Determinants of Private Sector Performance in Nigeria

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Abstract
This study has empirically examined the likely factors responsible for the private sector performance in Nigeria. It employed econometric methodology and techniques such as Augmented Dickey-Fuller, Phillips-Perron and error correction mechanism (ECM) with annual time series data covering the period 1996 to 2011. Findings revealed significant and positive impacts of domestic credit to private sector, property right and investment freedom on private sector performance in the country. The study, thus recommends that the government of Nigeria should provide a favourable business environment for the private sector to thrive.
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1.Introduction
As the major contributor to economic growth and employment creation, OECD (2006) sees the private sector as a central place in renewed efforts to reduce poverty and achieve the Millennium Development Goals (MDGs). According to Ban Ki-Moon, the United Nations has grown to recognize the important role the private sector can and must play in sustainable development. Thus, the development of entrepreneurship and a broader set of relevant productive capacities in agriculture, manufacturing and the services sector (tourism), and the redeployment of resources into activities with higher productivity lie at the heart of self-sustaining and lasting economic growth. As governments establish stable macroeconomic environments, enact policies to facilitate economic diversification, and have primary responsibility for education, infrastructure and other public goods, the private sector plays a role in enhancing productive capacities and entrepreneurship. In essence, the private sector helps lead investment in productive capacities and builds entrepreneurship: it can drive development of technology, provide capital, build skills and capacities of employees and suppliers, and engage in dialogue around policy and institutional constraints (see United Nations, 2011).

Having promoted development of the sector for more than 40 years, the African Development Bank (AfDB) has made private sector development one of the four priorities of its Medium Term Strategy (MTS) for 2008-12, along with infrastructure, governance, and higher education. Such that most African countries have come to recognize the critical role that private sector can play to help the continent reach its full economic and social potential. Although the private sector in African countries faces common challenges, according to AfDB (2011), the impact of these constraints varies according to the stage of economic development. Fundamentally, the constraints include insufficient transport networks and lack of access to power and finance.

In Nigeria, prior to 1986, the economy was largely dominated by the public sector. However, in 1986, the Structural Adjustment Programme (SAP) was introduced, which radically shifted emphasis to the private sector as the catalyst for economic development. Following this, several other programmes and policies were introduced to support the private sector activities in the country. These include financial policy of recapitalization which set the minimum paid up capital at N25 billion (about $208 million); Small and Medium Industries Equity Investment Scheme (SMIEIS) in which Banks contributed 10 per cent of profit after tax; Micro credit fund requiring Banks and each state government to contribute 5 per cent each; and Vision 20-2020 which aims at making Nigeria the 20th largest economy by the year 2020.

Nevertheless, most factors affecting private sector investment in Nigeria have not shown a significant improvement over the years. Financial liberalisation did not improve the level of savings, a possible source of increased investment. The share of private sector credits in the total credits still remained very low, averaging 27.6 per cent between 1985 and 2006. Thus, the private sector, especially SMEs, did not feel the impact of financial liberalisation policy (Obamuyi 2010). Yet, the National Bureau of Statistics (NBS) (2013) claims that the performance of the manufacturing sector, one of the sectors that hold the ace for Nigeria's economic transformation, grew by 8.41 per cent in the first quarter of 2013 as against the impressive growth of 7.70 per cent in the last quarter of 2012. As such, if private investment in the country is not feeling the impact of government policy even when agency opines an improvement in the sector, then which are the factors propelling the private sector in Nigeria? In essence, this study intends to provide answer to the question by examining the likely factors that drive private sector's performance in the country.

The paper is structured into six sections. Section two presents efforts at supporting private sector development in Nigeria. Section three looks at the theoretical approaches to private sector development, as methodology and

data occupy the fourth section. Empirical results are discussed in section five while section six finalises with concluding remarks and recommendations.

2. Efforts at Supporting Private Sector Development in Nigeria

In Nigeria the modern industrial and commercial sectors, together with small and medium enterprises (SMEs), are heavily dominated by the private sector, in part due to extensive privatisation of public enterprises in the last decade. The formal industrial sectors of the three states are generally uncompetitive in international terms, both because of the small size of the national markets and because they were originally created under import substitution regimes involving high levels of domestic protection.

