ECONOMIC DEVELOPMENT BENEFITS OF PRIVATE EQUITY IN NIGERIA

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ABSTRACT

This study investigated the economic development benefit of private equity in Nigeria. Several literatures were reviewed from different source as to properly examine the contribution of private equity to the economic development of Nigeria. The study reveals that Nigeria has been in economic crisis coupled with the COVID-19 pandemic which is major setback to her economic development. In trying to seek for alternative sources of recovery the private equity as recorded in the study. The study discovered that the private equity industry is made up of institutional investors such as pension funds and large private-equity (PE) firms funded by accredited investors who may provide operational support to management to help build and develop the economy via functions such as capital raising, sourcing, due diligence, and deal closing; and management through improvement of operations and cutting cost, etc. Moreover, the amount of activity and recent changes in the Nigerian market; investment incentives for institutional and individual investors; fundraising methods; investment, transaction, and exits. The study was then concluded on the basis that Nigeria's economy would experience recession in 2020, with efforts to reverse three years of recovery, due to a drop in crude oil prices due to falling global demand and containment measures to combat the spread of COVID–19, the PE industry is seen to be capable of contributing advantageously to the economic downturn as it is now experiencing. Governments should implement counter-cyclical, expansionary macroeconomic policies to resuscitate economy, fiscal policy should give a boost, ideally by increasing public investment, and so on, according to the report.

Keywords: Private Equity, Venture Capital, Leveraged Buyouts, GDP, Economic Development.

INTRODUCTION

Nigeria is Africa's biggest economy and one of the world's fastest-growing economies. Nigeria's Gross Domestic Product (GDP) has grown significantly since 2000, as seen in the graph below. Despite its fast economic expansion, Nigeria has a huge inequality gap. The south, particularly in and around Lagos, is known for its wealth. The north, on the other hand, is in dire straits. Nearly half of Nigeria's population subsists on less than a dollar a day (World Bank, 2020).

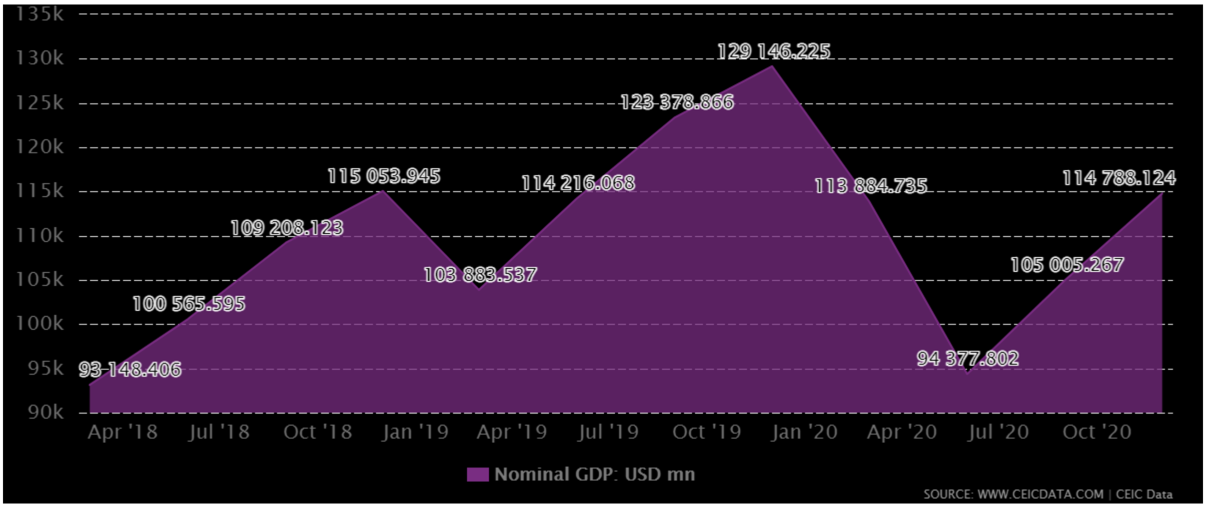
Nigeria's Central Bank lowered the policy rate by 100 basis points to 11.5 percent in order to boost the economy. Reflecting pandemic-related expenditure constraints and income deficits, the budget deficit expanded to 5.2 percent in 2020 from 4.3 percent in 2019, funded largely by domestic and international borrowing. On June 30, 2020, total governmental debt was $85.9 billion (25 percent of GDP), up 2.4 percent from the previous year. Domestic debt accounted for 63% of overall debt, while foreign debt accounted for 37%. Nigeria has a huge fiscal risk due to high debt service obligations, which are expected to be more than half of federally collected income. The current account deficit was forecast to remain at 3.7 percent of GDP, owing to a drop in oil revenue and sluggish external financial flows.

