PRIVATE SECTOR DEVELOPMENT AND ECONOMIC GROWTH IN NIGERIA (1997-2013)

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Abstract
The paper attempts to evaluate the relationship between private sector development and economic growth in Nigeria using time series data (1997-2013). Secondary data was used and collected from the CBN statistical bulletin and national bureau of statistics. Hypotheses were formulated and tested using Ordinary Least Square (OLS) econometrics and the study reveals that there is a positive significant relationship between private sector development and economic growth in Nigeria. There is also a positive significant relationship between growth rate of manufacturing sector and Gross Domestic Product (GDP) in the economy. There is a positive significant relationship between economic growth and growth rate of agricultural sector in Nigeria. The coefficient of determination indicates that about 68% of the variations in economic growth can be explained by changes in private sector development variables. The study therefore recommends that Government should concentrate on providing the necessary infrastructure and creating a conducive environment to enable private sector investment activities thrive. Government should embark on development programs and also improve on infrastructural services that will enable the environment conducive for private sector growth and development in the county. An effective training programmes should also be encouraged for the private sector investors, this will educate and improve them on existing business opportunities both in manufacturing and agricultural sectors. Government should develop a policy framework to facilitate participation of foreign investors in Nigerian agriculture and manufacture sectors, in the spirit of the new partnership apparently fostered by New Partnership for African Development (NEPAD).

Keywords: Private Sector, Development, Economic, Growth and Nigeria

Background to Study
Abumere (2002) posits that, economic growth has remained a major concern on economic theorists for centuries and yet, an important question that has continued to generate chain of answers is: what strategy should be adopted to achieve a sustained increase in production/output? T he current conventional wisdom in economics is that growth-oriented should concentrate on providing a conducive macroeconomic environment within which private enterprise can flourish. (Uzuoga and Okafor (2002) earmarked that, specific sectorial programs will complement macroeconomic policies, but government should generally disengage from direct involvement in production in order to allow market forces to play a dominant role in the economy.
To date, the reality of the global economy is that regardless of what one thinks about the vices and virtues of market-based economies and globalization private enterprise has become one of the largest and most powerful instruments available to foster development and this will remain essential even in the unforeseeable future. Thus, a vibrant private sector linkage between large, medium, small and micro enterprises is an essential prerequisite for triggering economic dynamism. Also, enhancing productivity, transferring and inject new industrial technologies, maintaining competitiveness, and contributing to entrepreneurship development and ultimately poverty reduction, as called in the Millennium Development Goal (Oluketury, 2003).

Since the mid-1980s, the widespread adoption of an economic development model on policies is to strengthen market forces, increase competition and focus on the role of the state that heightened the importance of private sector development (Pinto and Krajewski, 2009). Coincidentally, the collapse of the socialist system in the former Soviet Union and Eastern Europe occurred at the time when the world recent economic growth and development came predominantly through the private sector (GCA, 2001). However, as observed by Naya and McCleery (2012), the private sector serves as the engine-room of economic growth and the implementer of the development vision of countries, but does not diminish the role of the government in economic development. Indeed, letting the private sector be the engine-room of economic growth does not equate with the Western idea of laissez-faire. The new economic rules of the ‘growth game’ suggest that market and state are complementary rather than alternative policy instruments. The state, along with markets provides a context for the interaction of private agents in a manner that promotes egalitarian economic growth in the economy (Obadan, 2009).

Jerome (2011) stated that, recognizing the leading role of the private sector in economic growth does not necessarily mean that the nature of its role is fully understood. With so much focus on the role of the private sector throughout the world, the two questions to ask are how the private sector be harnessed to bring about economic growth and a sufficient quality of life to the people. Providing answers to these questions is the sole objective of this paper, and doing this is more important to developing countries like, Nigeria who is always at the receiving end.

**Statement of the Problem**

A study conducted by Boardman and Vining (2010) reveals that, in any modern economy, a vibrant private sector led-economy is a catalyst for economic growth and development. Unfortunately in Nigeria, the sector is still struggling under the shackles of under-development as a result of inconsistency government policies, political and economic instability, inadequacy of infrastructural facilities, inadequate manpower and technological know-how, lack of investable funds etc. Therefore, these problems have raised doubts and criticisms on the private sector development and economic growth. Consequently, it is against this background that the study attempts to assess the impact of private sector development on the Nigerian economy.
Objective of the Study
The major objective is to determine the relationship between private sector development and economic growth in Nigeria.
The minor objectives are as follows:
i. To examine the relationship between manufacturing sector and economic growth in Nigeria.
ii. To determine the relationship between agricultural sector and economic growth in Nigeria.

