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Determinants of Private Investment in Nigeria: An Empirical Exploration

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Abstract
In recent years, private investment has been accorded renewed emphasis and important place as engine of economic growth and development. This paper examines issues on and determinants of private investment in Nigeria. The findings show that, among other things, from the colonial government era up to the Nigeria's First Development Plan of 1964, there was commitment to the promotion of private investment. The relative non-performance of the private sector in general and the disappointing inflow of expected foreign capital during the First National Development Plan in particular, spurred the need for greater public sector involvement in the economic activities. The unprecedented increase in crude oil earnings from the 1970s through the early 1980 gave the public sector further impetus to move in and dominated the scene in the Nigerian economy. Consequently, private sector was reduced drastically and forced into becoming an appendage of public sector. This resulted in the preponderance of public investment and very low level of private investment. Prompted by the global wind of change on the role of the government in economic development process and domestic realities of dwindling government revenue caused by a fall in crude oil prices in the international market, many economic policies such as privatization and deregulation as well as sectoral reforms aimed at restructuring the economy, down-sizing the public sector and enhance private investment had been formulated and implemented. This work establishes that the expected sustained improvement in the level of private investment has been greatly constrained by the adverse impacts exerted by most of the determinants of private investment. The study has identified determinants of private investment in Nigeria to include domestic inflation rate, size and growth rate of market, availability and access to bank credit, interest rate, fiscal deficits, public investment rate, poor provision of infrastructure, political and economic stability, investment climate and institutional factors. The study recommends proper mobilization of investible fund in the economy by the banking sector through high saving deposits rates and accessibility of such fund by private investors through low lending rate, avoidance of excessive deficit financing and drastic reduction of government borrowing from the banking sector, provision of adequate and efficient internal security, political stability, sustained democratic government and good governance. Public investment should therefore, concentrate on the provision of critical economic and social infrastructure like road, electricity supply, education and health services which enter private sector production directly.
Keywords: Investment determinants, Private investment, Nigeria.

Introduction

Investment (public and private) contributes to the economic prosperity of a nation. The rate of investment in a country is a critical factor in it's economic growth and development (Yolopoulost and Nugent, 1976). In recent years, private investment has been accorded renewed emphasis and important place "as engine of growth and development". The crucial role of private investment in sustainable economic growth is also evidenced by data indicating high growth rate of economies with dominant private sector. The literature is replete with evidences that private investment in many developing countries is more directly related to economic growth than public investment (Khan and Reinhart, 1990). It is also widely accepted that expansion of private sector should be the main impetus for economic growth in developing countries, Nigeria inclusive (Obaseki and Onwioduokit, 1998). In line with above, multilateral and bilateral institutions such as International Finance Corporation (an affiliate of the World Bank) and United States Overseas Private Investment Corporation have developed some initiatives with priorities for private sector development in many African countries, Nigeria inclusive (Oshikoya, 1994). The Nigerian government on her part, has shown much interest and has made spirited effort in promoting private investment. This is evidenced by various policies and programmes such as the Structural Adjustment Programmes (SAP) whose thrusts included lessening the dominance of unproductive investments in the public sector and enhancing the growth potential of the private sector. In addition, many economic reform policies have been adopted by successive governments, over the years, so as to create a framework and more appropriate incentives for private sector development.

It has been observed that despite the importance accorded private investment as the prime mover of the economy, government interest and renewed effort in promoting it, after many years of economic adjustment and various economic reform programmes of successive governments, available relevant economic indicators show slow and minimal improvement in private investment in Nigeria. The share of private investment in GDP which was 14.6% in 1973 gradually fell to 5.9% in 1980 and 2.0% in 1985. During the structural adjustment period of

1986 to 1992, there was minimal improvement. In 1994, the share of private investment in GDP reduced to less than 0.5%. With the advent of civilian administration in Nigeria in 1999, the share of private investment in GDP rose to 13.0% and 16.2% in 1999 and 2002 respectively. However, there have been a progressive declined since then to 12.0% in 2005. It is on this note that this paper examines the issues on and determinants of private investment as it relates to Nigeria.. In this study, qualitative analysis is employed in order to as well examine some non-quantitative determinants of private investment in Nigeria whose effect cannot be properly captured in regression equation. The rest of this paper is structured as follows. The theoretical issues and empirical evidences on private investment is presented in section 2. Section 3 focuses on issues on private investment in Nigeria while section 4 examines the determinants of private investment in Nigeria. Section 5 concludes the paper.