The accomplishment of a qualitative degree of development is a fundamental part of every nation's drive to self-reliance, and it is the personal value of every national government. According to Lawal (2011), development is a necessary component of every dynamic nation's growth and survival. Since a result, in order to assure growth, sociopolitical and economic stability must be secured at all levels of government, as this will encourage individuals' natural commitment to the governing process. While development is critical to any country's success, Okereke and Ekpe (2002) noted that there is an uneven degree of development throughout the globe, which has sparked several academic disputes and hypotheses as to why some nations are more developed than others. Nigeria, like other African nations, has abundant people and natural resources as well as a diverse cultural legacy. Various Nigerian governments have developed and tried detailed plans aimed at attaining development in the country in the past. These plans included programmes aimed at improving the general welfare of residents and the country as a whole. Since the country's independence, development and growth have been primary priority for the administration. This is because development planning is often seen as the only way to effectively manage resource allocation and usage (Ibietan & Ekhosuehi, 2013).

According to Ogunmike (1995), Nigeria's first actual development plan was developed in 1946, with the express goal of stimulating economic growth and enhancing the overall welfare of the country's population. The development plan, which mirrored Nigeria's independence, was implemented in 1962 and ran for six years. The plan planned to sustain and improve GDP growth by relying largely on multilateral assistance, with foreign investment accounting for 50% of total investment. As a consequence of the fall of the first republic and the ensuing outbreak of civil war, the first development plan came to an abrupt halt. Furthermore, only around 14% of the planned foreign help was received, resulting in an inability to meet the set goals (Ogunmike, 1995). Following the civil war, the second development plan, which lasted from 1970 to 1974, was implemented. The second national development plan was released at a time when Nigeria's crude oil and other commodity sales were on the rise. Agriculture, industry, transportation, manpower, defence, electricity, communication, water supply, and social services were all prioritised in the plan. The plan also intended to restructure a country that had been ravaged by post-war violence. The third development plan, which ran from 1975 to 1980, was more vague since it focused on rural development and agriculture.

According to Oxfam (2017), the total fortune of Nigeria's five wealthiest men is worth $29.9 billion, which could abolish severe poverty in the country, yet 5 million people are hungry. Despite the fact that more than 112 million Nigerians live in poverty, the country's wealthiest individual would have to spend $1 million a day for 42 years to exhaust his money. Despite the Nigerian government's growth ambitions, there have been several failures in the development process. Simply put, the economy experienced an unprecedented economic catastrophe in March 2020, when the inflation rate increased to 18.17 percent from 17.33 percent in February 2021. This is an increase of 0.82 percentage points above February's data. This is according to the National Bureau of Statistics' Consumer Price Index report, which was just issued (NBS).

From 2010 to 2020, Nigeria's GDP Growth Rate averaged 1.36 percent, with a peak of 12.12 percent in the third quarter of 2020 and a low of -14.27 percent in the first quarter of 2020. The gross domestic product (GDP) is a measure of a country's economic production and revenue. The gross domestic product (GDP) is the sum of all expenditures for all final products and services generated in a certain period of time inside the nation.



Source: https://www.ceicdata.com/en/indicator/nigeria/nominal-gdp

The level of investment needed to restore the economy to levels on an economic development trajectory is stupendous. Alternative sources of funding have therefore to be found while at the same time deepening local financial markets for sustainable economic growth. One alternative that has not been given enough attention is private equity and this research is an attempt to establish the merits of private equity as a possible source of investable funds in Nigeria.

"Investment in securities via a negotiated procedure" is a wide definition of private equity investing (European Private Equity and Venture Capiral Association, 2002). The bulk of private equity investments are made in firms that are not publicly traded. Investment in private equity is often a transformative, value-added, active approach. Venture capital and buyout investment are the two primary types of private equity investment. Each has its own subcategories and dynamics, and though this is oversimplified, it serves as a helpful foundation for portfolio development. As a result, the purpose of this study is to investigate what development comprises, certain theories of development, and the impediments to development in Nigeria, as well as to suggest potential answers via its suggestions.

CONCEPTUAL CLARIFICATION

Private Equity

Private equity is a kind of private financing that takes place outside of public markets and involves investors directly investing in firms or buying them out (Harvard Business School, 2020). Investors in a private equity fund pay management and performance fees to private equity companies. An equity firm, sometimes known as a private equity firm, is a kind of investment organisation that uses its own cash or cash from other investors to expand and establish new businesses (Stowell, 2010). The majority of equity corporations are not publicly traded, and their shares are not exchanged on the stock exchange. As a result, private equity firms are exempt from many of the restrictions that apply to public enterprises. The company, also known as a financial sponsor, will raise cash to invest in certain investment strategies.

