Nigeria's Private Sector in Turbulent Time:

Mitigating Risks and Positioning for Economic Transformation

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Nigeria’s Private Sector in Turbulent Time: Mitigating Risks and Positioning for Economic Transformation

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Executive Summary

Nigeria's pursuit of economic transformation aims to achieve sustained economic growth, job creation, and poverty reduction through enhanced productivity and value creation. Over the past decade, the country has experienced fragile economic growth, minimal investment, low productivity, macroeconomic instability, lacklustre performance in critical sectors, and a worsening poverty situation.

The subdued performance of the private sector (businesses and firms) has underpinned Nigeria’s recent low growth performance. Hence, this report probes into the state of the private sector in a bid to improve the economic environment for operational efficiency and enhance the economic transformation drive.

Macroeconomic Overview

The report begins by reviewing Nigeria’s macroeconomic environment, categorising sectors by growth performance in 2023. This section emphasises that the arduous domestic policy changes alongside the geopolitical crisis have amplified existing structural challenges and suppressed business and economic performance.

State of the Private Sector

The rapidly changing policy environment constitutes a significant headwind to the performance of the private sector. On a positive note, the reform space propelled the equity market as the ratings of Nigerian businesses strengthened. Meanwhile, the Purchasing Managers Index (PMI) movement mirrors the episodes of policy shocks in the year and points to suppressed economic activities. The rise in divestiture and shrinking foreign capital importation suggests subdued private sector performance.

Private Sector in 2024: Mitigating Risk

The report outlines some of the upsides and downside risks in 2024, especially from the macroeconomic environment. Furthermore, it highlights priority sectors to drive investment, business, economic growth, and coping strategies to mitigate risk in the short term.

01 Introduction

Economic transformation is underpinned by the profound objectives of fostering long-term sustained economic growth, catalysing job creation, and alleviating poverty through the continuous structural process of evolving and improving productivity across sectors. Nigeria's economic growth over the past decade has been fragile, vulnerable, and devoid of shared prosperity for the people. The economic performance has been marred by low investment, low productivity, docile real sector performance, macroeconomic instability, and worsening poverty.

While the government has a considerable role in reforming and investing in critical areas of the economy to support economic growth and transformation, the private sector has a much more significant role in driving sustained economic growth. This is because the businesses and firms that make up the private sector are responsible for providing much-needed investments across sectors of the economy, creating jobs, innovating and developing new technologies, providing solutions to social problems and creating channels for government tax income to provide public goods. Statistically, the private sector is responsible for over 80 percent of investment mobilised yearly. Hence, the role of the private sector in socioeconomic progress must be considered.

Nigeria's abysmal economic performance rests on the inability of businesses and firms in the private sector to create sufficient prosperity that could be shared among the populace. Therefore, recent development plans and government efforts have stressed the growth of the private sector as a significant driver of success. As such, the government often implements reforms and invests heavily to establish favourable conditions for private businesses. However, the economic outcomes of these efforts remained below expectations.

Over the years, the private sector has faced challenges cutting across policy inconsistencies and multiplicity, regulatory bottlenecks, political and legislative encumbrance, and predatory and anti-market behaviours of public officers, manifesting the weakness of the policy and regulatory framework. Also, inhibiting factors such as infrastructural deficiency, high level of informality, widespread insecurity, proliferation of non-state actors, poor human capital outcomes and weak market and competition governance have impacted the performance of the business community. These have heightened the operating costs, weakened firms' competitiveness, suppressed productivity and dampened shared prosperity.

Based on the preceding, it is imperative to pay closer attention to the private sector's performance and seek stakeholders' collaborative measures to support businesses. Therefore, this report aims to review and study some critical indicators, identify critical issues impacting businesses, and highlight corporate imperatives and recommendations.

The objectives of the report are to:

1. **Review the performance of Nigeria's private sector in 2023.**
2. **Highlight issues emanating from Nigeria's macroeconomic environment .**
3. **Highlight coping strategies for the business community in the face of identified risks.**

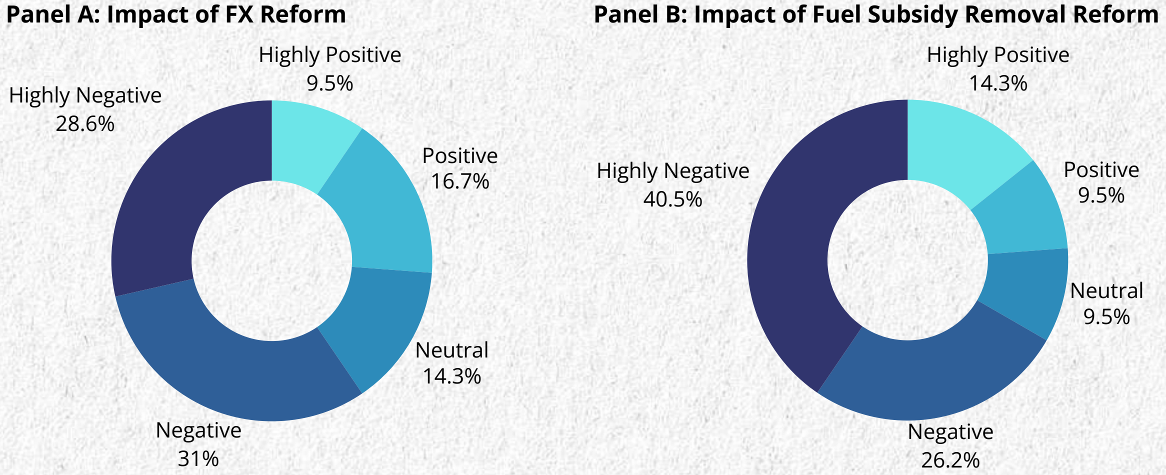
02

Macroeconomic Overview

In 2023, Nigeria faced tremendous challenges arising from the global and domestic environment. The geopolitical tensions from the protracted Russia-Ukraine crisis and the Israel-Hamas war have engendered strains in the global supply chain, leading to food and energy crises. The associated high inflation rate led to global policy rate hikes that profoundly affected Nigeria's attractiveness to investors, heightened economic vulnerability, impeded productivity, and escalated domestic inflation all year. On the domestic front, the stringent implementation of the Central Bank of Nigeria's (CBN) demonetisation policy led to a cash crunch, and a fiercely contested general election intensified the pre-existing structural issues and further constrained business activities.

Moreover, the new administration's sporadic removal of fuel subsidies alongside the exchange rate reforms exacerbated economic challenges, elevated business operating costs, affected household consumption patterns and suppressed the private sector's performance. Business leaders reported that foreign exchange reform and fuel subsidy removal impacted their business operations negatively (see Fig. 1).

Fig. 1: Impact of FX Reform and Fuel Subsidy Removal on Business Operations (% of Private Sector Respondents)

