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Nigeria:

Country Private Sector Diagnostic

EXECUTIVE SUMMARY

MAY 2025

About the Country Private Sector Diagnostic

The private sector is the engine of long-term economic growth and a vital catalyst for global social and economic development. When functioning well, the private sector promotes innovation and entrepreneurship, improves access to and the quality of economic opportunities, and supports the sustainable use of natural resources. In developing economies, the private sector creates most jobs, generates tax revenue, and accounts for significant investment.

The revised Country Private Sector Diagnostic (CPSD) reports seek to unlock private sector–led growth and investment. Prepared jointly by the institutions of the World Bank Group, each report discusses the overall business environment within a country and provides an analysis of specific sectors in which private sector investment could accelerate growth, if appropriate policy and regulatory issues are addressed.

Designed from the perspective of an investor or entrepreneur, this new generation of reports seeks to identify untapped private investment opportunities and the barriers that stand in the way (earlier reports can be found here). The sector opportunities are chosen based on their potential to spur private investment, create jobs, generate domestic revenue, and foster sustainable, inclusive growth, in response to targeted policy action. The report aims to help country policymakers prioritize the most impactful actions that can boost private sector growth, while delivering on broader development goals.

The CPSD is one of the World Bank Group's core country diagnostics produced to guide the design and implementation of public and private investment projects, budget support operations, advisory services, and other analytical work. It is intended to be of interest to domestic and foreign business investors, government officials, World Bank Group staff and management, civil society, and other development partners.

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Executive Summary

Nigeria has the potential to become an economic powerhouse. Its large and growing population and its regional trade ties through the Economic Community of West African States (ECOWAS) offer the potential for expanded markets for goods and services.

Nigeria's population is projected to grow 45 percent by 2045, one of the largest increases compared to its peers. This should create opportunities for private firms, contributing to jobs and economic growth. The country's rich agricultural and mineral resources create an opportunity for more private investment in food production and resource-based manufacturing to occur. Furthermore, a young, entrepreneurial workforce positions Nigeria to increase productivity and innovation through digital entrepreneurship. But Nigeria's economic growth has been slower than its peers, job creation has been modest, and almost half the population still lives below the poverty threshold.