Private equity investors are often high-net-worth individuals, institutional investors, or venture capital firms interested in supporting a company's operations for personal or commercial reasons (Lemke, Lins, Hoenig, & Rube, 2013). The goal of private equity companies is to make money for its investors, and the pursuit of a favourable return on investment is the driving force behind such undertakings (ROI). Partners at private equity (PE) companies raise money and manage them to provide favourable returns for stockholders, generally over a four- to seven-year investment horizon. It consists of businesses or investment managers that raise funds from rich investors to invest in current or new businesses. The management or private equity company will be paid a fee and will get a portion of the gross earnings in exchange for their services.

A frequent method for a private equity firm to acquire a business is via an auction. Following the purchase of the business, the equity firm will attempt to boost its value via a variety of techniques, including the implementation of a growth strategy and process improvement (Corporate Finance Institute. (n,d); Maxwell, 2007). It introduces new processes, technology, and other procedures aimed at increasing the company's operational efficiency and productivity.

In order to increase the company's profitability, the equity firm may make bad choices like as shutting down unprofitable units or laying off staff. The equity firm may opt to exit the investment by selling it to another equity firm or a strategic bidder as soon as the struggling business is up and running. It may also use an initial public offering to get out of the investment.

Equity companies and their investors will be granted a significant minority or majority stake in a business, with the goal of maximising the investment's value. They often make longer-term investments in specialised investment areas in which they are specialists or target industrial sectors. Private equity companies vary from hedge funds, which often make shorter-term investments in a certain sector, such as stocks and other liquid assets, but have minimal influence over the company's operations.

Private equity (PE) is the ownership or interest in a company that is not listed or traded on a public exchange. Private equity (PE) is a form of investment money that originates from high-net-worth individuals (HNWI) and corporations that buy holdings in private businesses or take control of public businesses with the intention of taking them private and delisting them from stock exchanges (Barber & Goold, 2017; Corporate Finance Institute, n,d).

Institutional investors, such as pension funds, and major private-equity (PE) companies supported by accredited investors make up the private equity (PE) sector. Because private equity (PE) often necessitates direct investment to obtain influence or control over a company's activities, it necessitates a large financial expenditure, which is why firms with deep resources dominate the business (Barber & Goold, 2017). The basic goal of private equity companies is to make money for their investors within four to seven years. It consists of businesses or investment managers that raise funds from rich investors to invest in current or new businesses.

Types of Private-Equity (PE) Firms

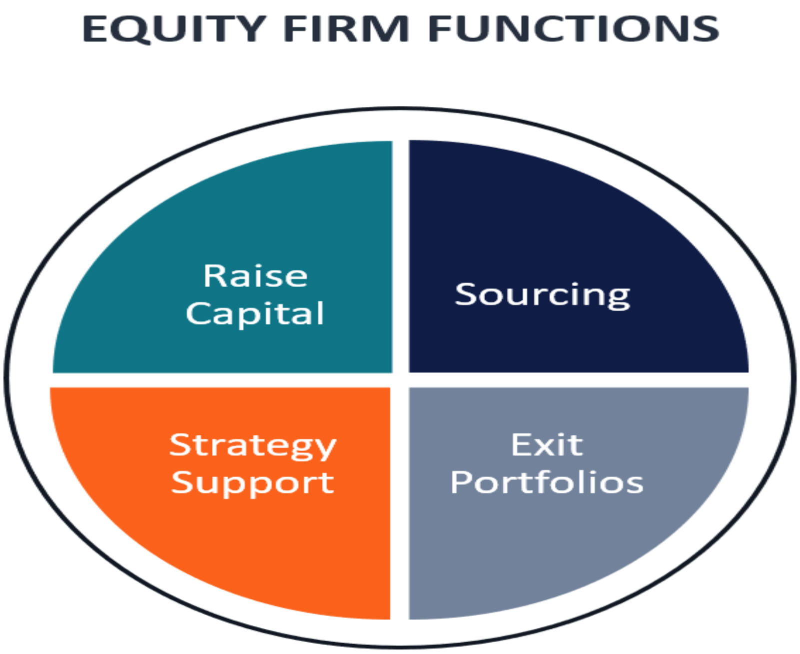
PE companies have a diverse variety of investing choices (Segal, 2019). Some are rigid financiers or passive investors who are completely reliant on management to build the business and make profits. Other private equity (PE) companies consider themselves active investors since sellers often perceive this as a commoditized strategy (Lerner, 2000). That is, they give operational assistance to management in order to assist the firm flourish and develop.

Active private equity (PE) companies may have a large contact list and C-level ties inside a certain sector, such as CEOs and CFOs, which may assist boost revenue. They could also know how to maximise operational savings and synergies. Sellers are more likely to see an investor favourably if they can add something unique to a sale that will increase the company's worth over time (Segal, 2019).

Private equity businesses, often known as private equity funds, compete with investment banks to purchase excellent businesses and finance start-ups. Unsurprisingly, the top investment banks, such as Goldman Sachs (GS), JPMorgan Chase (JPM), and Citigroup (C), are often involved in the most significant transactions.