2. Theoretical Issues and Empirical Evidences

Investment refers to accumulation of real capital goods. It is the process of incremental change in capital stock whereby an economic agent (individuals, firms and government) put in its resources to acquire capital assets to enhance future stream of earnings, increase productivity and efficiency and improve the living standard of the people. Fakiyesi (1998) described investment as "the process on incremental change in capital stock whereby a society set aside part of its current productive resources to create material and human capital. This incremental change is usually purposive in the sense that it is designed to enhance the future stream of earnings. For investment to take place, certain amount of wealth must be transferred from one ownership or employment to another. It involves trading off of present consumption for the future. Investment requires commitment of resources which could have been used for present consumption. Investment encompasses, among other things, the acquisition of new plants, machineries, equipment and tools, construction of new factory and offices, provision of educational and health-care facilities, public works such as dams, roads, railways, drainages and parks, real estate activities and any other activities that support improvement in the real sector of the economy. It takes individuals, firms and the government to invest.

Investment can be classified into public and private investment. Private investment is generally conceptualized in terms of physical capital formation. It comprises investment in physical capital, usually undertaken by firms and individuals to accumulate, overtime, real capital goods, which will yield a future flow of goods and services. The real capital goods is classified into business fixed capital goods like new machinery and equipment, new factories and offices, other durable goods, investing in new techniques and product with the aim of improving the quality and quantity of firm's output; and working capital such as cash, stock of raw materials and inventories (Soludo, 1998).

The pioneer theoretical framework on investment theory could be traced to Keynes landmark work in 1936. He posited that investment depends on the marginal efficiency of capital (MEC) and interest rate. MEC is the rate of profit which an addition of an extra unit of capital goods to economy's stock of capital is expected to yield. It is determined by the supply price and the prospective yields during the whole life of a capital asset. Interest rate is the opportunity cost of the invested funds. Investment is regarded as profitable when the expected rate of profit is greater than the current market rate of interest. Keynes further stressed the volatility of private investment because of uncertainty of return on investment (Ahuja, 2011). After Keynes, other major theories of investment include the Neoclassical Theory; the Accelerator Theory; the Liquidity Theory; Expected Profits Theory, Tobins Q theory and the Debt Overhang Hypothesis (Oshikoya, 1994 and Bogunjoko, 1998). According to the Neoclassical Theory, addition to the stock of capital in an economy depends on marginal product of capital and user cost of capital. The user cost of capital is determined by nominal interest rate, expected rate of inflation, rate of depreciation, corporate income taxes and investment tax credit. The flexible accelerator theory is one of the most popular among the theories of investment. Empirical test of this model in developing countries, Nigeria inclusive, is rather difficult because of institutional and data constraints. The restrictive assumption of this model such as perfect capital markets and little or no public investment is hardly satisfied by the developing countries, including Nigeria.

In addition to traditional determinants of investment mentioned above, the works of Green and Villanuera (1991); Serven and Solimano (1992); show that private investment can be significantly affected by factors such as macroeconomic instability, macroeconomic policy (monetary, fiscal and exchange rates policies), the incentive structure and the response to it, uncertainty and irreversibility of investment, and creditability of policy reforms. Martin and Wasom (1992) in an econometric study of the determinants of private investment in Kenya using the real exchange rate, foreign exchange reserves, credit to private sector, public investment, interest rate and income as arguments found that all the coefficients were significant except those for interest rate and income. In the same vein, Oshikoya (1994) investigated the determinants of private investment activity in eight African countries (Malawi, Tanania, Kenya, Zimbabwe, Cameroon, Morocco, Mauritus and Tanisia). He classified Malawi, Tanzania, Kenya, and Zimbabwe as low-income African countries while middle-income African countries were Cameroon, Morocco, Mauritius and Tunisia. The findings show that large debt service ratio, domestic inflation rate, public investment rates had the most relative impact on the private investment rate in middle-income countries.

For low income countries, credit to the private sector, domestic inflation rate, GDP growth rate, and debt service ratio were found to have large impact on private investment rates. Institutional factors like corruption, bureaucratic red-tapes, weak judicial system and frequent government interference in business also affect private investment. In view of this, Pfeffermann and Madarassy (1992) have argued that investment can flow in response to the elimination of these institutional factors only when investors believe that such trend of positive change is permanent. Private investment is also affected by the degree of social and political stability, income distribution, the level of aggregate demand and the rate of profit.