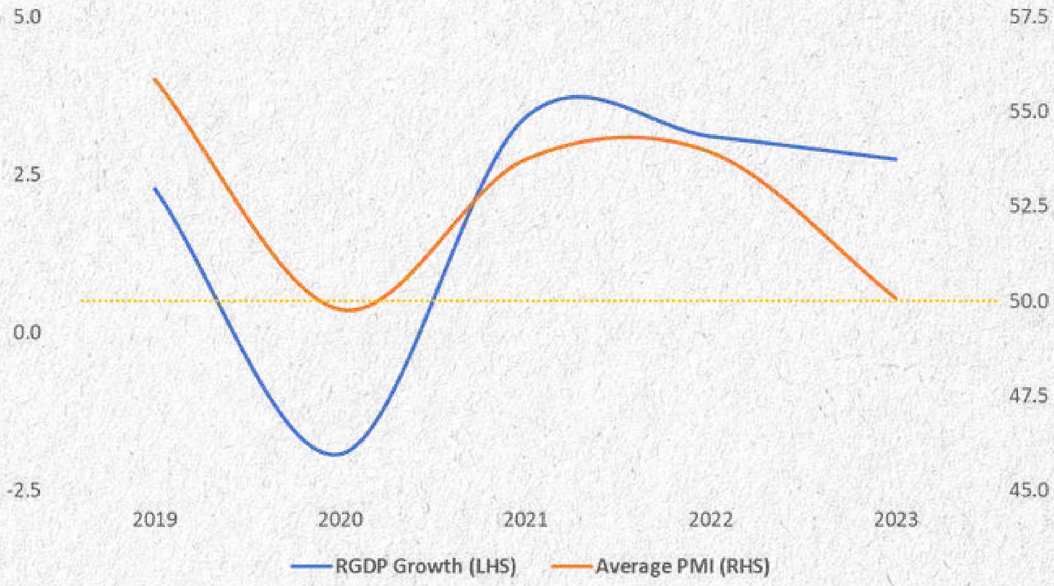


Data: NESG Private Sector Perception Survey; Chart: NESG Research

In 2023, the multifaceted nature of the economic challenges suppressed performance across many sectors and the larger economy. As such, the real Gross Domestic Product (GDP) growth declined to an average of 2.7 percent in 2023, from 3.1 percent in 2022. The Non-oil sector remained the dominant driver of the economy, contributing 94.6 percent to the total GDP and growing at 3 percent in 2023.

On the other hand, while the Oil sector contracted by 2.2 percent in 2023, it remarkably exited the 14 consecutive quarters of recession with a quarterly growth rate of 12.1 percent in Q4-2023. As such, the Industrial sector recorded a positive growth of 0.7 percent in 2023 from a contraction of 4.6 percent in 2022. Furthermore, the Purchasing Managers Index (PMI), which highlights the performance of the private sector, declined for most of 2023 (See Fig. 2) as businesses suffered from rising production costs.

Fig. 2: Nigeria's Economic Growth and Purchasing Managers Index

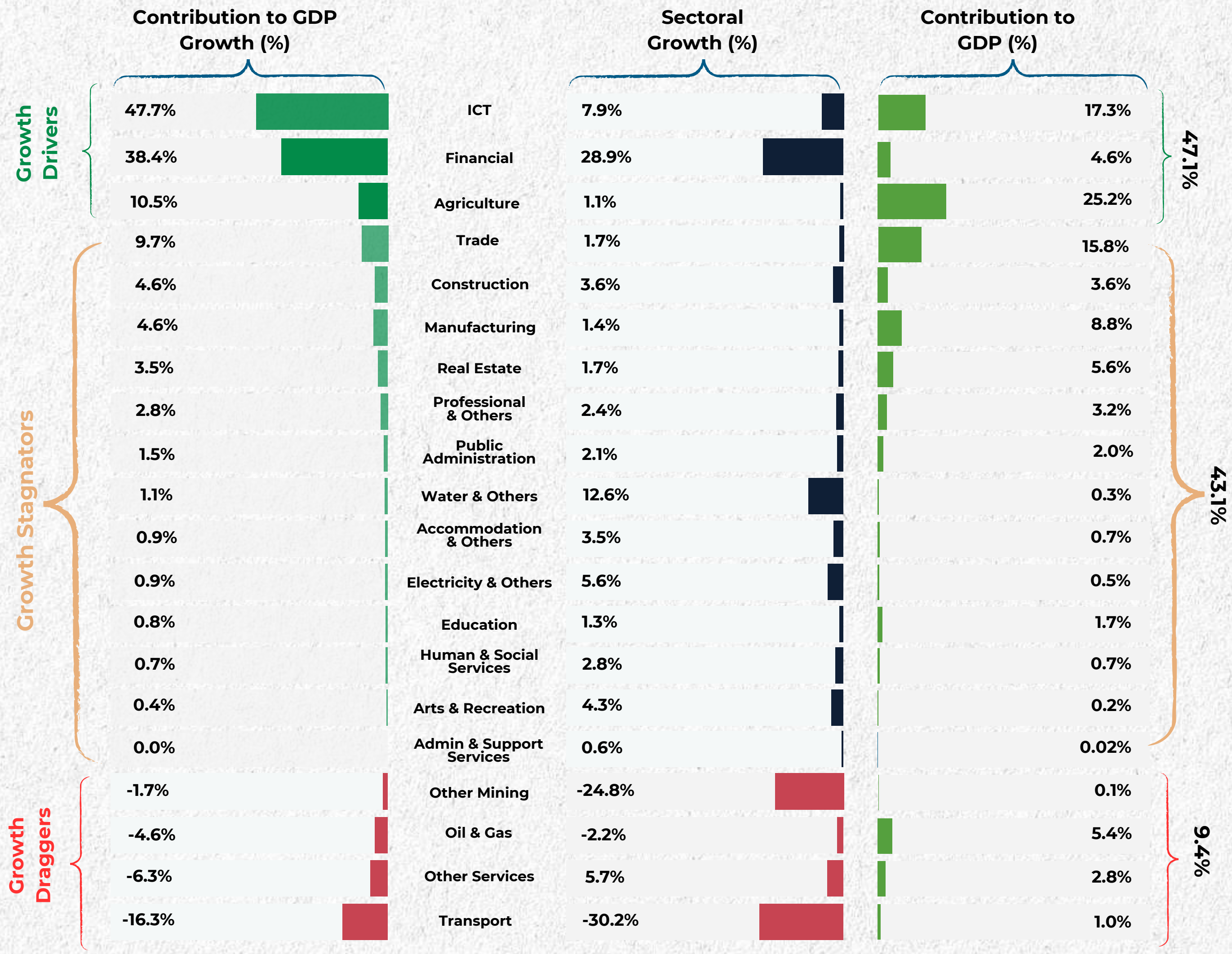


Data: NBS, Stanbic IBTC; Chart: NESG Research

Notably, the economy experienced a critical structural change as performance across sectors could be categorised as either *growth drivers, stagnators* or *draggers*. The Growth Drivers represent sectors that contribute substantially to GDP, growing at a rate above 5 percent and have a dominant impact on overall growth; Growth Stagnators are sectors with a low contribution to overall growth rate relative to share in GDP, while Growth Draggers are sectors in contraction and with low contributions to GDP.

Figure 3 suggests that growth-driving sectors, contributing significantly to GDP and overall growth rate as well as jobs, have narrowed from six (6) sectors pre-pandemic to only three (3) – ICT, Financial and Agriculture as of 2023. Many sectors have fallen to become growth stagnators due to subdued growth, while the Oil and Gas and Transport sectors constitute major growth draggers, contracting and suppressing overall growth (See Fig. 3).

Fig. 3: Sectoral Performance in 2023



Data: NBS, Calculations & Chart: NESG Research

Aside from the inflationary pressures that accompanied economic growth in 2023, there was an improvement in the fiscal space as government revenue expanded following subsidy removal and harmonisation of the FX market; nonetheless, fiscal sustainability remains weak. The external position strengthened in the year but was insufficient to bolster external reserves and support exchange rate stability. Therefore, the policy space remains challenging as the government struggles to reign inflationary pressures and exchange volatility in the economy.

Ultimately, the hard-hitting policy climate contributed immensely to the economic slowdown in 2023. The government, however, needs to consolidate the reform process by facilitating the catalysts of productivity across sectors to ensure the gains of strenuous reforms, such as the subsidy removal and devaluation of the Naira, to materialise.