The funds offered by private-equity (PE) companies are exclusively available to authorised investors and may only accept a small number of investors, while the fund's founders would typically acquire a major interest in the business as well. However, some of the most prominent and well-known private equity (PE) firms trade their stock openly (Segal, 2019).

FUNCTION OF EQUITY FIRMS



Source: https://corporatefinanceinstitute.com/resources/careers/companies/equity-firm

The following are some of the primary roles that private equity investors play in their pursuit for profit (Corporate Finance Institute n.d).

Raise Capital: Equity corporations acquire capital commitments from limited partners/external financial institutions such retirement and pension funds, insurance companies, affluent people, and endowments. They may also contribute a portion of their own money to the fund. Limited partners are usually required to invest a large sum of money in order to be allowed to participate in the fund.

Sourcing, Due Diligence, and Deal Closing: When evaluating prospective acquisition targets, public equity firms consider factors such as the sector the business works in, what the business is engaged in (their service or product), the business's management, the business's recent financial performance, and the business's exit options. Prospective transactions may be obtained via the partners' reputations, efforts, and networks of investment professionals, or via investment banks.

The investment team will do due diligence after locating a possible acquisition to assess the company's industry, market, business model, management team, risk considerations, strategy, and exit prospects. The final details of the agreement will be discussed with attorneys, after which the transaction will be concluded, monies released, and shares traded.

Even while equity firms are not engaged in the day-to-day operations of their portfolio businesses, they give a variety of assistance and advise on strategy, financial management, and operations. Their level of engagement will be determined by the extent of their investment in the firm. They would be less interested if the stake they possess is tiny. If they own a big portion of the firm, however, they will be more interested in improving the firm so that the end result is lucrative.

Profitably Sell/Exit Portfolio Companies: The eventual objective of most private equity firms is to profitably exit their portfolio businesses. The departure usually occurs three to seven years after the original investment, although it might take longer or shorter depending on the strategic scenario. Cutting expenses, paying off debt used to finance the acquisition, generating revenue throughout the holding term, maximising working capital, and selling the firm at a greater price than when it was bought are all ways to capture value upon exit. The majority of exits occur as a consequence of a company's purchase or an Initial Public Offering (IPO), with acquisitions being the most common way. After then, the returns will be calculated.

Current Major Trends in the Private Equity Market in Nigeria

The slump in oil prices and the COVID-19 pandemic have placed a strain on the Nigerian economy and disrupted financial planning by many businesses (Olumuyiwa & Ibrahim, 2021). A prolonged disruption is likely to lead to renegotiation of deal terms, defaults, termination of contracts, layoffs, inflation, currency devaluation, a further downgrading of the country's sovereign credit rating, all culminating in a decline in foreign direct investments generally and, consequently, in private equity activity in Nigeria (Ogiemudia, Sijuwade, Orabueze, Udoma, & Belo-Osagie, 2020). To mitigate these challenges, the Federal Government has:

- Adjusted the 2020 national budget.
- Technically devalued the Naira (NGN) from NGN366.7 (USD1) to NGN380.2 (USD1).
- Approved a NGN50 billion stimulus package for households and small and medium enterprises affected by the COVID-19 pandemic.
- Made other economic interventions.

The Finance Act 2019 (Finance Act) and the Nigerian Police Trust Fund (Establishment) Act 2019, as well as the Federal Competition and Consumer Protection Commission's (FCCPC) Guidelines on Simplified Process for Foreign-to-Foreign Mergers with Nigerian Component (Foreign Merger Guidelines), have all had an influence on private equity deals.
The Finance Act made changes to numerous parts of current tax laws, addressing tax concerns that were previously unaddressed by the law (Ogiemudia et al., 2020). The following are some of the most important amendments:
The classification of businesses for tax purposes into the following categories:

- Small businesses, defined as those with an annual gross revenue of less than NGN25 million (or less).
- Medium-sized businesses, defined as those with an annual gross revenue of NGN25 million to NGN100 million, are now free from paying company income tax, but must still register with the Federal Inland Revenue Service and submit tax reports.
- Large enterprises (those with an annual gross turnover of more than NGN100 million) are subject to firms' income tax at a reduced rate of 20% of taxable profit, a Police Fund Levy of 0.005% of the net profit of the company's running activity in Nigeria, and tertiary education tax at a rate of 2% of assessable profit. These continue to be subject to corporate income tax of 30% of taxable profit, a Police Fund Levy of 0.005% of the net profit of the company's running activity in Nigeria, and tertiary education tax of 2% of assessable earnings.
- Nigerian companies with at least 25% foreign equity investment, that have no taxable profit or with taxable profits less than the minimum tax, are now liable to pay a minimum tax of 0.5% of gross turnover;
- An increase in the rate of value added tax from 5% to 7.5%;
- The introduction of withholding tax at the rate of 10% on the dividends of investors in upstream oil and gas companies;
- Capital gains tax is now payable on any compensation for loss of office in excess of NGN10 million; and
- Documents relating to electronic transactions are now liable to stamp duties.