In Nigeria, Ariyo and Raheem (1991) investigated the determinants of private investment and found that public investment, rate of GDP growth, domestic credit to private sector and interest rate impacted positively on private investment. Chete and Akpokodji (1998) findings show that private investment in Nigeria is influenced by public investment, inflation rate, real exchange rate, and domestic credit to the private sector in addition to the private foreign capital inflow. Obaseki and Onwioduokit (1998) assessed the relative contributions of the private and public sectors to long-run growth in Nigeria. The result showed that private investment, public investment and imports are important determinants of output growth in Nigeria. Their results further revealed that public and private investment were complementary in Nigeria; public investment contributed more to total output than private investment and public sector feeds the private sector. The assertion that public investment contributed more to total output in Nigeria than private investment was in order, considering long history of dominance of public sector, reliance of private sector on public sector for survival and the low level of private investment in Nigeria.

Iyoha (1998), in an attempt to identify and discuss the macroeconomic issues germane to rekindling investment for economic development in Nigeria, found that private investment in Nigeria depends significantly on public investment, return on investment, foreign exchange premium and a debt overhang variables. Stressing the critical role of uncertainty and external debt in depressing investment in Nigeria, he proffers ways to encourage private investment in Nigeria to include appropriate macroeconomic policies, reduction of uncertainty in the macroeconomic terrain, management of the debt overhang problem, deregulation of financial environment, openness and integration into the global economy, and reduction of social and political instability.

Lindauer and Velenchik (1992) examined the consequences of government spending in developing countries and found that government investment may provide social infrastructure such as education and health care services that enter directly into private sector production and enhance private sector output. Government spending also may indirectly influence the efficiency of private sector allocation of inputs. Whenever government spending helps to correct market failures, guarantee property rights and the enforcement of contracts, and provides essential public goods, then it's effect on private investment will be positive. On the other hand, government spending may distort private incentives if government involves in economic activities like manufacturing and commercial activities which private sector could profitably handles or government spending leads to high taxes and borrowing to finance it. If the financing of government investment projects bids up interest rates or reduce lendable funds available for private sector to borrow, private investment may be crowded-out. Conversely, if public capital formation and private capital formation are truly complementary, public investment may stimulate private entrepreneur's initiative and enhance private investment.

Ekpo (1995) examined the relationship between public expenditures and economic growth via links with private investment in Nigeria. The results indicated that public expenditures on transport, communication and agriculture crowd-in private investment while public spending on manufacturing and construction crowd-out private investment. Also, expenditure on education and health was found to have positive influence of private sector investment. Theoretically, there is inverse relationship between fiscal deficits and private investment. This link is anchored on the potential crowding-out effect of fiscal deficits, especially when financed through public sector borrowing from banking sector, as had been the case in Nigeria for some years. In a study on the relationship between government budget deficits and private investment in Nigeria, Ekpo (1999) found that budget deficits crowd-out private investment in Nigeria. Other available evidences point to the fact that budget deficits profile has been inhibiting the performance of the private sector as well as causing the near-extinction of real sector of the Nigerian economy (Ariyo and Raheem, 1991).

3. Issues on Private Investment in Nigeria

Nigerian economy is often described as a mixed economy. A mixed economy connotes a framework in which allocative mechanism in respect of what is to be saved, invested, produced and at what prices, is left to the forces of the market and not to any planning authority or government. The existence of the state is merely to buttress the mechanism and improve its efficiency (Aromoloran, 1998). It means that in a mixed economy, private sector should play the leading role while the public sector provides the enabling economic environment. According to Ekpo (2014), conducive economic environment could be created by the government through the formulation and implementation of appropriate, effective and sound macroeconomic policies and programmes which, among other things, will facilitate the availability of required resources, stimulate saving and investment, and ensure macroeconomic stability (low inflation rate, exchange rate stability and low interest rate) as well as the provision

of adequate infrastructural facilities in the economy.