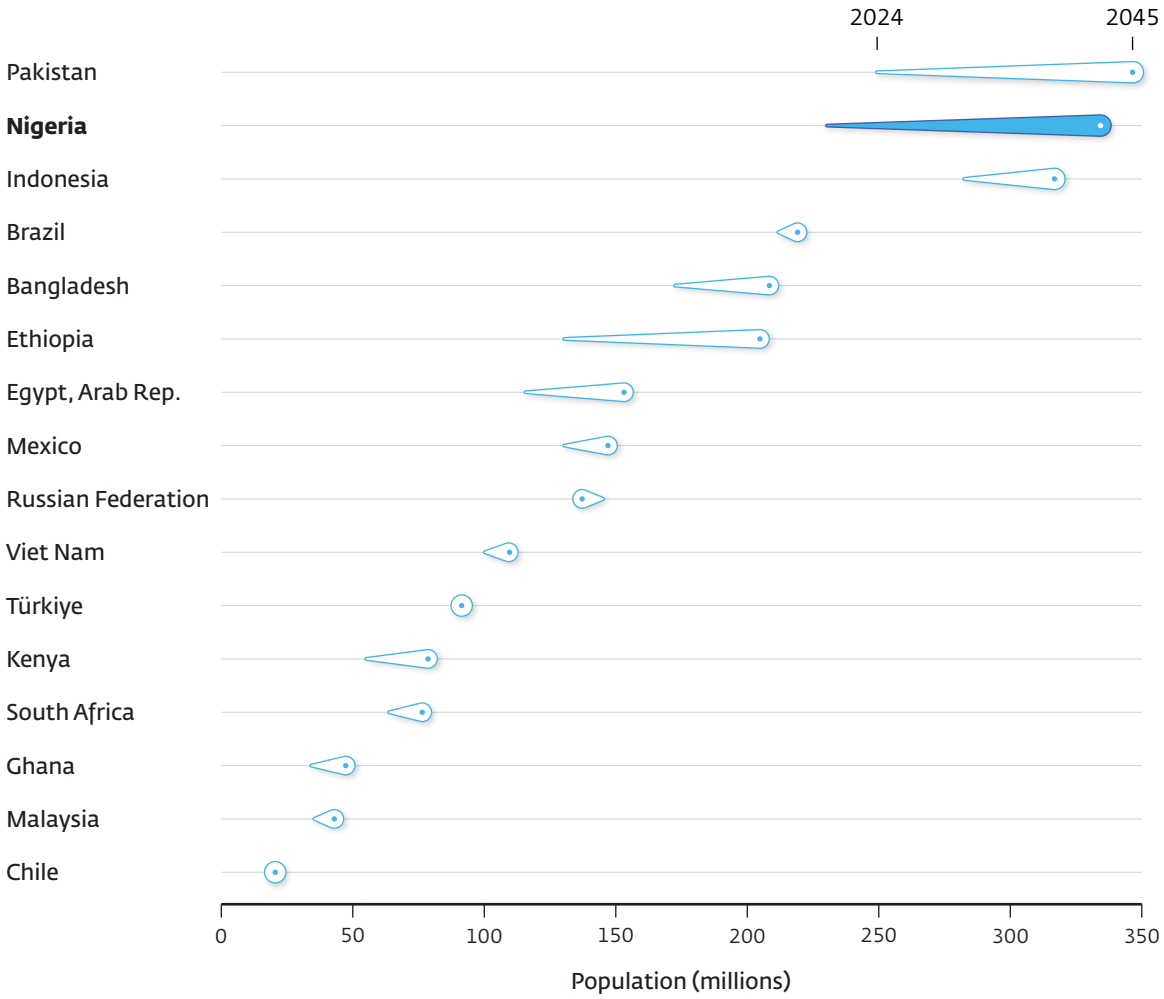
To reach that potential, Nigeria will have to overcome structural challenges. The country relies heavily on oil and gas production for exports and fiscal revenues, making Nigeria susceptible to commodity price fluctuations. Nigeria also faces significant fiscal constraints: tax-to-GDP (gross domestic product) is one of the lowest globally at 3.8 percent in 2023, while total revenue averaged 7.1 percent of GDP between 2019 and 2023, holding back spending on infrastructure and other productive investments. General government debt (percent of GDP) has increased from 13.4 percentage of GDP in 2014 to 49.1 percent in 2023. Government expenditure on education is low contributing to low literacy rates and skills development that further constrains the private sector.[1] Even with Nigeria's large population, there are not enough qualified workers for private sector jobs due to a lack of the requisite skill sets and education.[2] Nigeria's lower-than-comparator learning-adjusted years of schooling and tertiary enrollment rates have led to a shortage of qualified workers for high-skill jobs. Corruption, crime, and violence in parts of the country have discouraged private investment.

Lack of access to reliable electricity is a major constraint to the private sector in Nigeria. Nigeria's electricity supply is unreliable. Annual per capita power consumption is only 144 kilowatt-hours (kWh) compared with 351 kWh in Ghana and more than 4,000 kWh in South Africa. The private sector endures power outages that average eight hours per day. Lack of access to reliable electricity have led several leading global companies to relocate their operations to neighboring countries where electricity is more reliable.

Figure ES.1

Nigeria to experience one of the largest population increases among peers by 2045

Population, Nigeria and structural and regional peer countries



Source: United Nations World Population Prospects.