The Nigerian Police Trust Fund (Establishment) Act 2019 created the Nigerian Police Trust Fund to provide funding for the training and welfare of Nigerian Police Force members, as well as the acquisition of security gear and equipment. The Act levies a 0.005% charge on the net earnings of enterprises operating in Nigeria (other than small businesses as specified above) (Ogiemudia et al, 2020).

The Foreign Merger Guidelines, released by the FCCPC in November 2019, govern the purchase of shares or other assets outside of Nigeria that result in a change of control of a company, portion of a company, or any asset of a company in Nigeria. The Foreign Merger Guidelines provide for a 15-day accelerated review procedure after payment of the applicable fees and submission of appropriate documents.

Nigeria has signed the African Continental Free Trade Agreement (AfCFTA), which aims to create an unified continental market for commodities and services, as well as free movement of people, products, and capital. The agreement is likely to speed up the creation of a customs union while simultaneously increasing intra-African commerce and competitiveness. The Agreement, however, will not become effective in Nigeria until it is ratified by the National Assembly (Ogiemudia et al, 2020).

There has been significant activity in the insurance sector, largely driven by the sector regulator's revised capital requirements for insurance companies. Recent transactions include Verod Capital Management Limited's acquisitions of 100% of the equity of Metropolitan Life Insurance Nigeria Limited and 77.22% of ARM Life PLC, as well as the acquisition of 39.25% of Royal Exchange General Insurance Limited by Blue Orchard Finance (the investment managers to the InsuResilience Investment Fund). In the technology space, uMunthu fund invested in MAX.ng, the pioneer app-based motorcycle hailing service in West Africa.

The Level of Private Equity Activity in Nigeria in Recent Years

The market's degree of activity and recent developments; institutional and private investors' investment incentives; the mechanics of fundraising; investment, transaction, and exits.

Fundraising

Despite the tough background of Nigeria's economic growth expectations, fundraising efforts continue. As general partners continue to perceive potential for investment in Nigeria, the number of Nigeria-focused funds seeking money continues to rise. Verod Capital Management, for example, recently announced the interim closure of its Verod Capital Growth Fund III LP, which received US200 million in commitments.

Investment

Nigeria remains a prominent investment destination in Africa, and it is one of the most popular in West Africa, with countries such as Cote d'Ivoire, Senegal, Ghana, and Benin. Available data from the National Bureau of Statistics indicates, however, a decline in the total value of foreign investment coming into Nigeria. In 2019, that figure was USD934.34 million, while in 2018 it was USD1.19 billion. The financial services, telecommunications, manufacturing and agricultural sectors attracted most of the FDI in 2019. Coca-Cola's acquisition of Chi Limited, and the merger of Access Bank PLC and Diamond Bank PLC are some significant deals in the market. Other significant deals include Verod Capital Management's investment in Daystar Power Group, Sahel Capital's investment in Ladgroup Limited and the Partech-led Series A funding of Kudi, a leading digital payments and collections company.

Transactions

The purchase of shares (via subscription or transfer from existing owners), quasi-equity instruments, and, more recently, loans are the most typical kinds of private equity transactions in Nigeria. Equity purchases (typically by offshore-registered special purpose entities) of majority or large minority interests in Nigerian portfolio firms have traditionally been utilised as transaction structures. Current economic issues and risk management concerns, on the other hand, are driving the use of debt and convertible instruments, as well as alternative capital structures. Typically, investments are made in firms with a strong track record of success, growth prospects, and a strong management team (Ogiemudia et al, 2020).

Exits

Secondary sales to trade buyers, private equity firms and other financial buyers remain the most common forms of exit. Notable exits in 2019 include Verod Capital Management's exits from:

- Rotoprint Limited, a leading vertically integrated supplier of flexible packaging products to top-tier consumer product companies across West Africa; and
- UTL Trust Management Services Limited, a Nigerian trust company based in Lagos.

Helios Investment Partner's exit from Eland Oil & Gas PLC and African Capital Alliance's exit from Cornerstone Tower were also significant (Ogiemudia et al, 2020).

Private Equity Major Funding Sources and Investment Strategies in Nigeria

In Nigeria, institutional investors such as pension funds, sovereign wealth funds, development financial institutions, insurance companies, financial institutions, and high-net-worth individuals often finance private equity firms (Ogiemudia et al., 2020). Meanwhile, the most popular legal structures utilised as vehicles for private equity firms are:

- Limited partnerships and partnerships; and
- Limited-Liability Corporations (LLCs).