Theoretical Literature
The theoretical framework underlining this study is the fundamental theory of welfare economics, and it was formulated by Adam Smith (1776), in his Wealth of Nations. Arrow (1951) and Debreu (1959) formalized Adam Smith's insight into what was commonly known as the two fundamental theories of welfare economics. The first theory states that under a certainty condition every competitive equilibrium is Pareto-efficient, that is, in an economy that reaches a competitive equilibrium, no one can be made better off without making someone else worse off. The second theory also states that under a certainty condition every Pareto-efficient allocation of resources can be obtained through a decentralized market mechanism. Therefore, the two theories combined to provide the theoretical arguments in favour of the private ownership of the means of production. Thus, the linkages between private sector and economic growth are actually rooted in the fact that private sector and competition rule but follows with the fact that the two fundamental welfare-related theories are found to be satisfied in the operations of the private enterprises (Dipak and Ata, 2003).

However, there is a growing body of research showing many ways in which the private sector contributes to economic growth and the literature recognizes the essential role of the private sector in promoting growth and poverty reduction (Abumere, Arimah et al, 2009). Some mounting evidence indicates that, private sector-led economies experience more rapid growth than those characterized by extensive government intervention (Jerome, 2011). For example, Naya (2012) observed that Mauritius and Botswana in Africa and the East Asian countries (prior to their financial crises) have been-hailed as models of development with their success associated to their interest in private sector and market-oriented growth. These economies were found to have the fastest rates of per capita economic growth in the world for almost a period of a decade and they also witnessed improved social conditions: life expectancy, infant mortality rates, and literacy rates comparable to those of developed countries (Olayiwola and Busari, 2001). In contrast, countries that have relied on government to provide growth with equity through planning have performed worse in areas where the pro-market and private sector-led economies have excelled.
Soyibo et al. (2001) provide a lucid explanation of how private sector acts upon the economic growth process of any nation. The private sector economic growth nexus is captured by the wealth creation activities and long-term gainful employment generation of the sector thus increasing the rate of economic growth in the process. Private sector helps to fight the acute problem of mass poverty taking tasks currently performed by the state, thus relieving pressure on public expenditure and allowing governments to concentrate on their resources that key to social and physical infrastructure (Riedel and Tran, 2010). The private sector also helps to broaden the economic base by diversifying into new sectors, making developing countries more resilient and less vulnerable to external shocks (Obadan 2009).

The private sector plays a significant part in capacity building, especially in human resource development education, training and on the job skill formation. Consequently, the sector teams up with foreign partners to invest in promising sectors like transportation, power, communications, and information technology and this provides a springboard for foreign direct investment in vital infrastructure. It often forms partnerships with some companies in their strategy of relocating industrial and other activities in order to remain globally competitive and maintain market shares. These also help in generating economic dynamism through multiplier effects, such as the movement of goods and services, capital, technology and sometimes people (human capital development) Chisari et al. (2010). All these benefits accrue to an economy from the private agent wealth maximizing model of private enterprises and this is because a private economic agent has a well-defined economic goal (Olayiwola and Busari, 2001).

**Research Methodology**

**Data Collection**

Secondary data was used for this study and it was sourced from the CBN statistical bulletin and national bureau of statistics. For the purpose of this study, growth rate of manufacturing sector and growth rate of agricultural sector were used as independent variables to measure private sector development while economic growth was proxy to Gross Domestic Products at current market price as dependent variable as indicated in appendix.

**Method of Data Analysis**

The descriptive and analytical methods of data analysis were used in testing the hypothesis. And also, the analytical techniques employed in this study include: multiple regression analysis, percentages, correlation analysis.

**Model Specification**

Model specification involves the determination of the dependent and explanatory variables based on specified theoretical sign and size of the parameters. Based on theoretical expectations, the multiple regression model was used and formulated as:
GDP = a + b1 GRM + b2 GRA + u.

Where:

GRA = Growth Rate of manufacturing Sector.
GRA = Growth Rate of Agricultural Sector.
GDP = Gross Domestic Product.
a, b1, b2 = Regression parameters.
U = stochastic error term which absorbs the influence of omitted variables.

Table 1: Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>55.95770</td>
<td>7.960191</td>
<td>7.029692</td>
<td>0.0001</td>
</tr>
<tr>
<td>GRM</td>
<td>3.072834</td>
<td>0.966368</td>
<td>-3.179776</td>
<td>0.0130</td>
</tr>
<tr>
<td>GRA</td>
<td>-0.433403</td>
<td>0.343352</td>
<td>1.262268</td>
<td>0.2424</td>
</tr>
<tr>
<td>R – squared</td>
<td>0.680991</td>
<td>Mean dependent var</td>
<td>54.86846</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.576238</td>
<td>S.D. dependent var</td>
<td>5.023003</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>3.635216</td>
<td>Akaike info criterion</td>
<td>5.646215</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>105.7184</td>
<td>Schwarz criterion</td>
<td>5.754732</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-28.05418</td>
<td>R – correlation</td>
<td>0.777810</td>
<td></td>
</tr>
<tr>
<td>F – statistic</td>
<td>5.546330</td>
<td>Durbin – Watson stat</td>
<td>1.892339</td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistic)</td>
<td>0.030824</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Econometric-View 7.0

From table 1, since the coefficient of correlation is \( R = 0.777810 \) (78%), this means that private sector development and economic growth in Nigeria are related and the relationship is strong and positive. However, the positive relationship here means that an increase in private sector development will lead to an increase in economic growth in Nigeria and vice versa. The coefficient of determination indicates that about 68% of the variations in economic growth in Nigeria can be explained by changes in the private sector development variables (GRA and GRM) in the economy. This implies that a good portion of economic growth trends in the economy is explained by the private sector development variables. The F-statistics of 5.54633 which is significant at 5% confirms the impact of private sector development on economic growth in Nigeria and furthermore, the influence of the explanatory variables on the dependent variable is statistically significant and this is also confirmed by the F-probability which is statistically zero and finally, the value of Durbin–Watson (DW) signifies the absence of autocorrelation.