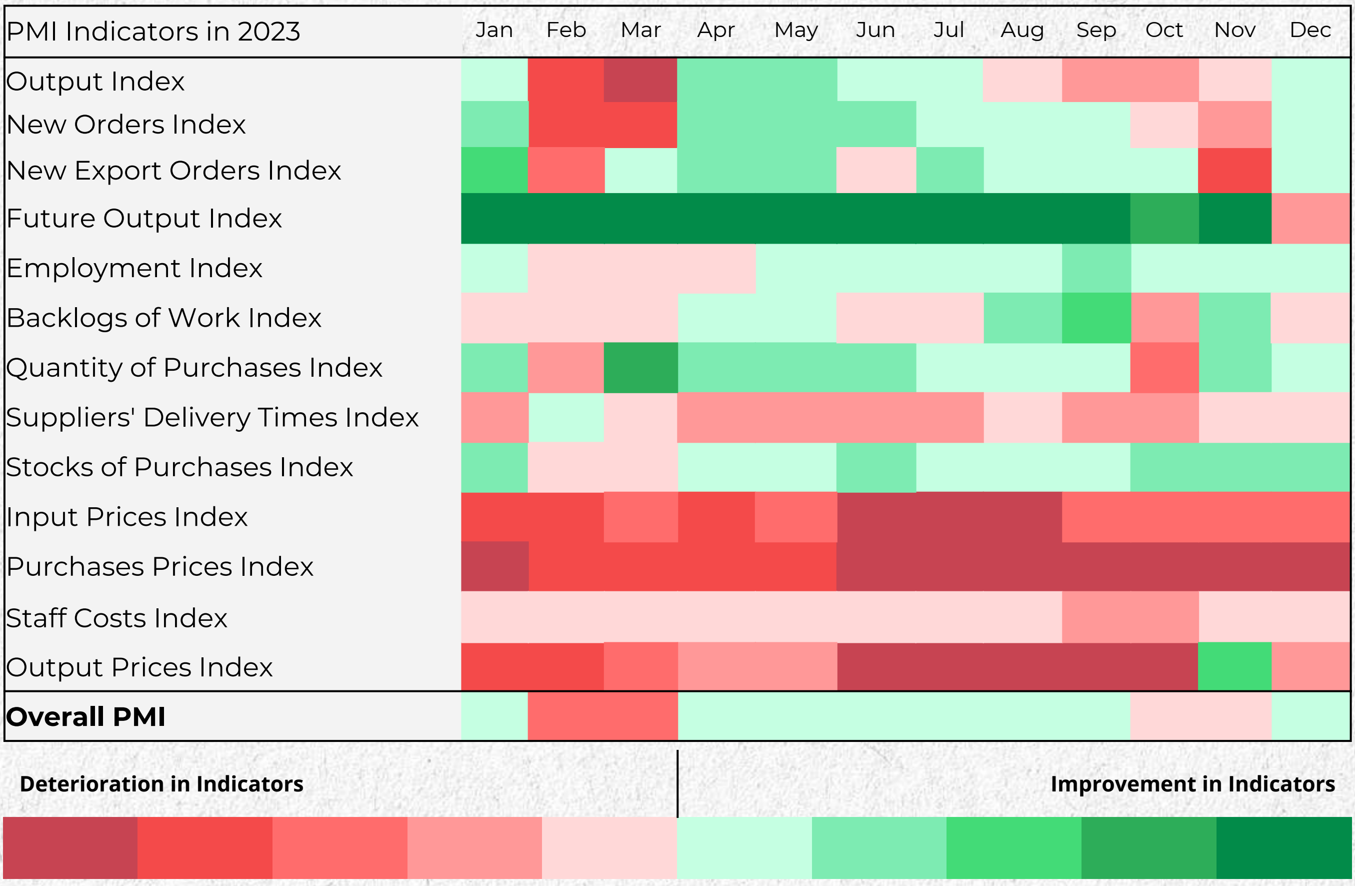
03

State of the Private Sector

Reforms in 2023 adversely impacted private sector performance. Based on the PMI, economic activities were subdued in 2023 as it contracted for the first time since July 2020. The impact of the demonetisation policy motivated a contraction in PMI from 53.5 points in January 2023 to 44.7 points and 42.3 points in February and March 2023, respectively. Likewise, the combined fallout of fuel subsidy removal and exchange rate devaluation ushered another round of PMI contraction to 49.1 and 48 points in October and November 2023, respectively.

The contractions on some sub-indices, such as the Output Index and Employment Index, were reflected on key macroeconomic indicators. Remarkably, the contraction in the Output Index reflected in the slowdown of real GDP growth to 2.3 percent in Q1-2023, compared with 3.1 percent and 3.5 percent in Q1-2022 and Q4-2022, respectively. Similarly, price-related indices such as the Input Prices Index, Purchases Prices Index and Staff Costs Index expanded throughout the year, reflecting the inflationary environment.

Table 1: Heatmap of Purchasing Manager's Index and Components



Data: Stanbic IBTC | IHS

Mixed reaction in the capital market, with the Nigerian Bourse reaching an unprecedented level. Following the administration's commitment to reforms, there was a renewed confidence in the stock market. The Nigerian Exchange All-Share Index (NGX-ASI) peaked at 74,773.8 points at the end of 2023 and has exceeded 100,000 points since late January 2024 (see Fig. 4). The bullish performance is primarily driven by the active participation of local investors, accounting for 88.5 percent of transactions in the market. On the other hand, while yields in the Treasury bill market were volatile, the bond market appeared bearish, with yields trending upward in most of 2023. The bearish sentiment in the bond market could be traced to the rising yields in advanced countries coupled with the deteriorating Forex situation in the country. In response to the elevated interest rates in banks (with the maximum lending rate at 30 percent), commercial paper issuance surged to N1.5 trillion in 2023 from N251 billion in 2022.

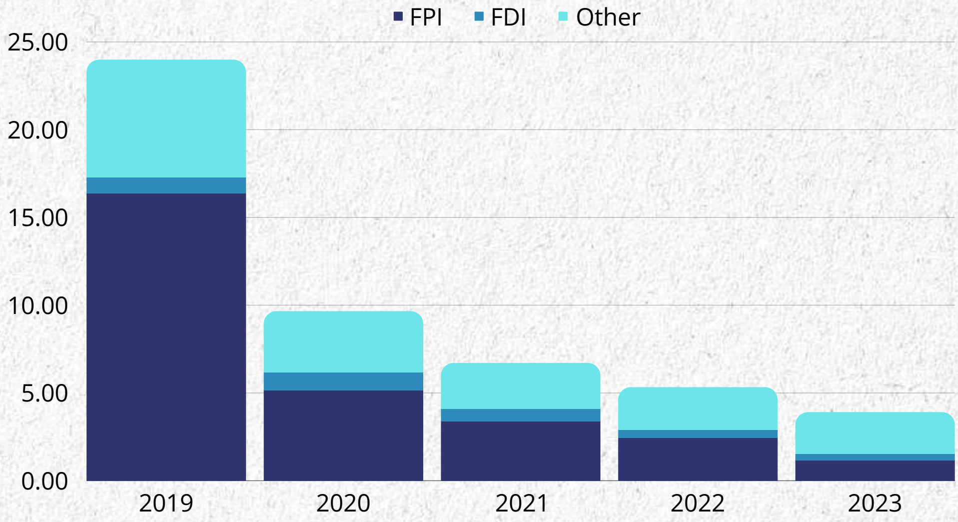
Fig. 4: Trend of NSE All-Share Index

Data: Investing.com, FMDQ; Chart: NESG Research

Reforms still fall short of foreign investors' expectations as foreign investments shrunk. The subdued participation of foreign investors in the stock market and lower foreign capital importation stressed that foreign investors' confidence needed to be sufficiently incentivised. In the year, foreign investment inflows fell by 26.7 percent in 2023 to US$3.9 billion from US$5.3 billion in 2022 (see Fig. 5).

Of great concern is the declining trend of Foreign Direct Investment (FDI), shrinking by 19.4 percent to US$377.4 million in 2023 from US$468.1 million in 2022. The low foreign capital inflows are attributable to Forex scarcity, difficulty in profit repatriation, insecurity, infrastructural deficit, and regulatory bottlenecks.