The informal economy private sector activity accommodates the majority of the people in the country, especially the poor. Micro enterprises and activities in the informal economy represent the most important interface between the private sector and the poor. These include own-account work, home- based (contract work), street vending, and so forth. Statistically, informal economic activities have come to be regarded as a group of production units which fall under the household sector as unincorporated enterprises owned by households. These unincorporated enterprises owned by households are usually not constituted as separate legal entities independently of households which own them and no complete set of accounts are available to distinguish enterprise activities from other activities of their owners.

Privatization in the country was formally introduced by the Privatization and Commercialization Act of 1988, which later set up the Technical Committee on Privatization and Commercialization (TCPC) with a mandate to privatize 111 public enterprises and commercialize 34 others. In 1993, having privatized 88 out of the 111 enterprises listed in the decree, the TCPC concluded its assignment and submitted a final report. Based on the recommendation of the TCPC, the Federal Military Government promulgated the Bureau for Public Enterprises Act of 1993, which repealed the 1988 Act and set up the Bureau for Public Enterprises (BPE) to implement the privatization program in Nigeria. In 1999, the Federal Government enacted the Public Enterprise (Privatization and Commercialization) Act, which created the National Council on Privatization. The functions of the council include: making policies on privatization and commercialization; determining the modalities for privatization and advising the government accordingly; determining the timing of privatization for particular enterprises; approving the prices for shares and the appointment of privatization advisers; ensuring that commercialized public enterprises are managed in accordance with sound commercial principles and prudent financial practices; and interfacing between the public enterprises and the supervising ministries in order to ensure effective monitoring and safeguarding of the managerial autonomy of the public enterprises.

The 1999 Act also established the Bureau of Public Enterprises (BPE) as the secretariat of the National Council on Privatization. The functions of the bureau include among others to do the following: implement the council's policies on privatization and commercialization; prepare public enterprises approved by the council for privatization and commercialization; advise the council on capital restructuring needs of enterprises to be privatized; ensure financial discipline and accountability of commercialized enterprises; make recommendations to the council in the appointment of consultants, advisers, investment bankers, issuing houses, stockbrokers, solicitors, trustees, accountants, and other professionals required for the purpose of either privatization or commercialization; and ensure the success of privatization and commercialization implementation through monitoring and evaluation.

There are, indeed, some critical long run objectives to be achieved through privatization including the following: increasing productive efficiency; strengthening the role of the private sector in the economy, which will guarantee employment and higher capacity utilization; improving the financial health of public services with savings from suspended subsidies; freeing more resources for allocation to other needy areas of governmental activities (for example, finances that would have been applied for subsidies should now be channelled to the development of rural communities); and reducing corruption because interference by politicians will cease.

Also, the private sector development programme (PSDP) was introduced and aimed at growing the non-oil resource base and creating wealth for the poor through the concept of 'inclusive markets'. Essentially it was an approach designed to make markets work better for the poor as entrepreneurs, wage employees and consumers of goods and services by boosting employment, value added production and incomes. The programme is expected to tackle unmet needs of the productive sectors in the areas of reliable and affordable credit and energy to meet the following four outcomes: increased access to affordable and reliable sources of renewable energy for Small and Medium-scale Enterprises (SMEs), rural and urban settlements; developed and/or expanded growth and linkages in agriculture and agro-industry to meet demands in domestic, regional and international markets whilst boosting productivity, value addition, employment and incomes especially in rural and peri-urban areas; an expanded base of private sector-based service providers targeting business and market development for SMEs, including microfinance and entrepreneurship training; and application of innovative corporate social responsibility (CSR) models that integrate SMEs with the core business of large and medium sized corporate organisations.

The strategies for achieving these outcomes include providing cutting edge technical support to increase productivity, employment and income recognising and closing disparities of gender and other forms; linking up with other partners and focusing on UNDP areas of expertise to demonstrate viable technical, institutional and business models; promotion of high quality analysis to independently attract additional investment flows and effective public-private partnerships.