Investment Strategies

There are several private equity (PE) investing methods to choose from. Leveraged buyouts (LBOs) and venture capital (VC) investments are two of the most prevalent.

Investment Strategies for Leveraged Buyouts (LBOs): LBOs are just what they sound like. A private equity (PE) firm buys a business, and the transaction is funded with debt secured by the target's activities and assets. The acquirer (a private equity company) wants to buy the target using cash obtained by using the target as a form of collateral. In a leveraged buyout (LBO), purchasing private equity (PE) firms may take ownership of a company for a fraction of the acquisition price. PE companies strive to maximise their potential return by leveraging their investment.

Investment Strategies for Venture Capital (VC): VC is a more generic phrase that refers to an equity investment in a nascent firm in a less established sector, such as internet startups in the early to mid-1990s. PE companies may often perceive promise in the sector and, more crucially, in the target company itself, recognising that it is being held back, for example, by a lack of sales, cash flow, and debt financing. Private equity (PE) firms might buy major shares in such businesses in the goal of turning them into powerhouses in their rapidly developing industries. In addition, private-equity (PE) companies offer value to the business in a less measurable way by helping the target's sometimes inexperienced management along the way.

Economic Development

Economic development is the process of creating wealth for the benefit of the community. It's more than a job-creation initiative; it's an investment in the growth of your economy and the prosperity and quality of life of all citizens (CALED, 2020). To various individuals, economic progress implies various things. Anything a community undertakes to nurture and promote a healthy economy may be classified as economic development on a large scale. Professionals in economic development are working harder than ever to describe their area in terms that are more tangible and relevant to politicians, the general public, and other professionals. There are probably as many economic development definitions as there are persons who do it.

Local economic development, from a public viewpoint, entails allocating finite resources such as land, labour, capital, and entrepreneurship in a manner that boosts business activity, employment, income distribution patterns, and fiscal soundness. It is a method of deliberately interfering with regular economic development in order to make it simpler or more appealing.

Economic development is a coordinated effort on the part of a city's or county's accountable governing body to guide private sector investment toward possibilities that may lead to long-term economic growth (Finnemore, 1996; Greenwood & Holt, 2010). Sustained economic development can offer enough income for the local workforce, successful business possibilities for employers, and tax revenues to keep the infrastructure in place to support this expansion (Todaro & Smith, 2011). There is no substitute for private sector investment as a driver of economic development, but there are a number of initiatives you can support to stimulate investments in areas where the community believes they are most needed.

Nigeria Economic Position

Owing to a drop in crude oil prices due to declining global demand and containment efforts to combat the spread of COVID–19, Nigeria's economy entered a recession in 2020, reversing three years of progress (World Bank, 2020). Aviation, tourism, hospitality, restaurants, manufacturing, and commerce were all impacted by the containment efforts. Demand-driven increase in the financial and information and communications technology industries was countered by contraction in these areas. The Bank estimates that overall real GDP shrank by 3% in 2020, while mitigating measures included in the Economic Sustainability Programme (ESP) kept the fall from being significantly worse. Higher food costs owing to local supply restrictions and the pass-through effects of an exchange rate premium that increased to almost 24 percent drove inflation to 12.8 percent in 2020, up from 11.4 percent in 2019. (African Development Bank Board, 2020). Inflationary pressures were exacerbated by the elimination of fuel subsidies and a rise in power costs.

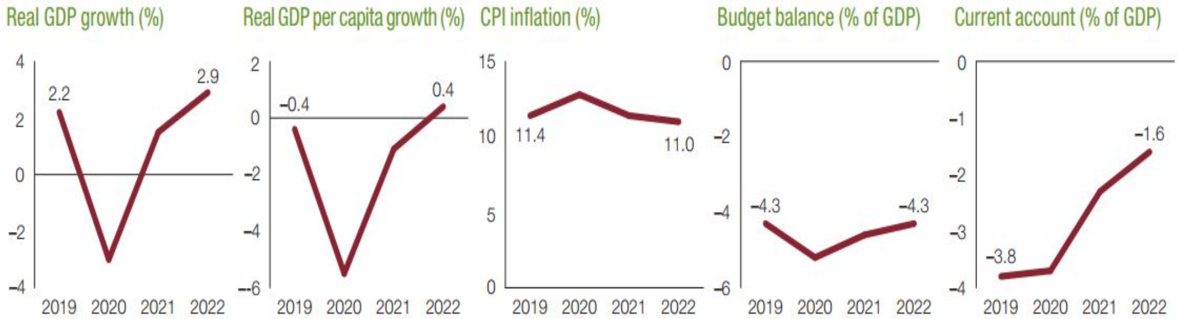
Following the biggest decline in recent history this year due to the pandemic and oil price shock, the economy is expected to resume recovery in 2021 as domestic and international demand revive. However, uncertainties about the oil price trend, growing inflation, high unemployment, security concerns, and social tensions continue to cloud the future. Based on a predicted rebound in crude oil prices and output, the economy is forecast to increase by 1.5 percent in 2021 and 2.9 percent in 2022. Nonoil income might be boosted by the stimulus measures indicated in the ESP and the Finance Act of 2020. As global economic circumstances improve, increased revenues may reduce the budget deficit to 4.6 percent of GDP and the current account deficit to 2.3 percent of GDP in 2021. Reopening borders would improve access to inputs, lowering domestic costs and inflation, which is expected to reach 11.4 percent in 2021. (African Development Bank Board, 2020).