Fig. 5: Trend of FDI and Capital Importation (US$ Million)



Data: NBS; Chart: NESG Research

The wave of divestment amplified in Nigeria due to the challenging operating environment. In 2023, Nigeria experienced the exit of GlaxoSmithKline Consumer Nigeria, Procter & Gamble, Unilever Nigeria, Sanofi, and Bolt Foods, among others. This represents an extension of the divestment wave in the Oil and Gas sector to the manufacturing sector. The divestment in the Oil and Gas sector has been driven by factors such as oil theft, pipeline vandalism, surges in court cases, environmental degradation, and insecurity. However, the divestment in the manufacturing sector has been mainly due to difficulty in accessing Forex, insecurity and infrastructure deficit, which has substantially disrupted their operations and constrained the sector's growth.

Credit to the Private sector expanded by over 49 percent. In 2023, there was a sharp increase in the credit extended to the private sector, rising from N41.7 trillion in 2022 to N62.5 trillion in 2023 (see Fig. 6). However, this surge can only partially be attributed to banks' credit extended to businesses. Instead, a substantial part of the growth in private sector credit could be attributed to portfolio rebalancing due to exchange rate depreciation accompanying the harmonisation of the FX market.

Fig. 6: Trend of Credit to the Private Sector

Data: CBN; Chart: NESG Research

Despite headwinds in 2023, global credit ratings of top Nigerian companies remain sound. Corporate ratings of Nigeria's top firms (based on NGX market capitalisation) show improved performance. Except for Seplat Energy, with a speculative grade in 2023, the credit ratings of the majority of the companies showed a (very) high credit quality and a low risk of a debt default (signifying an investment grade). Notably, GT Bank's credit rating improved in 2023 to an investment grade (see Table 2). This implies that firms in Nigeria are decoupling from the sovereign risk as the economy is rated B- with a stable outlook.

Table 2: Credit rating of top Nigerian companies by Stock Market Capitalisation

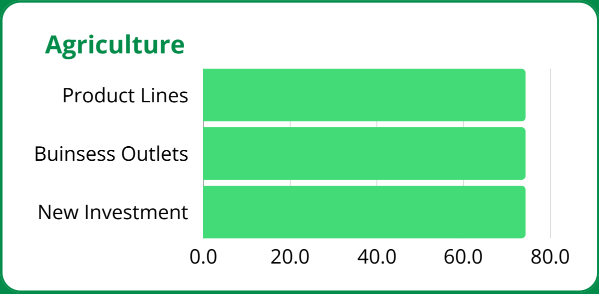
S/N	Companies	2022 Rating	2023 Rating	Description
1	MTN Nigeria	Aa+	Aa+	Sustained rating at very high credit quality and very low default risk.
2	Airtel Africa	BBB-	AAA	Improved from good credit quality and low default risk to highest credit quality & lowest expectation of default risk
3	Dangote Cement	AA+	Aa+	Sustained rating at very high credit quality and very low default risk.
4	BUA Cement	A+	A+	Sustained rating as a high credit quality and low default risk firm
5	BUA Foods	A+	-	High Credit Quality & Low Default risk
6	Zenith Bank	A+	-	High Credit Quality & Low Default risk
7	GT Bank Plc	B-	Aa+	Improved from highly speculative, considerable default risk to very high credit quality and very low default risk
8	Nestlé Nigeria	A+	-	High Credit Quality & Low Default risk
9	Seplat Energy	B-	B	Sustained rating at highly speculative and considerable default risk
10	Geregu Power	Bbb+	Bbb	Sustained rating at good credit quality, low default risk

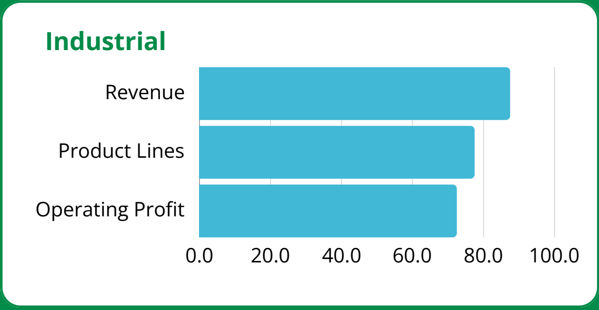
Source: Agusto; Datapro Nigeria; Other online sources

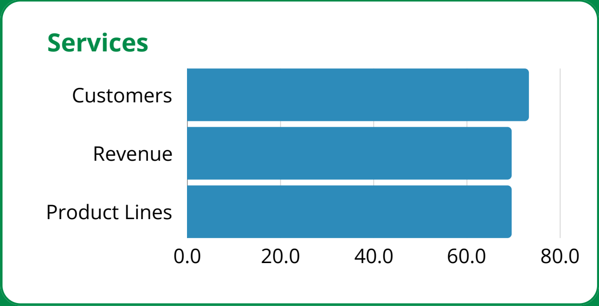
BOX 1: DRIVERS OF PRIVATE SECTOR GROWTH IN NIGERIA

In the face of many downside risks for businesses in Nigeria, businesses still recorded growth across many areas of their operations. Based on the opinions of business leaders in Nigeria, their businesses' most prominent growth areas are revenue and customer base. Other essential areas of business growth include product lines, new investments, and business outlets. A bit of divergence, however, occurred when broad sectors were compared. While the expansion in products and business outlets topped the major growth areas for business leaders in the Agricultural sector, revenue growth was reported as the major growth driver in 2023 by business leaders in the Industrial sector. Meanwhile, the customer base was cited as the major growth driver for the Services sector.

Fig. 7: Business Growth Areas in 2023 by Weighted Ranking of Growth Indicators (Scores Over Hundred)





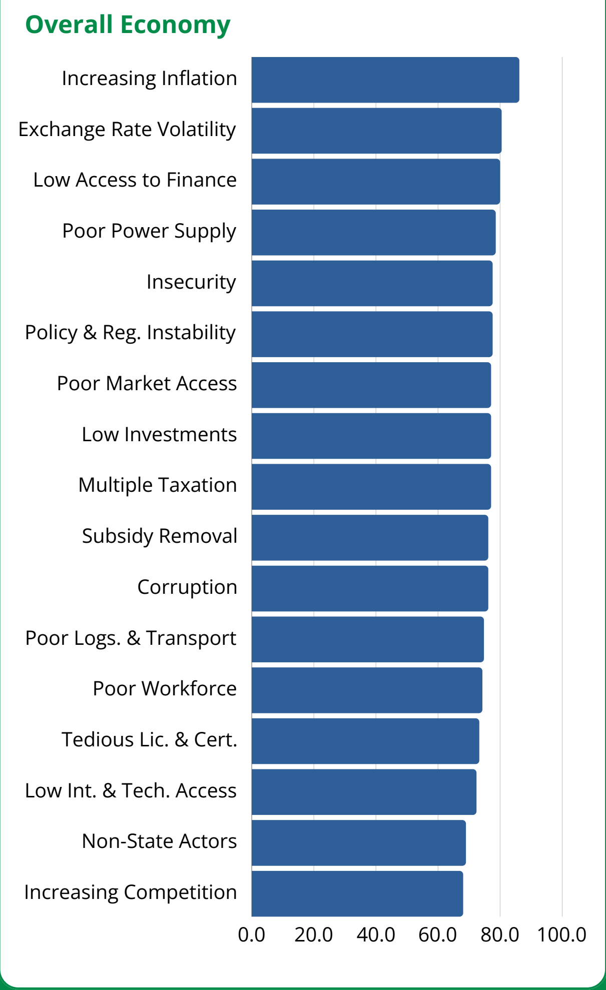


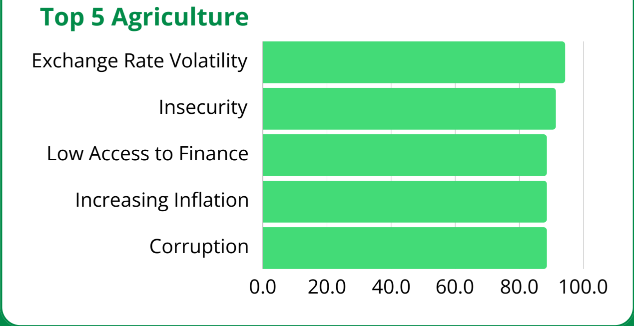
Data: NESG Private Sector Perception Survey; Chart: NESG Research