Table 2.1: Selected Indicators of Private Sector Performance in Nigeria 1990-2011					
Indicator/ Period	Manufacturing Value Added	Total Value Added	Claims on Private Sector	Domestic Credit to Private Sector	Lending Interest Rate
1990-1994	14176.6	60634.4	22.384	10.294	24.446
1995-1999	13295.8	68301.8	16.48	11.318	19.268
2000-2004	16250.8	85375.8	17.348	13.54	21.874
2005-2009	20639.87	103687.1	37.132	24.85	17.126
2010	15471.44	108729	-10.96	24.93	17.59
2011	15471.44	108729	-5.42	21.09	16.02
Source: Author's Computation using Data from World Bank's WDI and IMF's IFS. Value Added are in 1990 constant prices in US Dollars (Million)					

Access to finance is crucial for private sector development and for poverty reduction. Overseas development institute (ODI) research shows that access to savings or credit helps people across all income groups to invest in education and microenterprises and to work their way out of poverty. While the focus of much donor effort has been on microfinance institutions, the banking sector also has an important role. In this light, Okonjo-Iweala (2013) is of the view that the value of credit to the private sector increased marginally year-on-year to N16.452 trillion at the end of November 2013.The latest Central Bank of Nigeria (CBN) money and credit statistics for November, showed the amount represented a growth by N176 billion, as against the N16.276 trillion in October. Also, currency-in-circulation increased to N1.571 trillion at the end of November, from N1.549 trillion it was in the previous month.

Through its initiative of "Unlocking the Market Potential of Nigeria's Private Health Sector", the government in collaboration with Private Sector Health Alliance of Nigeria (PHN) stated that the private health sector has a significant role to play in addressing these challenges and accelerating progress in meeting the health-related MDGs. Besides seeking synergies within the private sector and building strategic partnerships with the public sector to support interventions in the Saving One Million Lives Initiative- prioritising nutrition and malaria, the PHN is hinged on four pillars-innovation, strategic partnerships, advocacy and impact investments.

According to Umar-Sadiq, the coalition aims to meet its goals by focusing on innovation, strategic partnerships, and impact investments. He stresses further that the coalition was out to mobilise and inspire Nigeria's private sector to harness its collective capabilities to realise synergies for catalytic impact. While PHN undertakes high level advocacy engagements for priority policy interventions that will aid in shaping health markets for better private sector engagement, it would take ownership and be collectively responsible for achieving MDGs 4, 5 and 6; save the lives of women and children which is at the heart of everything they do. To realise these goals, PHN would invite thought leaders as well as industry leaders from the private sector to join it across its different membership categories, including companies and business leaders with a natural connection to healthcare, either through their core business (for example, pharmaceutical, medical technology, hospital, health insurance) or indirectly (for example, financiers of healthcare infrastructure, developers of technology to improve health, business interest in healthy population).

One of the biggest inhibitors of Nigeria's economic growth is the lack of steady power supply which is estimated to reduce between three and four per cent off of the country's GDP expansion each year. The country is, therefore, making moves to grow its generating capacity from the current power capacity of 9,000 MW to 20,000 MW by 2020 as the Nigerian government is actively attracting greater private sector investment and interest in its power sector.

3. Theoretical Approaches to Private Sector Development

The theoretical exposition on private entrepreneurship abounds in the literature. However, the theories which underpin private sector development are scanty and as well surround the approaches propounded by the neoclassical and neo-structuralist thoughts. The concept of the "business-enabling environment" proposes certain fundamental underlying assumptions of neoclassical and neo-structuralist approaches with regard to explaining the phenomenon of private sector and informality. A cross-section of people would align to the view that low levels of bureaucracy, an independent judiciary, good roads and a functioning education system, for example, are

parts of a good business-enabling environment. Some analysts and policymakers would rather place their emphasis on debureaucratization, whereas others would focus on public sector support programmes of different kinds. Indeed, some elements of the business-enabling environment are a matter of controversy. Opinions diverge for example with regard to the appropriate level of labour market regulation, the need for industrial and innovation policies, and property right. Nevertheless, the growing consensus among development researchers and practitioners is that: a thriving private sector is crucial for poverty reduction; and that certain business-friendly conditions must be in place to unleash private sector dynamism. As such, the factors or "ingredients" of successful private sector development in the neoclassical and the neo-structuralist approach are briefly overviewed in the subsections that follow.

