock exchange;
- b. Companies that are incorporated as private limited companies otherwise known as (Ltd);
- c. Partnerships: joint or sole; and
- d. Businesses registered as business names under the Act.

All enterprises that come under the formal group have the general name known as the organized private sector⁴ (OPS).

The informal group consists of indigenous economic activities such as food processing, barbing, shoe shinning, hairdressing, mechanic repair works and retailing (Abumere, *et al.*, 1998). The informal private enterprises often help to reduce the marginal private cost of trading by expanding their members' access to transport and credit facilities, collecting, processing and disseminating information that individual members might have found difficult to acquire on their own, and processing, where the government does not, the necessary institutional and physical market structure. In terms of size, the Nigerian informal private sector is obviously large. It is larger than the formal/organized private sector. Past studies⁵ put the estimate of the informal sector in Nigeria in terms of total employment between 50 and 75 percent. The size of the informal sector (relative to the formal sector) is however, an indicator of the low level of development since the literature suggests an inverse relationship between the size of informal sector and level of economic development. This poses a challenge for development process and effort, as the informal sector should constitute a policy target for private sector development purposes.

One important issue that has to do with the conceptualization of the private sector is the valuation of the private sector development. Evidence often suggests that some enterprises, in order to receive preferential tax treatment, may be registered as foreign funded enterprises. For some, in order to obtain support from local governments and avoid political shocks may be registered as collective enterprises, otherwise known as 'false collectives' or 'red hats'. Whenever this happens, the number of private enterprises is likely to be much larger than official statistics will show. In recent times, the private sector has grown not only through its own efforts

⁴ Appendix 2 lists associations that constitute the organized private sector (OPS) in Nigeria.

⁵ See Fapounda *et al.*, (1975); Mabogunje and Filani, (1977); and Abumere *et al.*, (1998).

but also through restructuring and mergers of state owned enterprises (SOEs) and collective enterprises. The only way to reduce the problem of under valuation of private sector development is to embark on down-to-earth information search on would-be private enterprises and ensure quick and speedy change of registered status of all restructured enterprises.

For a country like Nigeria where the private sector is more of informal activities that are generally invisible to the regulatory system, the policy challenge translates directly to the task of the formalization of the informal activities. According to Busari and Olayiwola (2001), formalizing the informal sector of private enterprises will produce a number of advantages that include:

- Expanded tax base for the government leading to higher revenue to the state
- Effectiveness of economic reform measures as the sector becomes available for positive regulation by relevant governmental machineries
- Less of output valuation problem thereby improving the database of the economy
- Accessibility to modern business practices that can improve productivity, efficiency and growth
- The 'death rate' of informal enterprises will be reduced.

3. PRIVATE SECTOR-ECONOMIC GROWTH NEXUS

As far back as 1776, Adam Smith argued in *The Wealth of Nations* that in competitive markets, an individual pursuing private gains would promote the common good: He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for society that it was not part of it. By pursuing his own interest, he frequently promotes that of the society more effectively than when he really intends to promote it.

In the 1950s Arrow (1951) and Debreu (1959) formalized Adam Smith's insight into what are commonly known as the two fundamental theorems of welfare economics. The first theorem says that under certain conditions⁶ every competitive equilibrium is Pareto-efficient, that is, in an economy that reaches a competitive equilibrium, no one can be made better off without making someone else worse off. The second theorem says that under certain conditions every Pareto-efficient allocation of resources can be obtained through a decentralized market mechanism. The two theorems combined provide the theoretical arguments in favour of the private ownership of the means of production. Thus, the linkages between private sector and economic growth are actually rooted in the fact that private sector and competition are bedfellows with the effect that the two fundamental welfare-related theorems are found to be satisfied in the operations of the private enterprises.

There is a growing body of research showing the many ways in which the private sector contributes to economic growth⁷. The literature recognizes the essential role of the private sector in promoting growth and poverty reduction. Mounting evidence indicates that private sector-led economies experience more rapid growth than those characterized by extensive government intervention. For example, Naya (1990) observed that Mauritius and Botswana in Africa and the East Asian countries (prior to their financial crises) have been hailed as models of development with their success associated to their interest in private sector and market-oriented growth. These economies were found to have had the fastest rates of per capita economic growth in the world for almost a period of a decade. The economies also witnessed improved social conditions: life expectancy, infant mortality rates, and literacy rates

⁶ The conditions include no externalities in production or consumption, products being produced are not public goods, the market is not monopolistic in structure, and that information costs are low.