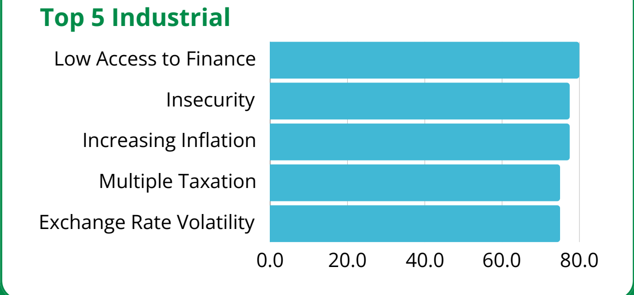
BOX 2: RANKING OF CONSTRAINTS TO BUSINESS OPERATIONS

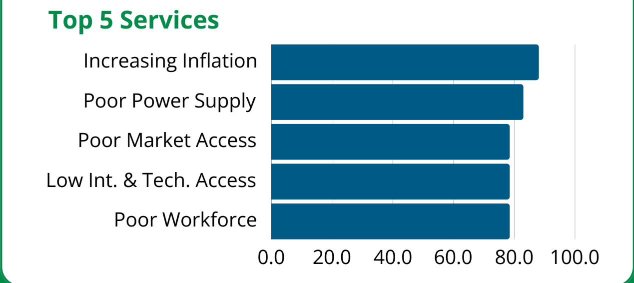
In the opinion of business leaders in Nigeria, prominent among the many challenges they face include rising inflation, exchange rate volatility, limited access to finance, poor power supply, and insecurity. Alongside these major constraint factors, the private sector in the Agriculture sector bemoans the impact of corruption (particularly as it pertains to accessing government intervention in the sector). In the industrial sector, the issue of multiple taxation is also a major challenge facing businesses. Meanwhile, the top headwinds in the Services sector mirror the overall economy.

Fig. 8: Constraints to the Private Sector (Businesses) by Weighted Ranking of Importance of Indicators (Scores Over Hundred)









Data: NESG Private Sector Perception Survey; Chart: NESG Research

04

Private Sector in 2024: Key Opportunities and Risks

In 2024, Nigeria's private sector is poised to approach operational, production, and investment activities with cautious optimism. The challenges faced in 2023, marked by broader economic uncertainties, market volatility, and socioeconomic instability exacerbated by insecurity, have prompted a re-evaluation of strategies.

As the new year unfolds, the private sector must reassess its stance by aligning with emerging business opportunities while navigating potential risks. Optimistically, the persistent inflation experienced in 2023 is expected to recede as the CBN focuses on price stability by revamping the monetary policy framework and improving fiscal deficit management.

These factors are expected to contribute to a more stabilised economic landscape, fostering the potential to incentivise investment, pursue business growth and higher profitability, and support overall economic growth.

This section presents insights into how critical macroeconomic factors could affect private sector performance in 2024 and pinpoint priority economic sectors requiring intervention to support Nigeria's economic growth and stability in the short term. Additionally, it highlights detailed coping strategies for businesses to hedge against potential risks and optimise economic opportunities in 2024.

4.1 Macroeconomic Risks in 2024

i. Borrowing Cost for Businesses

In 2024, Nigeria's monetary policy will focus on price stability, employing tighter measures like increased Cash Reserve Requirements (CRR), higher Open Market Operations (OMO) and government bond sales. The expected dovish policy in developed economies could redirect capital inflows toward developing markets like Nigeria. The CBN governor, in his speech at the CIBN Annual Dinner in 2023, hinted that "monetary policies will aim to achieve price stability, foster sustainable economic growth, stabilise the exchange rate of the naira, and reduce interest rates to facilitate borrowing and investments in the real sector". However, we anticipate that the interest rate will remain elevated as the government seeks to attract investment inflows and counter inflationary pressures.

It is important to note that leveraging the Monetary Policy Rate (MPR) could rein in inflation. However, further monetary tightening poses challenges for the private sector as the cost of capital will increase. This may impede businesses' ability to invest, expand, or meet financial commitments, potentially slowing economic growth and causing job losses.

ii. Exchange Rate

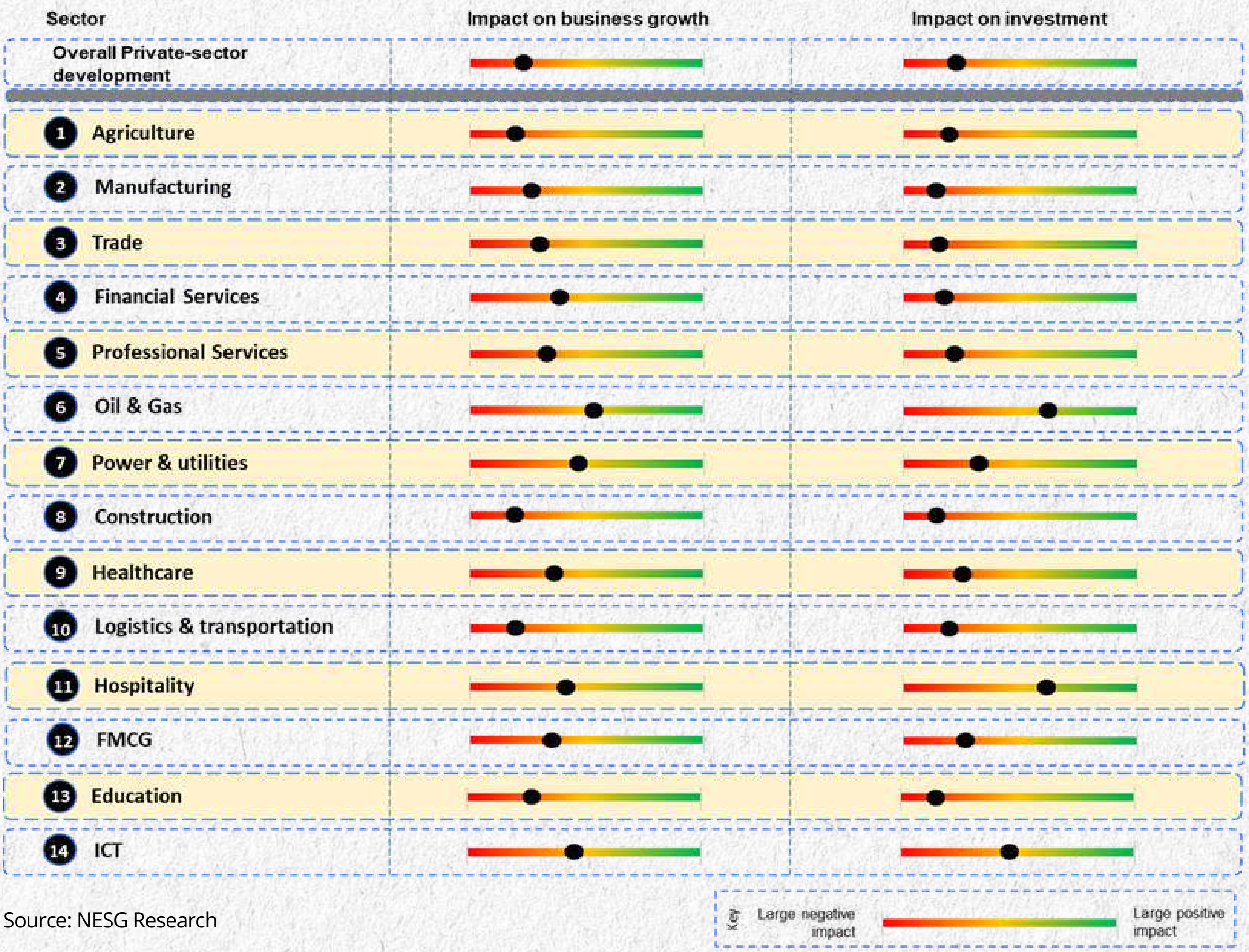
Limited CBN intervention in the Forex market and the anticipated reintroduction of a wholesale auction system to promote price discovery and transparency in the foreign exchange market would stabilise the market's fluctuation in 2024. Consequently, the official exchange rate has crossed N1000/US$ as of January 2024, indicating further depreciation since FX market harmonisation.