During the colonial government era up to the Nigeria's First Development Plan of 1964, there was commitment to the promotion of private investment. The interventionist role of the colonial government in the local economy concentrated mostly in the provision of physical infrastructures such as ports, roads and railways, the enforcement of law and order, and access to credits which private enterprise development critically needs. For example, a state- owned financial enterprise, the Nigerian Local Development Board (NLDB) which was later transformed into the Federal Loans Board (FLB) on the suggestion of the World Bank Mission to Nigeria in 1953, was established in 1946 to organise credit for the private entrepreneurs; and by 1949, a total loans of £100,342, about 22.3% of the total loans approved by the board for the period 1946-49 were obtained by the private sector enterprises (Medupin, 1991). At Nigeria's independence, the nationalists who took over the management of the Nigerian economy from the colonialists had strong support for private sector development. This belief in private sector led economy was affirmed in the First National Development Plan thus: "it has always been the aim of government policy to stimulate the rigorous growth of the private sector" (Federal Republic of Nigeria, 1964:8). For this reason, inflow of foreign private capital was highly solicited and warmly received.

Following the relative non-performance of the private sector in general and the disappointing inflow of expected foreign capital during the First National Development Plan in particular, the need for greater public sector initiative and involvement in economic activities in Nigeria was spurred. From the 1970s through the early 1980s there was unprecedented increase in crude oil earnings and this became a great stimulus to public sector participation in the "commanding heights of the economy" and the establishment of many state owned enterprises. This shift in developmental paradigm was expressed as a quest for purposeful national development and as the basis for the promotion of public interests (Medupin, 1991). In the Second National Development plan of 1970-74, it was explained thus: "government cannot plan effectively what it does not control". In addition, the intervention of public sector in the Nigerian economy was seen as the outcome of long rooted belief that the private sector in developing countries, including Nigeria, lacked the means (financial and entrepreneurial skills) to undertake the task of development. Okonkwo (1986) affirmed this by stressing that among disincentives to economic development by indigenous private enterprises in Nigeria include the unwillingness shown by Nigerian businessmen to invest the available domestic capital in the productive enterprises, the lack of entrepreneurial ability, skilled labour and sound financial strength, and the habit of always expecting the government to provide everything. With unprecedented increase in government revenue caused by oil boom of the 1970s through the early 1980s, public sector moved in gradually and dominated the scene in Nigerian economy, with a small and weak private sector. The result of which was the preponderance of public investment and low level of private investment.

The quest for rapid economic development coupled with the existence of market failure and weak institutional arrangements in the domestic economy, and faith in Keynesian techniques of economic management propelled successive Nigerian governments to invest in almost all spheres of human endeavour, including areas traditionally reserved for the private sector. Ojo (1992) asserted that by the early 1980's public sector became the prime mover of economic activities through it's huge capital investments in social, physical and economic infrastructure. Public sector accounted for about 50% of GDP and 60% of employment in the modern sectors. Public sector out-stepped it's bound by encroaching even into area such as manufacturing and commercial activities which would have been profitably handled by private sector, given the enabling environment. By 1980, available data indicate that the Federal Government of Nigeria alone owned nearly 200 parastatals (with about 90 non-commercial and 110 commercial). Usman (1991) asserted that there was an unprecedented mushrooming of public enterprises in Nigeria such that by 1986 their number had grown to over 500, with government investment in them worth over N36 billion in the form of equity, loans guarantees and subventions, with less than 2.0% annual rate of returns.

The above scenario was inimical to private investment growth in Nigeria. It weakened private sector and diminished private investment. What was experienced in Nigeria tarried with Diamond (1989) assertion that any increase in government expenditure by increasing the share of productive resources used by the government, would slow economic growth in the economy as a whole and may impede the accumulation of human and physical capital and the pace of innovation in the private sector. Most of the public investment discouraged private sector initiative, in that, instead of boosting the expected rate of return on private investment, it imposed burdens on private sector. Some of the public investments were in the production of goods and services which competed with private sector production, and crushed actual private investment in the country. Private sector was forced into becoming an appendage of public sector and was fed by the public sector. Many operators in the private sector rely almost entirely on the government. Rather than work to generate real economic growth within the framework of a free enterprise system of economic management, most private enterprises in Nigeria depended on public resources and government patronage whereas their performances and activities have no value added whatsoever. A large part of what was perceived as private sector profits were essentially transfers, through various gimmicks, from the public sector organizations (Ajakaiye, 1998).

The expansive trend of public investment led to rapid increase in government expenditure and in most of the years, in excess of it's revenue. This together with other internal and external factors plunge Nigerian economy into serious and persistent economic crisis which manifested itself in different perspectives such as persistent macroeconomic imbalances, widening saving-investment gap, high rates of inflation, chronic balance of payment problems and huge budget deficits (Akpokodje, 1998), which further worsened the level of private investment. Most of the deficit spending was financed through domestic borrowing and this resulted in high interest rate and reduction in lendable fund available to private investors.