⁷ By contributing to economic growth, private sector assists in economic development and poverty reduction.

comparable to those of developed countries. In contrast, countries that have relied on government to provide growth with equity through planning have performed worse in areas where the pro-market and private sector-led economies have excelled.

Soyibo *et al* (2001) provide a lucid explanation of how private sector acts upon the economic growth process of any nation. Private sector-economic growth nexus is captured by the wealth creation activities and long-term gainful employment generation of the sector thus increasing the rate of economic growth in the process. Private sector helps to fight the acute problem of mass poverty; taking on tasks currently performed by the state, thus relieving pressure on public expenditure and allowing governments to concentrate their resources on key social and physical infrastructure. The private sector helps to broaden the economic base diversifying into new sectors, making developing countries more resilient and less vulnerable to external shocks.

The private sector plays a significant part in capacity building, especially in human resource development-education, training, and on the job skill formation. It teams up with foreign partners to invest in promising sectors like transportation, power, communications, and information technology. This provides a springboard for foreign firms' investment in vital infrastructure works hampered through lack of capacity; collaborating with foreign firms and multinationals to tap the nation's underdeveloped potential. It often forms partnerships with foreign companies in their strategy of relocating industrial and other activities in order to remain globally competitive and maintain market share; generating economic dynamism through multiplier and cascading effects such as the movement of goods, services, capital, technology and sometimes people. All these benefits of private sector accrue to an economy from the private agent-wealth-maximizing model of private enterprises and this is because a private economic agent has a well-defined economic goal (see Hansmann and Kraakman, 2000).

It is common to find in the literature the use of efficiency of state versus private ownership to highlight how private sector will affect growth consequent upon the privatization of state owned enterprises (SOEs). A review⁸ of evidence from empirical studies sheds light on the relative performance of public and private enterprises. Table 1 contains a list of 52 studies spanning the period of 1971 and 1999. A variety of performance measures was used, and the list is balanced with respect to developing/industrialized nations. A variety of competitive environments is considered, from statutory monopoly to perfect competition.

Of the 52 studies included in Table 1, 32 conclude that the performance of private *and* privatized firms is significantly superior to that of public firms. Fifteen studies find that there is no significant relationship between ownership and performance or that the relationship is ambiguous (different evidence supports both public and private superiority). Five studies conclude that publicly owned firms perform better than private firms. It is satisfying to observe that the dominance of studies that found superior private performance is robust across all sub-categories. Of the 31 studies that compare private and public firms operating in same industry, 18 concludes that private firms have higher performance, while 8 report mixed results and five find superior public performance. Among the 21 studies that examine the performance of a firm before and after privatization, 14 find that performance improves, while seven find no significant change.

Private firms do better in fully competitive markets. In such markets, there are 11 private-superior studies and five neutral studies. No studies find that public ownership is superior in potentially competitive industries. This body of empirical literature indicates

⁸ The review done in this paper is based primarily on the work of Shirley and Walsh (2000) as it provides a compendium of empirical studies done between 1971 and 1999.

that private or privatized ownership is superior to public ownership in a variety of situations. In addition, private firms perform better in all market structures, although the relative ambiguity of this result is that private ownership and competition are complements. Private ownership has an advantage in both industrialized and developing nations, and this is more pronounced in the latter. This result is especially noteworthy, given the argument by many state owned enterprise (SOE) proponents that market failures in developing nations make SOEs more viable relative to private firms. Further explanations are given to some of the studies in Appendix 3 as found in the work of Megginson and Netter (2001).