3.1 *The Neoclassical Approach*

Proponents of the neoclassical approach to the business-enabling environment assume that most factor markets work reasonably well without government intervention if property rights and competition are guaranteed. Such interventions are in most cases considered less efficient than market-based solutions, and it is stressed that many government interventions in fact hamper private sector development. Measures to improve the business-enabling environment consequently focus on deregulation and the good functioning of markets, with only a limited role assigned to the public sector in a few areas where market failure is most obvious. Within the neoclassical approach a distinction could be drawn between "regulatory business environment" and the "investment climate". Proponents of this approach do not take characteristics and motives of the entrepreneur into account. Instead, the distinguishing attribute of informal firms is non-registration. It is assumed that the informal economy is comprised of enterprises that operate informally because the costs, time and effort of formal registration are too high (see de Soto 1989; and Palmade & Anayiotos 2005).

The "regulatory business environment" covers regulations that immediately affect businesses through the costs of compliance. These are composed of direct costs, such as license fees, and indirect costs resulting from, often unnecessary, transactions. The latter include transaction costs arising from the time that has to be spent in obtaining a licence as well as increasing costs stemming from inappropriate government regulations that make contract enforcement or the hiring and firing of workers unnecessarily complicated and costly. The costs of the regulatory business environment are most prominently analysed in the Doing Business series published by World Bank/IFC on an annual basis since 2004. The 2007 edition (World Bank/IFC 2007) measures the costs and time associated with complying with 10 types of regulations: starting a business, employing workers, getting credit, enforcing contracts, closing a business, registering property, dealing with licences, protecting investors, paying taxes, and trading across borders. The emphasis on easing regulations and providing property rights was inspired by the works of de Soto (1989, 2000) as well as by reform experiences in Eastern Europe. Some of the most influential proponents of the regulatory business environment claim that such reforms are not only appropriate to unleash private sector development and growth but that they immediately benefit the poor more than proportionally because "heavy regulation and weak property rights exclude the poor from doing business" (see World Bank/IFC 2005; Klein & Hadjimichael 2003; Klein 2006; and Klapper 2006).

The term "investment climate" comprises all the elements of the regulatory business environment, but in addition it includes the quality of infrastructure, the health system, the overall level of education, rule of law, political stability and security, functioning financial markets, trade liberalization and international rules and standards as factors which constitute the "location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand" (World Bank 2004). The term "investment climate," as used in the World Development Reports and Investment Climate Surveys, thus refers to a set of enabling factors broader than the "regulatory business environment."

Both the World Bank's "regulatory business environment" and "investment climate" documents are highly sceptical about deliberate government action aimed at improving the performance of enterprises and developing competitive advantages. The Doing Business Reports likewise argue that creating a level playing field through deregulation and guaranteed property rights is the most important condition for boosting economic growth and making it more equitable. The Reports emphasize that extensive government regulations hamper the formation, registration and growth of private enterprises and create numerous opportunities for rent-seeking bureaucrats to extract bribes, thereby increasing corruption significantly.

3.2 *The Neo-Structuralist Approach*

A Proponent of the neo-structuralist interpretation, Chen (2004) distinguishes a "structuralist" and a "dualist" school of thought. In the dualist version, formal and informal modes of production are largely unconnected, whereas in the structuralist version the informal economy is subordinated to large capitalist firms of the informal economy. Also, Tokman (1990) argues that the informal economy is comprised of marginal activities that provide income for the poor and a safety net when no formal employment opportunities are available. Viewed from this perspective, multiple deficiencies, beyond insecure property rights and red tape, hamper the development of informal enterprises. Among these deficiencies are lack of education and technical and management training and limited access to capital and markets. Most owners of informal micro enterprises are

necessity entrepreneurs who run their business as an activity of last resort in the absence of employment alternatives. The informal economy absorbs a segment of the labour force that is not easily employable in the modern economy, for example people with low levels of education, handicapped, ill and elderly people, single mothers who need to care for their children during the day as well as persons who are temporarily unemployed. Opportunities for self-employment or the formation of micro enterprises are largely restricted to activities with low entry barriers in terms of skills and capital (e.g. street trading, garment manufacture). Labour sup- ply in these activities tends to be high, creating cut-throat competition with low returns and often decreasing productivity. The observation that the informal economy often grows during recessions suggests that it comprises a workforce with limited employability rather than being a seedbed for thriving future entrepreneurs.