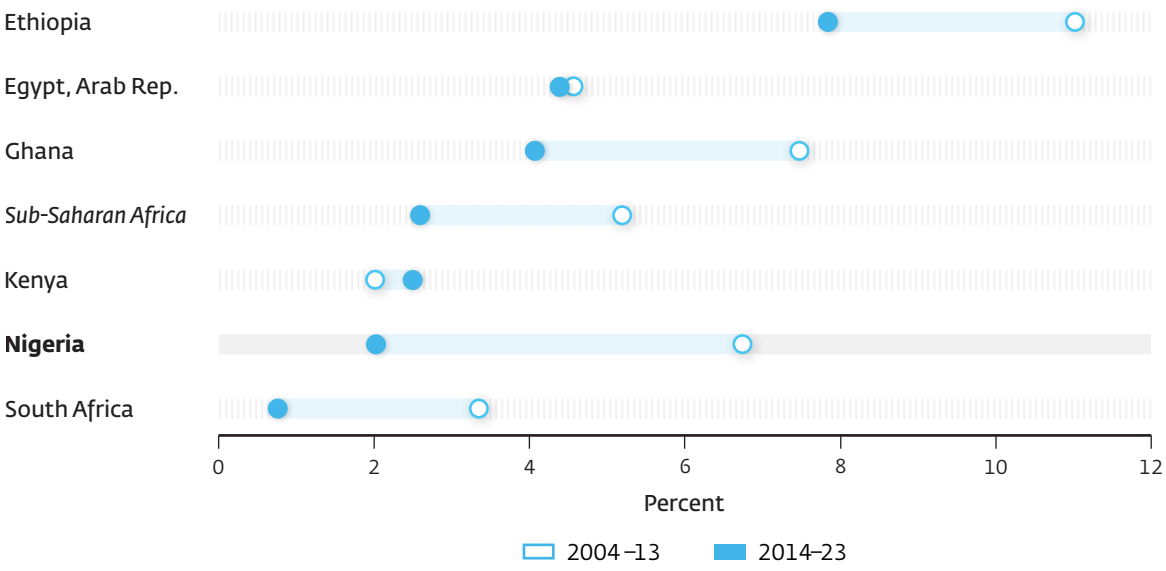
Limited access to finance is a constraint, impacting major sectors like agriculture, renewable energy, and manufacturing. Domestic credit to Nigeria's private sector was 12.9 percent of GDP in 2024, below the averages for Sub-Saharan Africa (20.1 percent) and lower-middle-income countries worldwide (34.0 percent). Banks remain constrained in their ability to intermediate longer-term finance, with bank deposit tenors predominantly short term.

The number of listed corporate bonds on the Nigerian Exchange has declined (from 50 at end-2022 to 43 at end-2024), constrained by high yields and credit risk. The corporate bond market stands at around N2 trillion (approximately 1 percent of the GDP).

Figure ES.2

Nigeria's GDP growth has lagged some of its regional peers in the last decade

GDP growth rate, Nigeria and selected regional comparators, annual averages



Source: World Bank World Development Indicators.

Given the high interest rate environment, bond market activity has been dominated by government securities. The expiration of the companies' income tax exemption on corporate bonds (effective 2022) has made corporate bonds less attractive to institutional investors (excluding the pension funds which are tax exempt), created an asymmetry between corporate bonds and federal government of Nigeria bonds which remain tax exempt and increased required returns for investments in corporate bonds, thus discouraging new corporate debt issuances.

Nigeria's equity capital market is characterized by weak liquidity, low retail investor penetration, and limited product breadth. The Nigerian Stock Exchange has yet to fully exploit its role in raising long-term financing. The total number of firms with a public equity listing fell from 181 to 169 over the five years to December 2024 and there have been only a few listings over this period (primarily re-listings by restructured financial services firms[3]). Market illiquidity has tended to distort share prices, with the resultant volatility causing firms to be wary of listing.[4] Market players point to high listing costs and a need for more streamlined listing procedures as further impediments that may deter firms from seeking a public equity listing. Net inflows of foreign direct investment averaged just 0.5 percent of GDP from 2013 to 2023.

There have been some recent promising developments, however. The Central Bank of Nigeria has enacted foreign exchange (FX) reforms that have led to the unification of FX markets and to a market-reflective exchange rate. The Central Bank of Nigeria has also tightened monetary policy and refocused on its core mandate of maintaining price stability. The government has embarked on a revenue-driven fiscal consolidation and tax simplification, including through the removal of costly gasoline and FX subsidies. As a result, access to foreign exchange has been reestablished, lowering investment risks. Going forward, Nigeria will need to deepen structural reforms and reduce policy uncertainty.

This report looks at four sectors where public policy actions could attract private investment: broadband/fiber-optic infrastructure, pharmaceutical manufacturing, solar, and cassava and soybeans. These sectors were chosen for their private investment potential if major constraints can be addressed, their impact on economic development, and the feasibility of removing constraints in the near term.

Broadband/Fiber-Optic Network

Nigeria is Africa's second-largest telecommunications market but less than half the population has a broadband internet subscription—a lower share than regional peers—suggesting there are potentially profitable investment opportunities. Expanding digital access would enable growth across sectors and improve social and economic inclusion.