4. FEATURES AND CONSTRAINTS OF PRIVATE SECTOR DEVELOPMENT IN NIGERIA

As argued in section 2, the private sector in Nigeria is categorized into two: the informal and the formal. The first striking feature of the private sector in Nigeria is the size of the Nigerian informal sector that is obviously large. The search for explanation on the size of the informal private sector leads to yet another discovery: that the sectoral distribution of private sector activities in Nigeria shows that the sector is still natural resource-based. Agriculture mostly dominated by small holders' production is the most important sector in terms of employment. The manufacturing sector is still dominated by light consumer good industries in terms of establishments, total input, investment and contributions to gross domestic product (GDP). As argued by Abumere *et al* (2002), private sector activities in Nigeria are found in the agriculture, manufacturing, transport, and services sectors. Thus, it is logical to glean the characteristics of the private sector by capturing the prevailing situations in these sectors, particularly in agriculture and manufacturing. Table 2 presents some salient features in agriculture and manufacturing in Nigeria.

Table 2: Prevailing Situation of the Nigerian Agricultural and Manufacturing Sectors

S/N	Sector	<i>Main Sectoral Characteristics</i>
1.	Agriculture	<ul style="list-style-type: none"> • The sector is dualistic with the peasant agriculture accounting for about 95 percent of the output as well as employment • Mode of production is still heavily reliant on the use of traditional technology, of hoes and cutlasses • Low labour and land productivity as a result of capital constraints
2.	Manufacturing	<ul style="list-style-type: none"> • The dominance of low-level technology import substitution industries • Absence of engineering industry • Low productivity growth arising from other socio-economic problems • High production cost • Under utilization of capacity • High concentration of manufacturing activities in few urban centres due to uneven state of infrastructures • Low level of contribution to the gross domestic product and employment creation • Weak inter-sectoral linkages

Source: Author's construction based on literature.

Beyond the reflection of the private sector in Nigeria through the prevailing state of agriculture and manufacturing sectors, some studies have identified key characteristics of private sector in developing countries like Nigeria. Durston (1987); Robert (1991); and Abumere *et al* (1998) have shown that the sector is often dominated by entrepreneurs with low levels of formal education. The sector is also synonymous with low earnings (Roberts, 1991) and dominated by the young (under 21 years) and the old (over 50 years) (Balan *et al*, 1972; Escobar, 1986). The sector is also found

to be gender sensitive in favour of women with a considerable proportion of women found in the sector (Beneria *et al*, 1986). An explanation that is often provided to support the influx of women into the private sector is the fact that the private sector is service oriented in developing countries⁹.

The extent to which private sector can induce economic growth in an economy will depend on two related set of factors: features of the sector and the obstacles to private sector growth. Unfortunately, there exists a high degree of interdependence between the features of private sector and its obstacles. In addition, even though the obstacles to private sector development are well known, many of them are beyond the capabilities of firms to resolve because they fall in the realm of public policy.

A number of studies¹⁰ have looked at constraints to private sector development. The following are prominent ones and for which opinions converged that they have enough strength to hinder the growth of private sector on the one hand and the contribution of the private sector to growth on the other hand.

- a) ***Institutional weaknesses***. Weak institutional capacity manifests in form of inability to provide support services to the private sector in terms of credit, acquisition of technology, investment promotion, adaptive research, supporting market transactions, such as contract laws and contract enforcement mechanisms, training and quality control that require active public intervention or, at least, policy support.

⁹ The study by Abumere *et al* (2002) based on a survey conducted by Development Policy Centre, Ibadan in 1999 shows that 82.2 percent of total enterprises surveyed are sole proprietorship; employees with secondary education formed the bulk with 49.2 percent for men and 29.8 for women, major customers to the enterprises are individual households with 72.3 percent of total customers.

¹⁰ The most comprehensive studies include Riedel and Tran (1997), Webster & Taussig (1999) and Webster (1999).