In contrast to the neo-structuralists, the neoclassical approach assumes that the informal economy hosts a significant number of vibrant opportunity entrepreneurs with viable business ideas and the means to exploit them in terms of technical skills, market access and so forth. However, staying informal comes at a cost. Informal entrepreneurs live under the permanent threat that their assets may be seized by others, and they therefore avoid long-term investments; even if they manage to trade their assets informally, their market value will be lower than that of identical assets with an enforceable property title; informal tenants cannot use their assets as collateral; they may not even have access to public utilities; and they may be forced to pay bribes to avoid harassment by public officials. Providing property rights and easing enterprise registration will thus increase security of ownership, ease access to credit and public utilities like electricity, and thereby stimulate investment and growth. Obviously both approaches have very different policy implications. Following the neo-structuralist interpretation of the root causes of informality, what is needed to tackle the multiple deficiencies of entrepreneurs in the informal economy is a comprehensive policy mix, whereas the neoclassical approach calls for policies that reduce administrative entry barriers and create incentives to legalize businesses

4. Methodology and Data

The econometric methodology of ordinary least square (OLS) is used in this study. Also, the approaches of co-integration, Granger causality tests (Granger, 1969; 1986; 1988) and error correction mechanism (ECM) are employed. In an attempt to avoid a spurious outcome from the regression on the series, the Augmented Dickey-Fuller (ADF) unit root test (Dickey & Fuller, 1979) and Phillips-Perron were carried out on the data. This was conducted at level and at first difference as depicted in table 1. Thus, implying that, the series are I(1). After the stationarity of the series was ascertained, the pairwise causality between variables was conducted through the Granger causality test (see Granger 1969).

Also, the long-run analysis of the relationship among the variables was established using the Engle-Granger (1987) co-integration two procedures test. The first procedure involves generating residual or error correction term (ECT) while the next procedure requires subjecting the error correction term (ECT) to unit root test analysis with the null hypothesis "no stationary at level". The rejection of this hypothesis in turn leads to the rejection of the null hypothesis "no-co-integration" that is, no long-run convergence among the series. Then the adjustment analysis that follows involves the process of achieving the objective of this study by carrying out an Error Correction Mechanism (ECM) model. This involves the estimation of equation (2) below with the incorporation of the estimated error correction term (ECT). It is thus the co-efficient of the error term obtained from the result of the ECM model that indicates the speed of adjustment to long-run equilibrium for any divergence in the short-run among the series.

Essentially, the manufacturing sector which comprises of small and medium scale enterprises (SMEs) is mainly controlled by individuals who invest their money and other economic resources for the smooth running of the entities. As such, the manufacturing sector is used as proxy for the private sector in the study.

4.1 *Data Set*

As a matter of fact, the main drivers of the private sector in Nigeria are Electricity and Oil (petroleum and diesel) aside research and development (R&D), financial elements and implicit operational constraints. However, for the reason of data availability the study focuses on financial and institutional indicators which affect private sector performance. Thus, the variables employed are the logarithm of value added in the manufacturing sector (LMV), claims on private sector (CPS), domestic credit to private sector as percentage of GDP (CRP), lending interest rate (LIR), property right (PPR), business freedom (BFR), trade freedom (TFR), investment freedom (IVF), and financial freedom (FFR). The data set, therefore, comprises of annual time series collated from the publications of World Bank's *World Development Indicators*, 2013; International Monetary Fund's *International Financial Statistics Yearbook*, 2013 and Heritage Foundation 2012 *Index of Economic Freedom*.