GDP growth is expected to be 1.9 percent in 2021, down 0.2 percentage points from last month's forecast, before increasing up to 2.9 percent in 2022, according to Focus Economics.

Nigeria Economy Data

Economy Data by Category	2015	2016	2017	2018	2019
Population (million)	181	186	191	196	201
GDP per capita (USD)	2,744	2,214	1,957	2,183	2,363
GDP (USD bn)	497	412	374	428	475
Economic Growth (GDP, annual variation in %)	2.8	-1.6	0.8	1.9	2.3
Consumption (annual variation in %)	-	-	-	-	-
Investment (annual variation in %)	-1.3	-4.8	-3.0	9.7	8.3
Industrial Production (annual variation in %)	-3.4	-9.4	0.9	-4.8	7.5
Unemployment Rate	4.3	7.1	8.4	8.2	8.1
Fiscal Balance (% of GDP)	-3.2	-4.0	-5.4	-4.3	-
Public Debt (% of GDP)	20.3	23.4	25.3	27.2	-
Money (annual variation in %)	5.9	17.8	2.3	12.1	6.3
Inflation Rate (CPI, annual variation in %, eop)	9.6	18.6	15.4	11.4	12.0
Inflation Rate (CPI, annual variation in %)	9.0	15.7	16.5	12.1	11.4
Exchange Rate (vs USD)	196.5	304.5	305.5	306.5	307.0
Policy Interest Rate (%)	11.00	14.00	14.00	14.00	13.50
Exchange Rate (vs USD, aop)	192.6	253.2	305.3	305.6	306.6
Current Account (% of GDP)	-3.1	0.7	2.8	0.9	-3.6
Current Account Balance (USD bn)	-15.4	2.7	10.4	3.9	-17.0
Trade Balance (USD billion)	-6.4	-0.5	13.1	20.5	2.9
Exports (USD billion)	45.9	34.7	45.8	61.2	65.0
Imports (USD billion)	52.3	35.2	32.7	40.8	62.1
Exports (annual variation in %)	-44.4	-24.4	32.0	33.6	6.1
Imports (annual variation in %)	-15.0	-32.7	-7.3	24.7	52.4
International Reserves (USD)	29.1	25.8	38.8	43.1	38.6

Source: Focus Economics Resource Center (2020).



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.

Private Equity Investment Contribution to Economic Development in Nigeria

Despite the shadows thrown by the epidemic, it is thought that the PE business is better positioned than in the past to profit from an economic slump. While PE companies were engaged in sustaining their current portfolios during the recent recession, according to Ernst and Young (2020); Wollaston and Witte (2020), they were less active in exploring new prospects (Sankaran, 2020). As a result, new PE purchases decreased by almost 80% over that period. EY recently conducted a Capital Confidence Barometer Survey, which revealed that 93 percent of private equity participants feel their company is more prepared for a recession than it was a decade ago.

The epidemic has brought various businesses into the limelight throughout the world, and the Nigerian industry is no exception (Ernst & Young, 2020).

a. Technology and Digitization

In the post-COVID era, digital services are unquestionably becoming more important. The epidemic and the subsequent state-wide lockdown highlighted the need for technical breakthroughs and better digitization efforts. The necessity for digitalization is gradually infiltrating the bulk of Nigerian industries. For example, the still-in-effect lockdown in areas like education led to the adoption of virtual teaching techniques, in which instructors maintained their education via the use of different digital platforms. Work-from-home policies, which are mandated in certain industries and strongly encouraged in others, have generated a need for digital methods of doing business and producing value.