The improved measures implemented by the CBN in the official market and other operational strategies are anticipated to stabilise the black market, showing relative stability and a slower pace of depreciation compared to 2023.

Further FX depreciation could impede the performances of various sectors of the economy, negatively impacting private sector growth in 2024 (see Fig. 10), albeit across the private sector's economic activities. Aggregately, Naira's performance would moderately stabilise the private sector's investment and trigger limited business growth in the year on the back of improved Forex liquidity and appropriate exchange rate pricing.

On the broad sectoral classification, exchange rate fluctuations could strain the performance of the Agricultural, Industrial and Services sectors due to direct or indirect dependence on imported intermediate inputs. Divergence could arise at the activity sector level depending on the sector-specific nuances. The Financial sector, among other sectors, would experience gains from exchange rate movement as the Naira value of their foreign-dominated asset increase. However, other sectors will experience varying levels of impact of exchange rate movement. Figure 9 presents the implication of exchange rate movement in 2024 on various activity sectors.

Fig. 9: Exchange Rate in 2024 and Implication for the Private Sector



Source: NESG Research

iii. Cost of Doing Business

Nigeria's inflationary pressure affects businesses through two channels – demand-side (from consumers) and production/operating cost-side (see Fig. 10). In 2024, Nigeria's inflationary pressure is expected to decelerate, projected to average 21.5 percent. This reflects a slight reduction from the average of 24.5 percent in 2023. The projection rests on anticipated improvement in the conditions of core inflation drivers in the country.

Therefore, the cost channel is anticipated to be somewhat favourable towards business growth. The cost of raw materials and inventory is expected to increase modestly, with a notable absence of volatility. Overhead costs are also likely to undergo normal growth within the year, driven by responses to the high minimum wage and the costs associated with improved workers' welfare.

Fig. 10: Inflation and Private Sector Performance in Nigeria

Chart: NESG Research

It is crucial to note that the relationship between inflation and business performance varies across sectors. While the overall moderation in inflation is a positive signal, businesses across all sectors must remain deliberate in managing costs and implementing effective pricing strategies (see Table 3).

Table 3: Inflation and Sectoral Performance in Nigeria

	Cost Channel				Demand Channel			Overall Impact on businesses' growth	
	Raw Material	Inventory	Overhead	Distribution	Discretionary goods	Essential goods	Long-term goods	SMEs	Large Coorperation
Agriculture									
Manufacturing									
Trade									
Financial Services									
Professional Services									
Oil & Gas									
Power & utilities									
Construction									
Healthcare									
Logistics & transportation									
Hospitality									
FICG									
Education									
ICT									

High **Low**

Chart: NESG Research

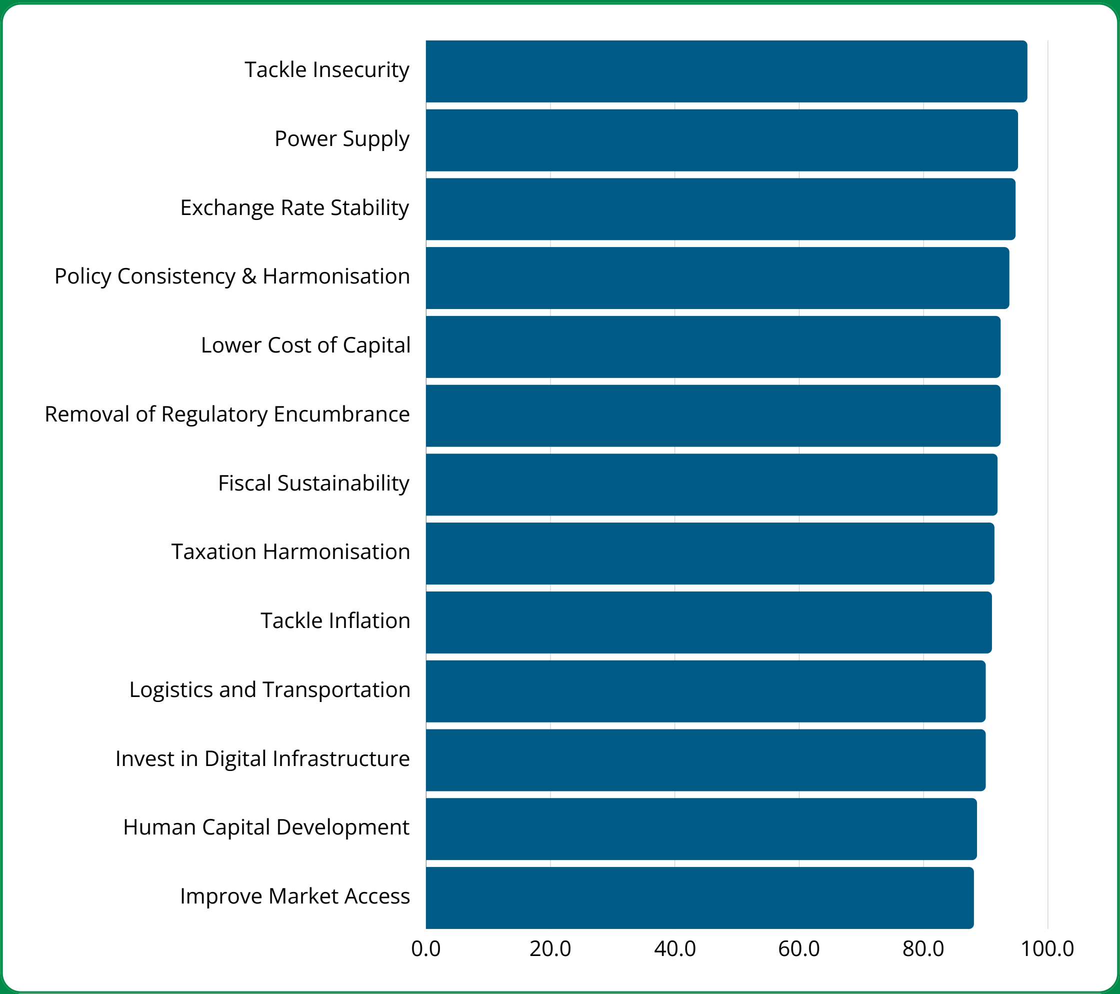
iv. Business Tax (Fiscal Policy)

The anticipated reduction in the fiscal deficit is expected to improve Nigeria's sovereign risks in 2024. This is attributable to the projected increase in government revenue from oil and non-oil sector activities, particularly as the Presidential Committee on Tax Reform and Fiscal Policy recommendations get implemented. If this scenario unfolds, businesses stand to benefit from reduced costs related to multiple taxation and uncertainties surrounding business operations in Nigeria. The World Bank (2011) highlighted that about 35 percent of a company's pre-profit income is the average tax rate, while the effective tax rate was estimated at 40 percent. Lifting this massive burden off businesses through harmonisation of taxes and clarity in the tax system would support business growth and enhance the survival and development of the private sector in Nigeria.

BOX 3: PRIVATE SECTOR IN 2024: WHAT SHOULD GOVERNMENT FOCUS ON FOR THE YEAR?

Business leaders expect the government to tackle insecurity and exchange rate instability, improve power supply, improve policy consistency and ensure fiscal sustainability, among other top priorities in 2024. This slightly mirrors business leaders' challenges as the insecurity, exchange rate stability and power issues are pronounced. At the sectoral level, the top expectations of businesses in the Agricultural and Industrial sectors mirror the overall economy. In contrast, the Businesses in the Services sector emphasise lowering the cost of capital as a major reform expectation from the government in 2024.