4.2 *Model Specification*

Several factors drive the performance of the private sector, yet to be able to achieve the main object of this paper the log of manufacturing value added is taken as the dependent variable. Thus, the functional relationship linking the variables is shown as follow

$$LMV_t = (CPS_t, CRP_t, LIR_t, PPR_t, BFR_t, TFR_t, IVF_t, FFR_t) \tag{1}$$

where t is time, and the variables are as earlier defined.

Therefore, the equation that follows specifies the econometric relationship between private sector (manufacturing value added) and its likely determinants. That is,

$$LMV_t = \beta_0 + \beta_1 CPS_t + \beta_2 CRP_t + \beta_3 LIR_t + \beta_4 PPR_t + \beta_5 BFR_t + \beta_6 TFR_t + \beta_7 IVF_t + \beta_8 FFR_t + \varepsilon_t$$
(2)

$\beta_1, \beta_2, \ldots, \beta_8$ are expected to have positive sign, while β_3 is expected to show negative effect; where β_0 is the constant intercept, $\beta_1, \ldots, \beta_8$ are the coefficients while ε_t is the error term at time t..

5. Empirical Results

The results of the Augmented Dickey-Fuller and Phillips-Perron unit root tests, as depicted in Tables 5.1 and 5.2, respectively show that aside from BFR that was stationary at level with constant, all the variables were stationary at first difference. In order to determine the long-run relation among the variables, the Engle-Granger co-integration test as against the Johansen-Joselius co-integration test, was carried out due to the small size of the time series. Essentially, the cointegration approach offers useful insights towards testing for causal relationships. In principle, two or more variables are adjudged to be cointegrated when they share a common trend. Hence, the existence of cointegration implies that causality runs in at least one direction (Granger 1988). However, the results from the Granger causality test reveal a granger no-causality between each pair of the variables.

Table 5.1: Augmented Dickey-Fuller Unit Root Test on All Variables

Variable	Stage	Critical Value	1%	5%	10%
LMV	1st Difference	-2.055473	-2.740613	-1.968430	-1.604392
CLP	1st Difference	-3.561854	-2.740613	-1.968430	-1.604392
CRP	1st Difference & Constant	-4.004303	-4.121990	-3.144920	-2.713751
LIR	1st Difference	-3.258132	-2.740613	-1.968430	-1.604392
PPR	1st Difference & Constant	-3.741657	-4.004425	-3.098896	-2.690439
BFR	Level with Constant	-5.711634	-3.959148	-3.081002	-2.681330
TFR	1st Difference	-5.201718	-2.740613	-1.968430	-1.604392
IVF	1st Difference	-3.605551	-2.740613	-1.968430	-1.604392
FFR	1st Difference	-5.507571	-2.740613	-1.968430	-1.604392

Source: Author's Computation, 2014 using E-views 7

As such, in an attempt to determine the optimal lag length appropriate for further empirical analysis, we use the five different information criteria viz: sequential modified LR test Statistic (LR), final prediction error (FPE), Akaike information criterion (AIC), Schwarz information criterion (SC), and Hannan-Quinn information criterion (HQ), it is concluded that the optimal lag length for the series is one (1) as shown in Table 5.3.

The ECM technique which is a general to specific approach to estimation of short run dynamic relationship involves specifying a model which includes as many as possible lag structure that is determined by the model's degree of freedom. As the over-parameterized model is estimated, the coefficients with the least significance is removed sequentially (one at a time) until the insignificant lag structures are removed.

Table 5.2: Phillips-Perron Unit Root Test on All Variables

Variable	Stage	Critical Value	1%	5%	10%
LMV	1st Difference	-1.975057	-2.740613	-1.968430	-1.604392
CLP	1st Difference	-3.659107	-2.740613	-1.968430	-1.604392
CRP	1st Difference	-2.709181	-2.740613	-1.968430	-1.604392
LIR	1st Difference	-3.258132	-2.740613	-1.968430	-1.604392
PPR	1st Difference	-3.605551	-2.740613	-1.968430	-1.604392
BFR	Level with Constant	-5.711634	-3.959148	-3.081002	-2.681330
TFR	1st Difference	-5.201718	-2.740613	-1.968430	-1.604392
IVF	1st Difference	-3.605551	-2.740613	-1.968430	-1.604392
FFR	1st Difference	-6.088155	-2.740613	-1.968430	-1.604392

Source: Author's Computation, 2014 using E-views 7

Thus, the result from the error correction model, as presented in Table 5.4 below, reveals that the error correction

term is negative and significant. This implies that there is a feedback effect from the long run relationship to the short run dynamic of the model. It shows that if there is a disturbance to the model, the variables in the model will jointly respond to ensure that the model converges back to its mean value in the long run.