Following the domestic and global realities, a change emerged on the role of government in the development process leading to a growing recognition of private sector as the engine of sustainable growth and development. This change was prompted by evidences and data indicating high level of growth for economies with dominant private sector, and growing difficulties with government budget. In addition, changes in the international environment has also play significant role. Multinational and bilateral institutions have developed new initiatives with priorities for private sector development. In 1989, the International Finance Corporation, an affiliate of the World Bank established the African Enterprise Fund, and the US Overseas Private Investment Corporation launched the African growth fund. In 1991, the African Development Bank initiated a new strategy for direct financial assistance to private sector operations (Oshikoya, 1994; Obaseki and Onwioduokit, 1998). Nigeria was not left out in the wind of change. Of recent, there had been much yearning for greater participation of the private sector where prices and private entrepreneurial initiatives determine the direction and pattern of investment programmes. On this note, a package of economic reforms measures and other sectoral reforms have been introduced into the Nigerian economy. The policy thrust of the economic reform was downsizing of public sector, privatization of public enterprises and general deregulation of the economy to create more appropriate incentives and a framework for private sector development as the basis for achieving sustainable economic growth and development.

4. The Determinants of Private Investment: The Nigerian Experiences

Like other developing economies, many factors exert influence of different magnitude on private investment in Nigeria. The determinants of private investment in Nigeria are analyzed as follows:

Domestic 1nflation Rate: Inflation rate is an important determinant of private investment. Though moderate inflation is needed for business to strive profitably in a country, high and rising inflation rates is an indicator of macroeconomic instability and it affects private investment adversely. Oshikoya (1994) asserted that in developing countries, a high inflation rate has negative impact on private investment. By reducing the value of money, it discourages saving and lowers the economy's saving rate which accumulates investible funds for investment. Table 1 shows interest rates and inflation rates in Nigeria from 1970-2008. As shown in the table, for most of the years, inflation rates (INFR) were not only high but double digits. The inflation rate which reduced to 5.4% in 1986 rose to as high as 57.2% and 72.8% in 1993 and 1995 respectively before moderating at 29.4%, 20.2%, 17.9% in 1996, 2002 and 2005 respectively. From 1970 to 2006, except for a few years (1982, 1985, 1986, 1990, 1997, 1999, 2000 and 2006) there were double digits inflation in Nigeria. High inflation rate, especially two digits inflation rate which held sway in the Nigerian economy for many years, seriously disrupted economic and business relations in the country. It raises expectation of currency devaluation which heightens fears of rising costs of imported capital goods and raw materials. High inflation rate has been a serious disincentive to private investment in Nigeria as it exerts strong influence on real interest rate, cost of production, competitiveness of the Nigerian products as well as reduce the returns on private investment

Interest Rate: Interest rate has a wide range of effects on the economy in general and private investment in particular. It affects saving rate, volume of bank credit and the ability of private sector to borrow for investment purposes. In Nigeria, four categories of interest rate are identified, namely, rediscount rates (rechristened monetary policy rate (MPR) by the Central Bank of Nigeria in 2006), rates on government securities, deposit and lending rates. MPR is the rate which the Central Bank of Nigeria (CBN) charges other banks on loans. This rate is fixed and varies by the apex bank according to the direction it desires other interest rates (and consequently money supply) in the economy to follow. Government securities rates, comprising treasury bills rate, treasury certificates rate and government development stock rate, vary according to their maturity structures. Deposit rates are of two types – savings and time deposit rates. Time deposit rate depend on the maturity of the deposit, which ranges from seven (7) days to twelve (12) months. Lending rates are of two types – the minimum (prime) and the maximum lending rates. Table 2 shows interest rates in Nigeria between 1970 and 2006.