**Test of Hypotheses**

The null hypotheses for this study are stated thus:

\( H_01: \) There is no significant relationship between growth rate of agricultural sector and Gross Domestic Product (GDP) of the economy.
**Table 2: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regression</td>
<td>436,462.2</td>
<td>7</td>
<td>61,637.5</td>
<td>32.2</td>
<td>.004</td>
</tr>
<tr>
<td>Residual</td>
<td>55,102.5</td>
<td>17</td>
<td>3,294.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>491,564.7</td>
<td>19</td>
<td>26,075.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Predictors: (Constant), GRA
- Independent Variable: B

D.F. = 2, 17
Significant value = - 0.004 ≥ F ≤ 0.004
F Cal = 11.881.

Decision: Since the computed F of 11.881 is greater than the significant value of 0.004, we fail to accept the null hypothesis. None acceptance of the null hypothesis has led to the conclusion that, there is a positive significant relationship between growth rate of agricultural sector and Gross Domestic Product (GDP) in Nigeria.

**Ho2:** There is no significant relationship between growth rate of manufacturing sector and Gross Domestic Product (GDP) in Nigeria.

**Table 3: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regression</td>
<td>206,766.6</td>
<td>7</td>
<td>29,538.1</td>
<td>32.2</td>
<td>.005</td>
</tr>
<tr>
<td>Residual</td>
<td>78,072.1</td>
<td>17</td>
<td>4,588.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>284,838.8</td>
<td>19</td>
<td>14,843.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Predictors: (Constant), GRM
- Independent Variable: B

D.F. = 2, 17
Significant value = - 0.065 ≥ F ≤ 0.065
F Cal = 3.973.
Decision
Since the computed $F$ of 3.973 is greater than the significant value of 0.065, we fail to accept the null hypothesis. None acceptance of the null hypothesis has led to the conclusion that, there is a positive significant relationship between growth rate of manufacturing sector and Gross Domestic Product (GDP) in Nigeria.

Discussion of Analysis
During the study it was discovered that, there is a positive significant relationship between private sector development and economic growth in Nigeria. The relationship is strong because the coefficient of the explanatory variable is statistically above 5% significant level. The study also discovered that there is also a positive significant relationship between manufacturing sector and Gross Domestic Product (GDP) in the economy. And the coefficient of determination is 68% of variations in GDP that can be explain by changes in private sector development variables (GRA and GRM). This implies that a good portion of economic growth trends in the economy is explained by the private sector development variables. The analysis shows that there is a strong significant relationship between private sector development and economic growth in Nigeria, because 78% coefficient of correlation is strong and the statistical significant at 5%. The analysis also observed a positive significant relationship between Gross Domestic Product (GDP) and growth rate of agricultural sector in Nigeria. But the relationship is also strong because the coefficient of explanatory variable is statistically above 5% significant level and finally, the value of Durbin-Watson (DW) signifies the absence of autocorrelation.

Conclusion
According to Andabai (2012) Nigeria like most African countries at independence relied heavily on public sector-led growth and presently, this arrangement is gradually changing with government embracing privatization of its public enterprises. That is why emphasis is now being laid on private sector-led development to move the new economic programmes to government forward. However, private sector growth in Nigeria for the past forty-four years has not been very significant despite remarkable increases in the number and variety of financial institutions presently in operation.

Policy Recommendations
The study therefore recommends the following:
1. Government should concentrate on providing the necessary infrastructure and creating a conducive environment to enable private sector investment activities thrives.
2. Government should develop a policy framework to facilitate participation of foreign investors in Nigerian agriculture, in the spirit of the new partnership apparently fostered by New Partnership for African Development (NEPAD).
3. For the sector to play any meaningful role in private sector-led economy, manufactures
should look inward for fabricating machines and sourcing raw material in order to conserve foreign exchange.

4. For any meaningful private sector development, government should ensure that polices are consistent over time, as policy inconsistency in the past had led to closure of many manufacturing industries.

5. Government should embark on development programs and also improve on infrastructural services that will enable the environment conducive for private sector growth and development in the county.

6. An effective training programme should be encouraged for the private sector-led economy, this will educate and improve investors on existing business opportunities both in manufacturing and agricultural sectors.

7. An improved and sustainable legal framework should be put in place by Government and also discourage the importation of substandard products at the expenses of local manufacturers.

8. Government should establish micro-finance bank to complement the efforts of the banks by providing micro-credit to low-income and medium scale investors' in the agricultural sector of the economy.

References