Table 5.3: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-395.2065	NA	1.07e+10	40.12065	40.41937	40.17897
1	-322.7310	94.21820*	3.36e+08*	36.47310*	38.56414*	36.88129*

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Table 5.4: Error Correction Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.524269	0.984899	-0.532307	0.5996
D(LMV(-1))	0.257606	0.158423	1.626063	0.1176
D(CRP)	0.238765	0.141335	2.105748	0.0463
D(LIR)	-0.836338	0.505667	-1.653931	0.1117
D(PPR)	0.337922	0.129516	2.025352	0.0581
D(IVF)	0.532925	0.138173	2.000678	0.0308
ECT(-1)	-0.075562	0.201307	-5.394106	0.0000

R-squared	0.645035	Mean dependent var	-0.447933
Adjusted R-squared	0.552435	S.D. dependent var	7.995309
S.E. of regression	5.348887	Akaike info criterion	6.392618
Sum squared resid	658.0436	Schwarz criterion	6.719564
Log likelihood	-88.88926	Hannan-Quinn criter.	6.497210
F-statistic	6.965838	Durbin-Watson stat	1.724526
Prob(F-statistic)	0.000257		

Furthermore, the error correction mechanism (ECM) model, as shown in Table 5.4, asserts that the error correction term (ECT) is statistically significant with negative coefficient as expected. The magnitude of the coefficient, however, implies that the series adjust quickly to equilibrium in case of any short-term disequilibrium. The model further depicts a positive statistically significant effect of domestic credit to private sector on manufacturing value added such that a 100 percentage increase in domestic credit to private sector would raise manufacturing value added by about 23 per cent in Nigeria. Also, the index of property right and investment freedom influence manufacturing value added significantly positively. By implication it means that a conducive business environment in the country where individuals have rights to their property with freedom to venture into any legitimate business of their choice would invariably improve output addition in the private sector. Nevertheless, the results show a negative, but not significant, effect of lending interest rate on manufacturing value added. Furthermore, the index of investment freedom impacts negatively, and significantly, on manufacturing value added in Nigeria.

6. Concluding Remarks and Recommendations
This paper has empirically investigated the determinants of private sector performance in Nigeria for the period 1996 to 2011. The investigation finds that private sector development strategies and programmes have been implemented in the country to encourage local and foreign investors with a view to having a private sector-led economy. Part of the strategies and programmes include: the private sector development programme (PSDP) which was designed to make markets work better for the poor as entrepreneurs; the increase of credit to the private sector to N16.452 trillion by the CBN; and the government's initiative of "Unlocking the Market Potential of Nigeria's Private Health Sector" in collaboration with Private Sector Health Alliance of Nigeria

(PHN) which is aimed at addressing the challenges in meeting the health-related MDGs by 2015.

Furthermore, it was revealed from the investigation that domestic credit to private sector is positively significant in determining the performance of private sector in Nigeria. The implication of this is that the government of Nigeria needs to increase the value of domestic credit to private sector in order to boost value addition in the manufacturing sub-sector which invariably would affect exports positively. By doing so, the CBN would also encourage the public to save more by increasing the deposit rate of interest. However, the interest rate on lending to investors by commercial banks need to be reviewed downward due to the fact that a lower lending interest rate would attract large volume of private investors which subsequently would result into increased private sector performance. In addition, the government of Nigeria should provide a favourable business environment for the private sector to thrive. This is necessary in the area of right to property ownership and freedom to freely associate with any business venture as deem suitable by individuals and the law of the land.

In summary, policies that would increase domestic credit to private sector; improve economic freedom; and lower lending interest rate would spur private sector performance in the country.

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