Table1: Nigeria: Interest Rates and Inflation Rates (1970 - 2006) (%)

Year	Minimum Lending Rate (rd)	Maximum Lending Rate (R)	Profit-Seeking (R-rd)	Saving Deposit Rate (S)	Saving/ Lending Rate Gap (R-S)	NIR	INFR	RIR
1970	7.0	8.0	1.0	3.0	5.0	8.0	13.8	-6.3
1975	6.0	9.0	3.0	4.0	5.0	9.0	33.9	-24.9
1980	7.50	9.50	2.0	6.0	3.50	9.5	9.9	-0.4
1981	7.75	10.0	2.25	6.0	4.0	10.0	20.0	-10.9
1982	10.25	11.75	1.50	7.50	4.25	11.8	7.7	4.1
1983	10.0	11.50	1.50	7.50	4.0	11.5	23.2	-11.7
1984	12.50	13.00	0.50	9.50	3.50	13.0	39.6	-26.6
1985	9.25	11.75	2.50	9.50	2.25	11.8	5.5	6.3
1986	10.50	12.00	1.50	9.50	2.50	12.0	5.4	6.6
1987	17.50	19.20	1.70	14.00	5.20	19.2	10.2	9.0
1988	16.50	17.60	1.10	14.50	3.10	17.6	38.3	-20.7
1989	26.80	24.60	-2.20	16.40	8.20	24.6	40.9	-16.3
1990	25.50	27.70	2.20	18.80	8.90	27.7	7.5	13.2
1991	20.01	20.80	0.79	14.29	6.51	20.8	13.0	7.8
1992	29.80	31.20	1.40	16.10	15.10	31.2	44.5	-13.5
1993	18.32	36.09	17.77	16.66	19.43	18.3	57.2	-38.8
1994	21.00	21.00	0.00	13.50	7.50	21.0	57.0	-36.0
1995	20.18	20.79	0.61	12.61	8.18	20.8	72.8	-52.0
1996	19.74	20.86	1.12	11.69	9.17	20.9	29.4	-8.44
1997	13.54	23.32	9.78	4.80	18.52	20.9	8.5	-12.4
1998	18.29	21.34	3.05	5.49	15.85	21.8	10.0	11.0
1999	21.32	27.19	5.87	5.33	21.86	27.2	6.6	20.6
2000	17.98	21.55	3.55	5.29	16.26	30.0	6.9	23.1
2001	18.29	21.34	3.05	5.49	15.85	24.0	18.9	5.1
2002	24.85	30.19	5.34	4.15	26.04	24.0	20.2	3.8
2003	20.71	22.88	2.17	4.11	18.77	-	14.0	-
2004	19.18	20.82	1.64	4.19	16.63	-	15.0	-
2005	17.95	19.43	1.48	3.83	15.60	-	17.9	-
2006	16.89	18.41	1.52	3.13	15.28	-	8.2	-

Sources: (1) CBN, Statistical Bulletin (various issues)
(2) CBN, Annual Report and Statement of Accounts (various issues)
(3) Authour's Calculation.

From the table, it is observed that the lending rates to productive sector of the economy had been very high. Banks paid low deposit rates, borrowed from the Central Bank of Nigeria at low rates and lend out to the productive sector at a very high lending rates. For instance, in the year, 2000, MPR was 15.5 % and deposit rate was 5.0% whereas the lending rate was 30%. The low deposit rates did not encourage saving for capital accumulation in the economy and the high lending rates deterred private sector from borrowing for investment purposes.

Availability of and access to Bank Credits: Bank credit is the most important source of investment financing among private enterprises in developing countries, Nigeria inclusive. The volume of and access to bank credit available for private sector borrowers have direct influence on private investment activity. As shown in Table 2, during the controlled monetary policy period (1960-1986), up to 1982 greater percentage of credit to the economy went to private sector. The portion of total credit in the economy allocated to private sector was 66.7% in 1980, 59.7% in 1981 and 52.1% in 1982. Afterward credit to private sector of the Nigerian economy shrunk. It reduced to 28.9% in 1986 and 34.0 in 1993. The availability of bank credit for private investment and access to available bank credit by private sector operators in Nigeria had been greatly constrained by credit to the government and high interest rate prevalence during market-based monetary policy regime. However, available data show improvement in credit to private sector from 1996 and has been sustained during democratic government era which started in 1999.