The growth in virtual meetings and strong promotion of the usage of digital banking instruments reflects this. This newfound predilection for digital modes of communication has substantially enhanced the investment appeal and return certainty of technology and digital solution providers. One example is Zoom, a worldwide teleconferencing firm that has gained a household brand as a result of the epidemic and is predicted to treble its sales by the end of this fiscal year compared to last year's profit (The Guardian, 2020).

b. Health Sector

More than anything, the epidemic exposed the lack of preparation and poor status of many nations' health systems, including Nigeria's. Nigerian health institutions were left scrambling for efficient health practises to execute in the face of the epidemic, highlighting the sector's need for growth. Given that the nation now has over 45,000 practising physicians, with a doctor-to-patient ratio of 1-5000, well above the WHO standard of 1600 patients (Muanya, 2018 in Ernst & Young, 2020), investment in medical people training becomes critical, since an intake of highly skilled medical staff is desperately required. Another investment opportunity in the health industry might be linked to an increase in demand for hospital equipment and insurance, resulting in a thriving investment environment. Indeed, private equity has made significant contributions to the health sector, such as the worldwide COVID-19 scenario, which has substantially enhanced the health sector's possibilities of being the next focus of interest for public-private partnerships.

c. Telecommunications

The telecommunications industry has seen a growth in demand in recent years as more customers utilise telecommunication service providers, owing to the government's and many corporations' already stated lockdown and work-from-home policies. Virtual meetings, courses, and online shopping are all fuelled by internet supply, which is mostly provided by telecommunication corporations, making it a valuable investment area.

d. Agriculture

The agricultural industry, which accounted for 21.91 percent of the country's GDP in 2019 (Plecher, 2020), is the country's largest employer. It is undeniably a valuable sector for private equity investors, particularly in the areas of food processing and preservation, as well as agritech activities; to increase food security. Because of the uncertainties surrounding nations' reactions to the epidemic, every nation now has to be somewhat self-sufficient in food production. Given Nigeria's population, self-sufficiency in local production would need large-scale agricultural investment with matching returns.

e. Courier and delivery services

As a consequence of the pandemic's social distancing tactics, the necessity for human-to-human interaction has decreased. As a result, there is a greater dependence on courier and delivery services. Citizens must now wear masks in public and keep a safe distance of 6 (six) feet between each other. As people become more hesitant to go shopping in person, internet purchasing and selling of things has exploded. As the popularity of online shopping grows, so does the need for door-to-door delivery services, making investment in this sector beneficial.

f. Renewable Energy Industry

The epidemic highlighted the important role of Renewable Energy (RE) in economic growth, especially in the health sector, as RE firms stepped up to the plate and quickly deployed solar solutions to isolation centres and health facilities throughout Nigeria. This deployment was mostly funded by private investments/relief money made available to RE firms. Given the importance of renewable energy in developing sustainable economies in the post-COVID-19 era, Nigeria's RE industry is now being strategically positioned to attract investment. To promote investment, the legal/regulatory framework and the development of the appropriate corporate governance matrix by RE firms are of particular importance.

In general, post-COVID, PE funding may become more appealing to enterprises since PE investments frequently come with a higher likelihood of a company's turnaround as a consequence of the financial and management skills supplied by the General and Limited Partners, which most firms are likely to be in desperate need of after this is ended. Also, Angel Investors may have a limited cash flow and a low risk appetite at this time, making it difficult for them to make large investments in enterprises. The foregoing, when combined with the financial suffering caused by the pandemic, may put PE firms in a stronger negotiating position, allowing them to make more advantageous agreements.

Challenges Facing Private Equity Investment

The private equity industry has abundant investing opportunities. However, despite this fact, many PE firms fail to make the investments required to scale and grow quickly. Many firms collapse due to an inability to make good investments.

A Potential Economic Slow Down: A situation in which GDP growth slows but does not decline. When market crashes occur, PE investing capital often dries up, resulting in significant harm to deal flow. An economic collapse is the disintegration of a country's, regions, or territory's economy, which usually occurs after a period of turmoil. An economic collapse happens when a severe form of an economic contraction, depression, or recession begins, and it may continue anywhere from a few months to many years, depending on the severity of the conditions. If we are truly on the cusp of another major economic downturn, then this could potentially be a greater challenge for private equity investing than anything else.

Effective Recruiting: In most developed nations, the rate of unemployment rate has gone significantly down. This means that the pool of highly talented individuals applying for PE firms is shorter than usual for the PE industry. The PE industry will not suffer from a shortage of labour as much as other industries. Recruitment that is effective might help your firm develop at a quicker rate. Streamlined, effective recruiting procedures result in higher-quality, more engaged workers, giving you a competitive edge that has a direct effect on your bottom line.

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CONCLUSION

Private equity is preferred by businesses because it provides access to liquidity as an alternative to traditional financial mechanisms such as high-interest bank loans or public market listings, according to the survey. Venture capital, for example, is a kind of private equity that invests in early-stage firms and ideas. The paper goes on to say that when private equity and venture capital work together, they may boost investment and exports, reviving economic development.

Recommendation

- Fiscal policy should offer a boost, ideally via increased public investment;
- Monetary policy should give a boost to private investment by decreasing interest rates.
- By pursuing pro-cyclical measures, the government is doing the exact opposite; and
- Another option is to allow the budget deficit to grow by 0.5 percent of GDP, which would be used to fund public investment, and to gradually lower interest rates by at least 2 percentage points, which would assist the exchange currency depreciate.

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