Fig. 11: Expectations of the Private Sector (Businesses) from the Government by Weighted Ranking of Importance of Indicators (Scores Over Hundred)



Data: NESG Private Sector Perception Survey; Chart: NESG Research

4.2. Private Sector Development in Nigeria – Priority sectors

Although the government's role in creating a conducive business environment cannot be overstated, the private sector serves as the primary catalyst for economic growth and transformation, given its contributions to sectoral growth and investment. The most expedient approach to fostering the development of Nigeria's private sector involves achieving sustainable growth in crucial activity sectors characterised by significant investment and growth potential. Ensuring progress within these activity sectors aligns seamlessly with the government's overarching agenda is imperative.

A set of criteria has been delineated to provide a comprehensive context for identifying priority activity sectors that promote private sector expansion and enhance its connection with achieving improved socioeconomic outcomes such as poverty reduction. These criteria pinpoint sectors with robust potential for economic growth, employment generation, and poverty alleviation in Nigeria. Table 4 presents the selection framework for priority sectors.

Table 4: Priority Sector Selection Framework/ Methodology

Filter 1: Investment attraction	Filter 2: Growth rate in 2023	Filter 3: Government priority
The criterion evaluates the attractiveness of crucial activity sectors to domestic and foreign investors. The distribution of capital importation was the basis for assessing sectors.	Segmenting all economic activities into sectors to achieve a precise performance assessment and showing the sector's potential.	This entails identifying pivotal sectors that align with or are emphasised by the Nigerian government's 8-point agenda.

Chart: NESG Research

In achieving the goal of identifying the key segments of the private sector, the selection framework (see Fig. 12) delves into the intricacies of each activity of the private sector, including investment attraction, growth performance, and government priorities to enable stakeholders to identify opportunities, challenges, and potential areas for improvement. By leveraging this methodical tool, the Nigerian private sector can strategically align its programming initiatives with the broader goal of identifying and nurturing key growth sectors in the country.

As highlighted in Figure 12, a process of elimination from which the Agriculture, ICT, Financial Services, Manufacturing, and Trade sectors emerge as the priority sectors for private sector development in 2024.

Fig. 12: Priority Sectoral Selection Process for the Private Sector Development

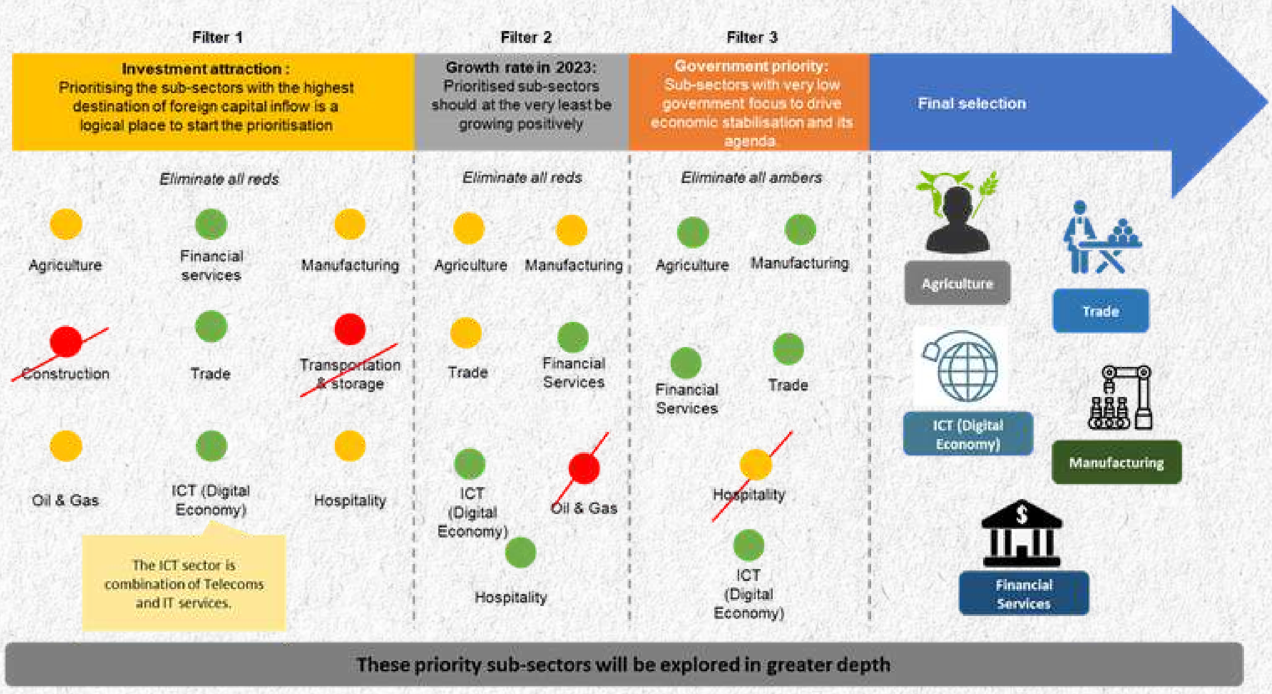


Chart: NESG Research

These priority sectors are notable for the following characteristics:

- Sub-sectors that command a substantial share of foreign investment;
- Sub-sectors poised for growth and expansion in output but currently exhibit weak contributions to GDP growth and a low share in GDP, respectively;
- Sub-sectors demonstrating robust backward and forward linkages (these sectors play a pivotal role in the development of other sectors, either through input demand or the sale of intermediate output/services); and
- Sub-sectors linked to inclusive growth (these are essential for expanding overall GDP output, significantly contributing to GDP growth, creating business and employment opportunities, reducing poverty, and expediting the economic diversification process).

It is important to note that the role of human capital is imperative for these highlighted sectors. As hinted in the preceding section, a low-skilled workforce has hindered the performance of the private sector. The skill gap and brain drain have recently become significant constraints to business as many businesses source technocrats across Nigerian borders. Therefore, developing the human capital base by investing in education and health is a fundamental enabler to the five (5) priority sectors enumerated.

4.3. Coping Strategies for Businesses in 2024

Navigating Nigeria's business landscape in 2024 requires implementing essential coping tactics to address challenges and capitalise on opportunities effectively. Through a synergy of the strategies outlined below, businesses can enhance their resilience, increasing the likelihood of survival and flourishing in Nigeria's dynamic economic environment. By adopting proactive and adaptable measures, businesses can thrive amidst challenges and contribute significantly to the country's overall economic growth in 2024.

Successfully navigating the turbulent terrain in Nigeria demands the strategic use of adaptive coping strategies. The following highlights some effective strategies for corporations to consider.

Table 5: Coping Strategies for Businesses/Private Sector in Nigeria for 2024

Chart: NESG Research

i.Diversification of Products/Services: Businesses should focus on expanding their product or service offerings across various sectors by assessing and capitalising on emerging trends and consumer preferences. This strategic approach can help mitigate risks associated with dependence on a single market or industry. Additionally, businesses must explore new markets to diversify their income sources without incurring additional production costs.

ii.Technology integration for innovative marketing and customer management: Leverage technology for marketing, sales, and customer engagement to maintain consistent product visibility and attract customers. Implement digital solutions that optimise processes, improve communication, and provide a competitive advantage to enhance marketing efficiency and reduce costs.

iii. Market Research and Customer Insights: Conduct continuing market research to comprehend evolving consumer behaviours and stay abreast of market trends. Regularly conduct market research to identify new opportunities or shifts in consumer behaviour, enabling businesses to incorporate customer feedback and tailor products/services to meet market demands.

iv. Cost optimisation: Conduct a comprehensive review of operational costs and pinpoint areas for optimisation, including exploring partnerships and collaborations. Additionally, businesses should focus on streamlining processes and negotiating more favourable deals with suppliers for cost savings. Embracing a shared-service model through strategic partnerships to pool resources and expertise can significantly enhance the competitiveness of businesses.

v. Supply chain diversification for resilience: Businesses must diversify their supply chain to reduce dependence on specific suppliers. This strategy will help safeguard against disruptions caused by economic uncertainties or geopolitical issues such as insecurity. Also, contingency plans for supply chain disruptions should include building strong relationships with reliable partners.

vi. Government and Regulatory Compliance: Establish a regulatory compliance desk within your business to stay informed about government policies and ensure compliance and legal adherence. This ensures that business operations prioritise adaptability and resilience for effective navigation in Nigeria's dynamic regulatory environments. Additionally, implement a flexible compliance framework to adapt to regulatory changes swiftly.