Foreign Exchange Availability and Rate: In most developing economies, Nigeria inclusive, the consumption pattern and productive system are highly import-dependent. The capital goods such as plants, machinery and equipment, spare parts and raw materials used by industrial sector are imported and foreign exchange is needed to

acquire them. Hence, there is a strong relationship between foreign exchange availability and foreign exchange rate and private investment in developing countries. High foreign exchange rate increases the cost of the imported inputs of production. This in turn increases the cost of production, reduces the returns to the investors as well as the competitiveness of the product in both domestic and foreign markets through high prices. In Nigeria, from 1970 to 1985, non-market regime monetary policy was in operation and foreign exchange rates were fixed by the government. The exchange rate, which prevailed in Nigeria then, was relatively low. As shown in Table 2, up to 1985 less than N1.00 was exchanged for $1.00. Foreign exchange rate did not posed a problem to private investment rather the challenge was mostly that of obtaining import licence. Following the deregulation of the Nigerian economy from 1986, the forces of demand and supply became the determinants of foreign exchange rate. Because domestic consumption and production have been highly import-dependent, there had been pressure on foreign exchange demand which had continued to lead to depreciation of the naira. As shown in Table 2, there had been a dramatic increase in exchange rate over the years. The exchange rate which stood at N2.02 to US$1.00 in 1986 maintained a downward trend to N84.00 and N136.80 to US$1.00 in 1997 and 2004 respectively. In 2005 and 2006, the exchange rates were N142.56 and N137.10 respectively. The effect had been persistence high prices of imported inputs in terms of naira and high cost of domestic production. Consequently, this is transmitted to the whole economy in the form of high prices of goods and services, non-competitiveness of Nigeria's goods in both domestic and international markets and very low return on private investment.

Table 2: Nigeria: Selected Macroeconomic Policy Variables and Performance Indicators (1970 - 2005)(%)

Year	Y	I	I/GDP	CrdPu	CrdPr	Def/GDP	Dd/GDP	Ed/GDP	EXCR (N)	M2
1970	5.7	46,1	18.0	-	-	14.7	-	-	0.71	42.9
1975	6.0	55.5	25.2	-	-	18.1	-	-	0.64	73.5
1980	5.5	19.1	22.2	33.3	66.7	23.3	16.2	3.7	0.60	46.1
1981	-0.8	6.8	23.2	40.3	59.7	27.7	22.1	4.6	0.55	8.0
1982	-2.5	-25.9	20.0	47.9	52.1	3.6	29.0	17.1	0.61	8.7
1983	-7.1	-26.2	14.6	57.3	42.7	9.3	38.9	18.5	0.67	14.7
1984	-1.1	-57.9	9.5	59.7	40.3	7.4	40.4	23.3	0.72	11.5
1985	9.5	31.2	8.9	59.0	41.0	7.2	38.6	23.9	0.98	12.4
1986	3.0	14.3	14.9	78.1	28.9	12.2	38.9	56.7	2.02	4.23
1987	-0.6	-25.0	13.7	50.4	49.6	5.5	33.8	92.6	4.02	22.9
1988	10.0	-13.9	13.5	53.5	40.5	8.4	32.4	92.4	4.54	35.0
1989	7.3	35.5	14.1	12.0	98.0	6.7	20.9	106.9	7.39	3.54
1990	13.0	35.7	14.5	39.1	60.9	8.5	32.3	114.6	8.04	45.9
1991	-0.8	3.5	16.5	48.5	51.5	11.0	35.9	101.2	9.91	27.4
1992	2.3	-5.1	16.4	53.3	46.7	7.2	29.4	99.0	17.30	47.5
1993	1.3	17.9	13.6	66.0	34.0	15.3	37.5	90.8	22.05	54.0
1994	0.2	-10.6	4.2	65.6	34.4	2.7	37.3	70.9	21.89	34.5
1995	2.2	5.1	5.1	55.4	44.6	0.7	17.2	36.2	81.15	19.5
1996	3.4	-11.3	5.2	29.8	70.2	0.8	12.2	21.9	81.20	16.2
1997	3.8	-6.1	5.4	12.7	87.3	-0.1	12.5	21.0	84.00	16.0
1998	2.4	-8.9	5.3	27.3	72.7	-3.3	19.4	22.9	93.95	22.3
1999	2.6	53.0	23.4	28.0	72.0	-5.9	22.9	80.7	93.95	33.1
2000	3.8	38.3	20.3	-26.3	126.3	-1.5	18.6	64.0	102.10	48.1
2001	3.9	17.8	24.1	-0.71	100.7	3.1	18.5	59.1	111.20	27.0
2002	3.3	-2.0	26.2	28.1	71.9	3.8	14.9	50.4	120.97	21.6
2003	10.2	6.5	22.3	32.8	67.2	2.0	13.4	45.2	129.36	24.1
2004	6.5	10.0	22.3	24.0	76.0	1.5	12.0	42.8	133.50	14.0
2005	6.2	0.32	21.3	13.2	86.8	1.1	10,4	18.4	132.15	24.4
2006	6.0	92.2	8.3	7.88	92.12	0.6	9.44	2,43	128.65	43.09