Because of inadequate fiber-optic networks in the country, Nigeria uses less than 10 percent of the total communications capacity that is available through eight international submarine cables connecting it to the global network. Expanding the fiber-optic network throughout the country would pave the way for new investment to digitalize information for businesses, schools, hospitals and government agencies. Right now, most of the 35,000-kilometer fiber-optic network is operated by the country's four large mobile network operators, who each build their own connections between population centers. As a result, the network is characterized by overlapping intercity links and limited access in more rural areas. Small providers must pay high fees to use those networks, effectively restricting competition. The Federal Ministry of Communications, Innovation and Digital Economy is seeking financing for a proposed $2 billion investment in fiber networks using a special-purpose vehicle to encourage private operator investment to extend non-overlapping fiber-optics networks to a total of 120,000 kilometers.

To encourage new investment in the fiber-optic network, states should be encouraged to comply with the National Economic Council's commitment to a maximum of N145 per meter right-of-way fees. This right-of-way reform is prioritized by the government through the National Broadband Alliance for Nigeria and the State Action on Business Enabling Reforms program. This reform could reduce the cost of rolling

out a national network by 15 percent,[5] increase GDP by 3.7 percent over 10 years,[6] and lower subsidies needed to expand the network in rural areas by $800 million.[7] This report also recommends improving the capacity of the Nigerian Communications Commission to regulate the telecom market. Protecting telecom networks from vandalism or theft by designating telecom networks as critical national infrastructure would also encourage private investment, as would adopting new financial mechanisms to reduce investment risk. Implementing these reforms could generate up to $4 billion in private investment and create up to 229,000 jobs.[8]

Pharmaceutical Manufacturing

Nigeria's population is consuming more medicine. Pharmaceutical production doubled between 2018 and 2024 and the number of pharmaceutical firms operating in the country grew to 186 from 115 during that time. Yet, domestic drug manufacturers rely on imported inputs, which costs are inflated by trade barriers and hinder their expansion.

There are reasons to believe the sector has room to grow. First, the government is working on expanding universal health coverage, particularly in rural areas, which could open new markets for drug-makers to reap economies of scale. Second, as many Nigerians become more affluent, they are increasingly susceptible to noncommunicable diseases, such as those related to obesity or a more sedentary lifestyle. That has created new demand for drugs to treat hypertension and other types of cardiovascular diseases.

The Nigerian government recently set up the Presidential Unlocking Healthcare Value Chain (PVAC) initiative to promote investment in domestic drug production. A new policy requires drug importers to move toward local production within five years or partner with a domestic manufacturer to renew their import license registration. Nigeria also has an opportunity to become a regional exporter of pharmaceuticals thanks to its integration within ECOWAS.

Bringing new investment to the sector will require the National Agency for Food and Drug Administration and Control (NAFDAC) to speed up the approval process for new drugs and factories. One possible approach would be for the government to formally empower PVAC to be the central agency tasked with implementing Nigeria's pharmaceutical policy. Right now, policies are unevenly implemented, leading to uncertainty among investors. Manufacturers say the lack of skilled workers and unreliable electricity hold back investment. This report recommends increasing NAFDAC's capacity to approve new drug dossiers and new plants or lines in a shorter timeline. Adopting the reforms included in this report could generate almost $1.6 billion in new investment and create up to 44,000 jobs.