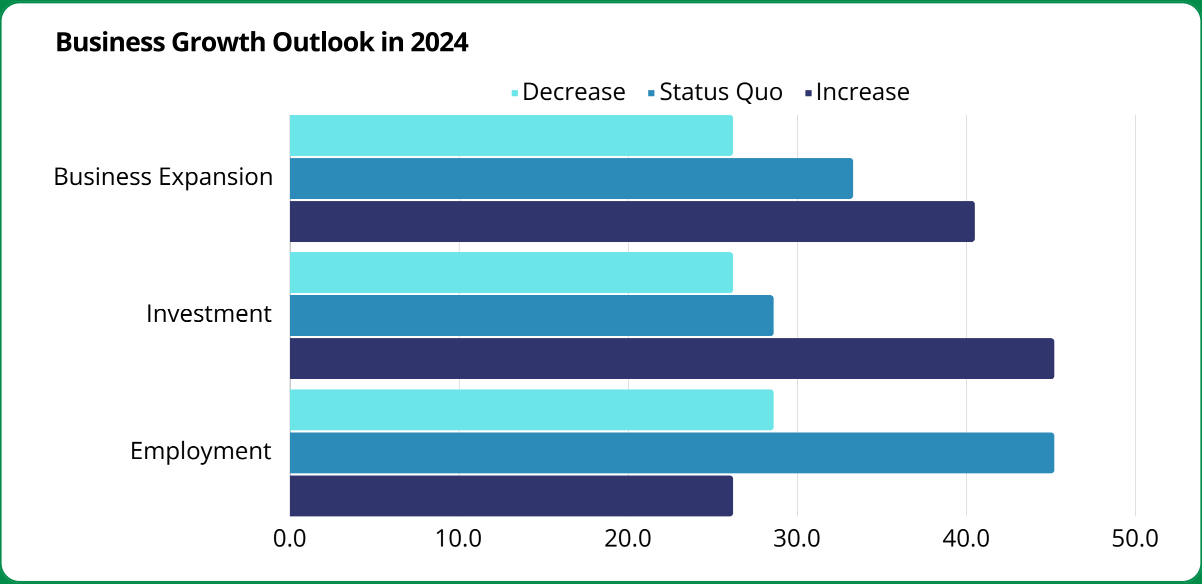
vii. Hedging exchange rate risk: Businesses in Nigeria must thoroughly assess their unique circumstances, risk tolerance, and market conditions before implementing any exchange rate hedging strategy. Given the potential volatility in currency markets, businesses need effective strategies to hedge currency risk by considering the following.

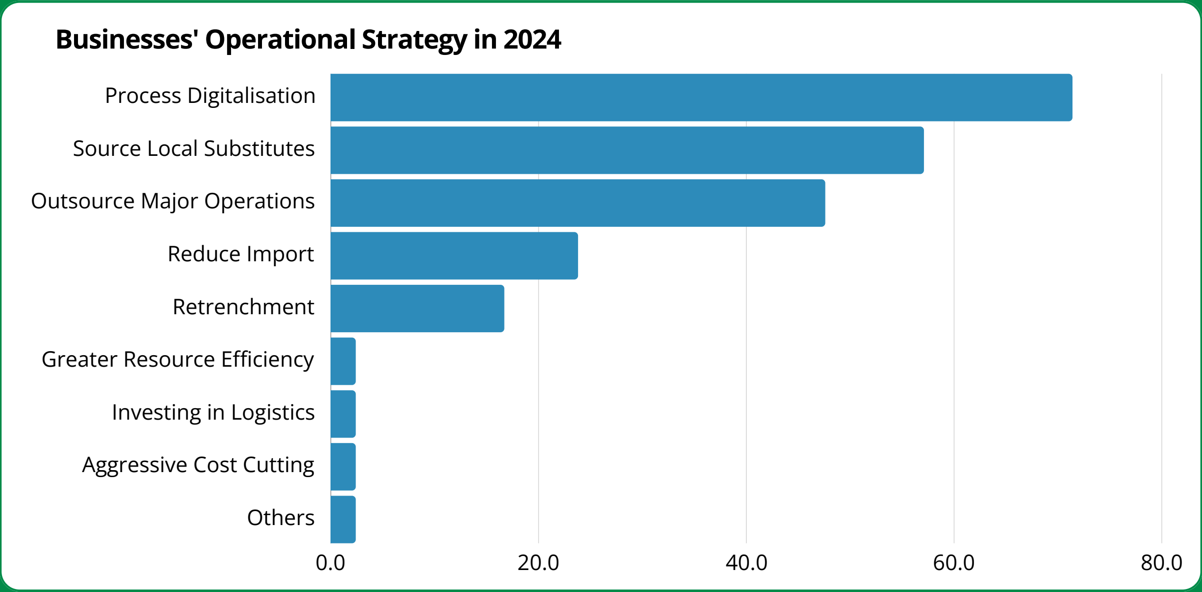
1. Utilise forward contracts to lock in predetermined exchange rates for future transactions, protecting against adverse currency movements.
2. Explore derivative instruments, such as futures contracts, to manage currency risk. This requires a solid understanding of the derivatives market.
3. Negotiate long-term agreements with suppliers or customers in foreign currencies to stabilise pricing and reduce short-term exposure.

BOX 4: PRIVATE SECTOR IN 2024 - KEY BUSINESS DECISIONS ON OPERATION

2024 will be a decision-making year for many businesses, with a series of reforms and changes in market conditions. While many business leaders are positioned to grow investment in their business and expand business operations (by new outlets or new product lines) in 2024, more businesses plan to maintain their current workforce in 2024. Among various operational measures identified, business leaders hold a strong position regarding the digitalisation of business processes. Other major measures they plan to adopt in 2024 include sourcing local substitutes for inputs and outsourcing some operations.

Fig. 13: Key Decisions of Business Leader for 2024 (Percentage of Respondents)





Data: NESG Private Sector Perception Survey; Chart: NESG Research

05 Conclusion

The development of the private sector is crucial in economic development as it has a much more significant role in driving sustained economic growth than the government. The subdued performance of businesses and firms has contributed immensely to Nigeria's economic growth's fragile and vulnerable nature over the years. This is because various economic challenges inhibit operational efficiency and suppress productivity across sectors. These challenges include policy and regulatory bottlenecks, infrastructural deficiency, the dominance of informality, insecurity, and human capital deficiency, which have heightened operating costs, weakened firms' competitiveness and impeded the economy's growth. Hence, this report sought to review the performance of the private sector, identify headwinds and develop recommendations.

In 2023, the private sector faced significant challenges from implementing demanding policies amid a fiercely contested general election, exacerbating pre-existing structural issues. These challenges exerted considerable pressure on Nigeria's economic landscape and business environment.

A review of the performance of the private sector across various indicators showed mixed outcomes. The PMI suggests suppressed economic activities, mirroring the episodes of shock in the year. The conditions with divestiture waves and foreign capital importation also worsened in the year. Nevertheless, the reform space propelled the equity market as the ratings of Nigerian businesses strengthened.

This report highlighted challenging factors that affected businesses in the economy in 2023 while noting that the dimensions and severity of their impact might vary across sectors. Nonetheless, the exchange rate volatility, multiple taxation and infrastructure came out strongly among other constraints. Therefore, going into 2024, this report highlighted some of the risks to businesses in the year, which include interest rate hikes, depreciated but stable exchange rates, cost of production and tax reforms, among others. It also identified priority sectors for investment to drive government intervention and coping strategies for businesses.

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The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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