- b) **Capital shortage.** Often, banks resist making loans to private enterprises for several reasons. It is hard for bankers to conduct a good risk appraisal –due to lack of training and experience- and even if the risk is assessed accurately, bankers have not been able to price the risk into their loans due to restrictions in interest rates. Lack of incentives for bank officers at state banks to take initiative or calculated risks is also a problem for non-traditional borrowers like newly established SMEs. Lack of collateral and the absence of an effective bankruptcy law cause private SMEs further troubles. On the demand side, some analysts claim that private enterprises are reluctant to access bank credit because the procedures require a high level of transparency with respect to their business activities.
- c) **Limited access to markets.** The lack of knowledge about and the limited access to markets has left many enterprises competing for a fairly small often local market.
- d) **Technical and management limitations.** Webster and Taussig (1999) stress more than any other study the importance of modern technology and skills for both managers and workers.
- e) **Lack of “a level playing field.”** First, government procurement and bidding is generally only open to government departments and SOEs. Private enterprises are often excluded. In addition, in terms of financial and industrial services, private enterprises are not given equal treatment. It is well known that financial support is an important factor for private enterprise development.

- f) **Excessive red-tapism.** One of the biggest obstacles to the establishment of new private enterprises is receiving approval from public authorities. The administrative approval procedures, including registration and rectification, are generally cumbersome and incur excessive transaction costs for private enterprises. Since every procedure requires some fees, and thus can provide administration departments or officials with considerable economic interests, many excessive administration approval procedures have refused to be outlawed. Accordingly, the barriers to entry for individuals and private enterprises remain highly potent. This high threshold has long been rich soil for corruption and at the same time creates various costs relating to corruption, which are borne by private enterprises.
- g) **High barriers to entry.** Although, private enterprises have gradually begun to enter such sectors as aviation, ports, education, culture, and civil affairs, which were once monopolized by SOEs. However, there are still high entry barriers for private enterprises, and many industries are still not open to private enterprises. In addition, it appears that the regulations themselves are not necessarily clear.
- h) **Lack of credibility of the Government sector.** Market economy relies on credit in various ways. In the process of economic reform, both private enterprises and the government sector should abide by the rule of credit. At present however, both have problems in this regard. As stated above, private enterprises have relatively short credit records and because of this, they face difficulty in obtaining loans and other external financing. For the government sector, credit records also need to be improved in a different sense. For example, authorities usually welcome private enterprise participation in infrastructure projects, and

promise to provide them with many preferential treatments at the beginning. However, once the private enterprises enter the phase of collecting returns on capital, some government sectors take “shut the door and beat the dog” measures, meaning that once private enterprises invest money in infrastructure projects controlled by the government sector, they cannot easily obtain returns.

- i) **Lack of management skills.** A number of private entrepreneurs still lack sophisticated management skills. Though there are many success stories, there have also been a number of failures. In many cases, the failure was due to overly ambitious expansion policies, too much spending on public relation activities, the failure of equity investment, or conflicts with the government sector. Some private entrepreneurs cannot read accounting sheets, do not use IT, and do not read documents.
- j) **Private sector and SMEs,** Most private enterprises are still small and medium-sized enterprises (SMEs). Apart from the need to encourage and assist SMEs, instances abound when enough cognizance is not given to SMEs in policy formulation and implementation.

Outside the problems, identified above, in a nation-wide survey conducted by the Central Bank of Nigeria (1998), private sector operators identified the following factors as inhibiting their performance. These are:

- High cost of doing business;
- Unstable macroeconomic policies;
- Infrastructure deficiencies;
- Faltering consumer spending;
- Poor capital investment; and
- Stifling effect of multiplicity of taxes and levies.

The Development Policy Centre Survey of private sector carried out in 1999 revealed clearly three important forms of constraints of the private sector in Nigeria. These are: human, operational and institutional constraints. The relative weights of the various constraints identified by the survey are shown in Table 3 below.

Table 3: Constraints Facing the Private Sector in Nigeria

S/N	Constraint	Percentage of Enterprises Surveyed
1.	Lack of skilled personnel	21.1
2.	Lack of machinery and spare parts	34.0
3.	Lack of raw materials	20.2
4.	Lack or shortage of land space	20.7
5.	Declining customers	42.3
6.	Declining income	44.5
7.	Harassment from government agents	44.7
8.	Competition from imports	10.5
9.	Competition from other local producers	32.3
10.	Power/electricity problem	71.9
11.	Waste problems	45.4
12.	Lack of access roads	21.4
13.	Lack or shortage of finance	73.7
14.	Lack of government support	61.0

Source: DPC Field Survey, 1999 cited in Abumere *et al* (2002), p. 42.