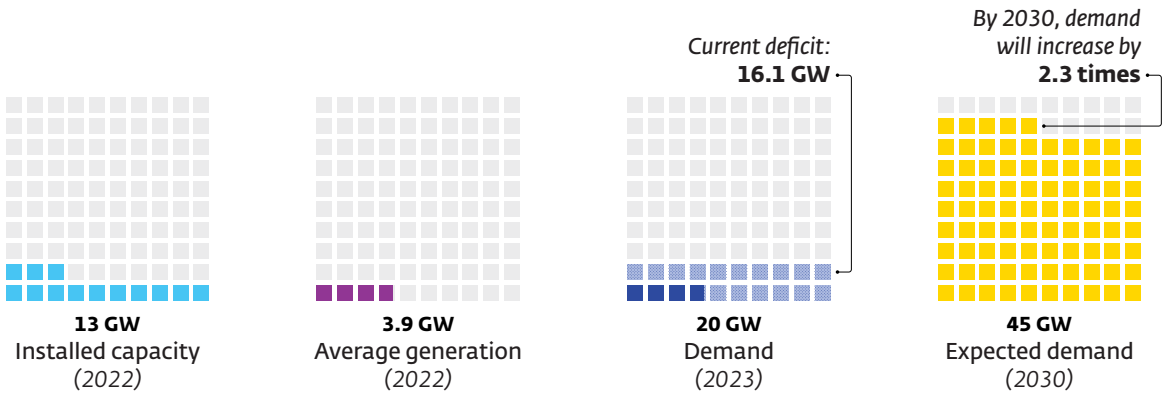
Solar Energy

Despite its extensive oil and gas reserves, Nigeria's power grid meets only 19.5 percent of domestic demand.[9] More than 85 million Nigerians do not have access to electricity and those who do suffer frequent outages. More than 65 percent of installed generation is unavailable because of poor maintenance, vandalism or aging, forcing millions of homes and businesses to keep diesel generators on hand. Economic losses from the lack of reliable electricity are estimated at 5 to 7 percent of GDP annually. Demand will likely double by 2030.

Private investment in solar energy could be profitable and help meet some of the increased demand. For instance, commercial-scale rooftop solar is cheaper than the alternatives—and is less noisy and polluting than diesel generators. Batteries, natural gas or hydropower backup systems could keep the lights on when the sun is not shining. Although there has been some initial investment in solar capacity in Nigeria, there is room for more. This could come in the form of captive generation systems for businesses, mini-grids powering homes or villages (as a backup to utilities), or through solar farms connected to the country's electrical grid. Although electricity distribution and generation has been privatized, the government remains an important player in the sector. It is important to sustain the recent efforts by the government to improve the efficiency of power distribution companies and putting the sector on a path to financial sustainability. The country and sector risks pose a challenge for private investors who perceive Nigeria's power sector as very risky, resulting in higher costs of capital or reduced willingness to invest.[10, 11]

Figure ES.3

Nigeria's electricity demand will more than double over the next five years



Source: Based on data from World Bank (2023a); NERC (2022).
Note: It should be noted that these demand estimates are very conservative. There are various estimates from the World Bank, sustainable energy for all, A2Ei reports that put the capacity of the gensets used to the address the electricity deficit at eight to 10 times that of the current grid capacity.

Nigeria's utilities distribution companies need strengthening, as some of them are weighed down by debt, weak governance, and technical issues. Improving the financial transparency of utilities would lead to improved operations, which would lead to overall financial sustainability of the sector. In practice, this may necessitate one or more options for intervention to bring them into compliance. Other regulatory fixes include raising the cap on mini-grids from 1 megawatt (MW) to 5 MWs. Right now, any project with a capacity larger than 1 MW is considered an independent power producer and must go through a long licensing process. Raising that cap would bring projects online faster. Nigeria could also consider measures to speed up the customs process for solar equipment to encourage more investment.

Access to finance is holding back investment. To mobilize local currency institutional capital at scale, Nigeria could expand the Distributed Renewable Energy Enhancement Facility (DREEF). DREEF—an InfraCredit innovation—seeks to operationalize an institutional model that will unlock, expedite, and scale access to long-term local currency capital for DRE projects while propelling project developers up the RESCO maturity curve, in a streamlined manner. Presently under operationalization, DREEF presents a first of its kind combined approach toward targeting the technical, operational, and financial hurdles encountered along the preparation, development, and construction phases of DRE projects to increase the flow of local currency institutional investment and ultimately enhance DRE access in the country, at scale. Analysis in this report estimates a potential for up to $8.5 billion in investment in solar power by 2030, creating up to 365,000 jobs.

Cassava and Soybeans

Nigeria is the world's top cassava producer and Africa's second-largest soybean producer. Still, if policy related constraints can be addressed, its climatic conditions and vast amounts of arable land would allow the country to produce even more to meet rising global and domestic demand.

Investment in agriculture is held back by inefficiencies which have kept average yields of cassava and soybeans below those of regional peers. Processors are affected by high logistics and energy costs. Nigeria's unreliable power supply remains a major constraint, stifling the competitiveness of the agriculture sector. It limits the adoption of innovative farming practices, reduces productivity, hinders preservation, decreases profitability, and increases operational costs. It is estimated that 25 percent of fruits and 40 percent of vegetables in Nigeria are lost post-harvest.[12] This loss is attributed primarily to unreliable power supply and inadequate post-harvest management. High transportation taxes, frequent security check point stops, and informal levies significantly impact logistics and operational costs, especially for perishables like cassava. The complicated land registration process has resulted in a proliferation of less-productive