An important question that comes to mind is: are key obstacles to further private sector development changing in Nigeria? The answer to this question requires a painstaking stock taking exercise of the Nigerian business environment. An overall assessment suggests some positive changes consequent upon some landmark policy and institutional reforms associated to the return to democratic rule in Nigeria. For example, the reform measures that have taken place in the telecommunications industry are private-sector friendly, and there are indications that similar reforms are intended in other

sectors going by the economic philosophy of the government as entrenched in the newly launched National Economic Empowerment and Development Strategy (NEEDS) document.

5. CONCLUDING REMARKS: EMERGING ISSUES IN PRIVATE SECTOR-LED GROWTH IN NIGERIA

A continued growth of the private sector and its contribution to employment generation and increased revenue to the government through a great deal of tax income for the government now and in the future will ultimately depend on the extent to which existing barriers to private sector activities are removed. However, removing barriers will not be enough; the government will need to establish an enabling and supportive environment for private enterprises. For government to be able to stand up to the challenge posed by hindrances to private sector development at the face of both the general drive towards private sector and market-based economy, and the fortunes of growth that are in private sector activities, the following issues must be given the right and proper attention, and very urgently too.

- To set the records right, the consensus that has emerged in the development literature concerning the proper roles of the state and the private sector is that even where a private sector-led growth is being emphasized, both the state and private sectors have irreplaceable roles to play. To guarantee accelerated growth of the economy, Obadan (1998) advised that both sectors must cooperate and trust each other. Each has to concentrate in doing best what it is capable of, and both working in partnership¹¹.

¹¹See Obadan (1998) for the role that the Nigerian state should play in order to promote private sector-led growth.

- An underlying theme for private sector development policies is that private markets allocate resources in a powerful and efficient way such that all levels of society can benefit. However, markets do not operate in a vacuum and at times market failures arise that require government interventions to improve their functioning and social outcomes. The government has the responsibility to establish the 'rule of the game' that ensure competitive markets and provide an appropriate legal and regulatory framework, a stable macroeconomic environment, and a robust social and physical infrastructure (health and education as well as roads, communications, etc.).
- One of the most important economic implications of private sector development is that it is absorbing a tremendous amount of excessive labour force released from the state owned enterprises consequent upon restructuring. Therefore, assessing the absorbing capacity of the private enterprises and their economic and social implications is an important task for the government
- There is the need for the private sector and SOEs to compete with each other through complementary relations such that private sector development forces the SOEs to enhance their own competitiveness. Put differently, the success of SOE reform will depend on the sound development of the private sector.
- Public sector involvement in the productive sectors is often unsustainable¹², especially if it is at the expense of social sectors where it is truly needed. While government is shifting away from commercial business, it has to develop a strong

¹² According to Keynes in 'The End of Laissez-Faire', the important thing for government is not to do things which individuals are doing already and to do them a little better or a little worse: but to do those things which are not done at all.

capacity to create and sustain the legal and market institutions needed to enable and regulate private sector activities. Creating the enabling environment for domestic and foreign private investors is enough a task to encourage the government shifting its role from owner-producer to facilitator-regulator to guarantee appropriate atmosphere for private sector-led growth process.

- The private sector has a role to play in poverty reduction efforts of the government. For example, private investment in infrastructure projects that are properly regulated can relieve pressure on public budgets and, thus, enable governments to redirect more resources to social spending.
- It is important to recognize the size of the informal private sector for two reasons. One, to ensure that efforts are directed toward capacity enhancement of the sector so as to transform some of the enterprises in the sub-sector to formal private sector, and hence reduce the size of the informal private sector. Second, development process and effort should aim at formalizing the informal sector.
- The private sector is neither saviour nor villain, but rather is an important source of talents, skills, and resources to be tapped in support of sustainable development. It is important to acknowledge the fact that the best instances of private sector intervention will happen where there is good and strong governance, which in turn leads to strong partnerships between the two sectors. The private sector cannot and will not replace the state, but rather should complement and strengthen it by working in those areas in which the state does not have the resources, management skills, or technology to attend to the needs of the population

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