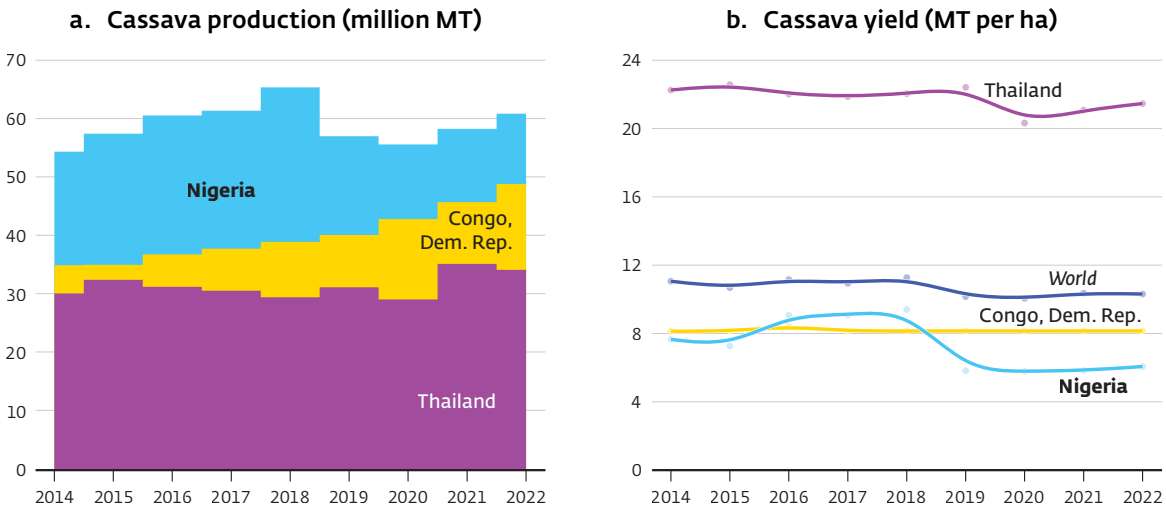
smallholder farmers operating without formal documentation. Only 12 percent of farming households have legal land titles. Consequently, increasing the commercial potential of agro-processing will require enhancing support to smallholder farmers to boost the supply of high-quality raw material inputs; the low marginal productivity of smallholder farmers stems from limited access to certified seeds, inadequate extension services, poor agronomic practices, and unaffordable credit.

Many smallholder farmers lack access to credit and certified and high yielding varieties of seeds, that, combined with poor agronomic practices and low levels of mechanization, holds down their yields. As a result, food processors cannot get enough high-quality raw cassava and soybeans to run their plants at full capacity. Compounding the challenge is the country's poor road system, which makes transporting materials to processors and consumers difficult. This is particularly problematic for perishable crops, like cassava. Processers rely on expensive diesel generated power due to the unreliability of grid supply electricity.

This report recommends making high-quality seeds more accessible, organizing all actors in agricultural supply chains to make farms more productive and improving access to finance. Enhancing the National Agricultural Seed Council's capacity for seed and field certification, or by establishing third-party certification systems can improve the quality of inputs by regulating seed quality and facilitating distribution to farmers. Government could expand and improve the access to extension services using technology

Figure ES.4

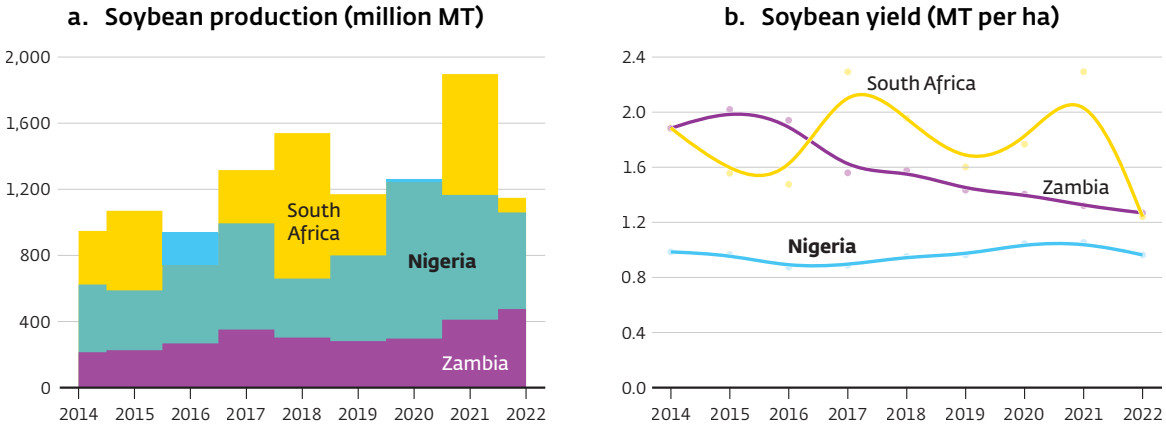
Cassava production in Nigeria is high but yields are much lower than in Asia



Source: USDA; FAOSTAT.

Figure ES.5

Nigeria's soybean production volume has grown, but yields are low relative to comparators



Source: USDA; FAOSTAT.

and develop partnerships with the private sector to encourage small farmers to adopt more efficient practices. In-grower and/or out-grower models[13] can be used by processors to achieve the scale of operation needed for profitability. These contract farming models where processors are backward integrated can limit the fragmentation of the value chains, make improved planting materials more accessible and leading to better agronomic practices and higher productivity. However, these business models will require better access to affordable and appropriately structured finance as well as effective government interventions to improve agronomic practices of farmers.

Adopting the recommendations in this report could attract new investment of up to between $3.2 to $4 billion in cassava production and $1.6 to $2 billion in soybean production, creating up to between 275,200 to 344,000 new jobs.

Table ES.1

Summary of recommendations

Sector	Key recommended actions
Broadband and fiber-optic network	
Rationale • Reduce costs of fiber-optic network deployment. • Promote access to affordable wholesale fiber-optic infrastructure. • Reduce vandalism, theft, and extortion, which will thereby reduce uncertainty, lower operational costs, and attract investment. • Extend fiber-optic networks by adopting financial mechanisms leveraging private funds support to the ICT sector. *Constraints* • High, unpredictable, and inconsistent right-of-way fees, levies, and informal charges. • Limited competitive access to wholesale fiber-optic infrastructure. • Limited supply of fiber-optic infrastructure. • Limited funding available. • Frequent vandalism, extortion, theft, and damage from road construction are expensive to repair and contribute to operator revenue losses.	• Encourage states to comply with the National Economic Council commitment to a maximum N145 per linear meter right-of-way fees. • Strengthen the Nigerian Communications Act, 2003 or its regulations, to require the Nigerian Communications Commission (NCC) to carry out market analysis on a defined timebound schedule and impose, monitor and enforce regulatory obligations on dominant operators. • NCC to complete market analysis of inter-city leased lines and dark fiber-optic in 2026 and impose and enforce regulatory obligations on dominant operators. • Ensure effective execution and monitoring of the Designation and Protection of Critical National Information Infrastructure Order, 2024, adopted in August 2024, designating telecom networks as critical national infrastructure.
Pharmaceutical manufacturing	
Rationale • Improve enabling environment for domestic pharmaceutical production. • Facilitate access to capital and best-practice production methods to improve the quality of locally manufactured products. *Constraints* • Unpredictable border procedures lead to delays and high costs. • The slow process of issuing new drug dossiers and new plant/line approvals by the National Agency for Food and Drug Administration and Control (NAFDAC) creates a disincentive to scale.	• Digitize the customs ecosystem to allow for automated duty application, assessment and clearance processes to increase efficiency and consistency in selection of the correct HS codes.[a] • The federal government of Nigeria to align HS codes in use in Nigeria to international HS codes, for all pharmaceutical products and associated raw materials, to facilitate accurate classification of products and reduce the number of products categorized as "other." • NAFDAC should digitize processes for receiving, reviewing and approving new drug dossiers and new plants/lines, thus enabling them to process more applications in a shorter timeline.

(Table continues next page)

Table ES.1

Summary of recommendation *(continued)*

Sector	Key recommended actions
• Demand side limitations due to the extremely limited number of Nigerians with adequate health insurance (only 5 percent of total population), mean that pharma-manufacturers are concerned (unwilling) to grow their production capacity in the absence of offtake assurances for their new products.	• Increase staff training to enable NAFDAC to effectively regulate the excipient and active pharmaceutical ingredient industry. • Increase the number of accredited laboratories recognized by NAFDAC for testing of new drugs and products to facilitate applications and approval process. • The NHIA, Federal Ministry of Health, and PVAC should work with NAFDAC to update Nigeria's "Essential Drugs List" to ensure that drugs on the list become core production priorities for Nigerian pharma-manufacturers. • NHIA to use structured local pooled procurement strategies to lower the cost of acquiring locally manufactured drugs on the "Essential Drugs list."
Solar energy	
Rationale • Solar is a cost-effective and clean option for 85 million Nigerians without power. • Opportunity for distribution companies and developers to improve service in sub-franchise areas. *Constraints* • Weak governance and uncreditworthy utilities constrain the ability of solar projects to sell electricity to the grid. • Cost-of-living affecting most customers ability to pay. • Cumbersome customs processes and high import tariffs. • Constraints to access to finance primarily driven by market distortions stemming from information asymmetry.	• Ensure effective implementation of the customs waiver procedures that are already in place for imported solar equipment. • Increase the mini-grid permit cap from 1 MW to 5 MW. • Design a partnership framework to mobilize at scale local currency institutional capital in the DRE sector drawing on InfraCredit's newly designed pilot Distributed Renewable Energy Enhancement Facility. • Implement necessary reforms to improve DisCos governance and performance, financial sustainability and reduce investment risks.

(Table continues next page)

Table ES.1

Summary of recommendation *(continued)*

Sector	Key recommended actions
Cassava and soybeans	
Rationale • Improve the quality and reliability of cassava and soybean supply to processors and aggregators. • Increase the capacity of cassava and soy processors to expand and mechanize their operations. *Constraints* • Inadequate technical knowledge and poor agronomic practices. • Inadequate supply of quality certified seeds. • Inequitable, fragmented, and inefficient distribution of government-subsidized programs and interventions to smallholder farmers.	• States and the Ministry of Agriculture to improve the extension service models by (a) introducing private extension service models; (b) encouraging modern climate smart agriculture practices developed by national and international agriculture research institutes in Nigeria; (c) enhancing its farmer centric nature by increasing involvement of farmer associations; and (d) delivering training using existing online platforms in the three main local languages. • Strengthen capacity of the Nigerian Agricultural Seed Council by equipping it to establish third-party certification systems, licensing, and capacity-building programs for seed producers. • Facilitate the establishment of farmer associations, improve their governance, and ensure they are linked to agro-processors. • Use farmers' National Identification Number and Bank Verification Number for verification, and geo-tag farmers to specific farms to enhance targeting of government programs aimed at supporting smallholders and minimize duplication. • Encourage the use of digital platforms to mobilize the main actors (farmers, public extension services, inputs dealers, traders, processors, mechanization services providers, transporters) along the value chain and coordinate their interventions.

a. The harmonized system (HS) code is a standardized numerical method of classifying traded products that are imported and exported around the world, in a globally-aligned way. It is used by more than 200 countries and economies around the world to identify and classify products when determining their treatment in customs tariffs and for gathering statistics.

Notes

1. IFC (2020).
2. IFC (2020).
3. In 2023, there were no new listings on the main board and two re-listings of financial services firms following restructurings.
4. At the same time, the NGX reported that the total value of all quoted shares listed on the exchange increased by 53.4 percent over 2024 reflecting strong performance of NGX-listed firm share prices over the period. (NGX web pages).
5. Average of the reduction in right of way as a percent of total fiber cost across all states, weighted by population.
6. World Bank Digital Development team analysis.
7. The government of Nigeria launched the State Action on Business Enabling Reforms (SABER) program in 2022, which incentivizes states to adopt aggregate fees charged for fiber optic cable deployment on a per linear meter basis at a maximum of N145 per meter, and to publish the process for obtaining right of way, including all relevant MDAs, timeframes, and costs (World Bank 2022).
8. Team calculations considering both direct and indirect jobs using the methodology from Hjort and Poulsen (2019).
9. World Bank (2023).
10. Resimić (2023).
11. Roy et al. (2023).
12. Olayemi et al. (2012).
13. In an in-grower model, the processor owns or directly manages the farmland, hiring farmers as employees to work on the land. The out-grower model involves partnerships with independent smallholder farmers who grow crops on their own land but are supported by the processor. The processor often provides these farmers with inputs, such as seeds and fertilizers, as well as technical assistance. In return, the smallholder farmers commit to selling a portion, or all, of their harvest to the processor. This model allows processors to scale operations with less direct investment in land, while benefiting local farmers and expanding their production base.

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