Notes: Y= GDP Growth Rate; I = Gross Investment Growth rate; I/GDP = Gross Investment/ GDP; CrdPu = Credits to Public Sector; CrdPr = Credits to Private Sector; Def/GDP = Overall Deficit/Surplus/GDP; Dd/GDP = Domestic Debt/GDP; Ed/GDP = External Debt/GDP; EXCR = Exchange Rate (₦/$); M_2 = Growth Rate of Broad Money. **Sources: (1)** CBN's Statistical Bulletin (various issues) (2) CBN's: Annual Report and Statement of Accounts (various issues) (3) Author's Calculation.

Fiscal Deficits: Fiscal deficit, no matter how it is financed, is likely to have negative impacts on private investment. Fiscal deficit financing can be through money financing, domestic debt financing and external debt financing. Money financing of fiscal deficits leads to higher rate of inflation which have been found to have adverse effect on private investment in developing countries, Nigeria inclusive. Fiscal deficit financed through domestic

borrowing leads to higher interest rates and reduction in loanable funds available for private sector borrowers. Higher interest rates have a negative effect on private investment because it raises the cost of capital and discourage borrowing for investment purposes. Financing fiscal deficit through external borrowing may spill over into external account deficits leading to depreciation of the real exchange rate, balance of payment crisis or external debt crisis. Following the outrageous expansion of Nigerian's government fiscal operations coupled with a large reduction in the revenue base of the government as a result of drastic fall in the crude oil prices in the international market in 1980s, the Nigerian economy witnessed prolonged deficits spending which in some years were excessive. Except for few years, between 1970 and 2008, deficit financing almost became a pattern in Nigeria. As shown in Table 2, in most of the years, the fiscal deficit/GDP ratios were double digits. In the years, 1975, 1980, 1981 and 1993, the fiscal deficit/GDP ratios were 18.1%, 23.3%, 27.7% and 15.5% respectively. Also the budget deficit/total expenditure ratios were double digits in most of the years. It rose as high as 53.7% and 56.3% in 1991 and 1993 respectively (Ekpo, 2011). It has also been observed that deficit spending in Nigeria was prolonged, excessive and were not expended on self-sustaining projects/programmes or on the provision of infrastructural facilities which could have reduce the cost of production and enhance private sector output and profitability of investment in the country (Ekpo, 2014).

Deficit spending in Nigeria impeded private investment both through the way it was expended and how it was financed. The major sources of financing the deficit spending were domestic and external borrowing. The bulk of domestic borrowing was obtained from the banking sector. For example, the banking sector accounted for as high as about 87.1% and 93.05% of the total deficit spending in 1971 and 1975 respectively. Between 1981 and 1990, an average of about 60.7% of the total deficit spending was financed by the banking sector and for periods, 1991 to 1998 the banking sector financed an average of 94.4% of the total deficit spending. Deficit financing through banking system adversely affected private investment in the country through high interest rate, high inflation rate and reduction in loanable fund available for private sector borrowers for investment purposes. External loans were obtained from euro-capital market and from consortia of international bankers at exorbitant interest charges to finance the deficit spending. The inability to repay the loans at maturity together with service payments snowballed into a very huge debt which eventually plunged Nigeria into an unprecedented external debt trap. Nigeria's outstanding foreign debt which stood at US$ 28,316.0 million in 1987, rose to as high as US$ 35,944.7 million in 2005.

External Debt Burden: External debt burden is measured by debt service ratio to export receipts, the ratio of external debt to export receipts and the ratio of external debt to GDP. According to Onoh (2013), the debt service ratio to export is the ratio of debt service payment due for a given year to the export earnings of the same year. Debt service payment of a given year is the sum of the matured principal plus the accrued interest due. For economy of the debtor country to be sustainable, the World Bank recommended a maximum debt-service ratio of 10% for public debt. Nigeria's debt-service ratios, as shown in Table 2, for most of the years in the period, 1983 to 2005, exceeded the recommended 10%. In the years 1984, 1985, 1986, 1988, 1991 and 1992, Nigeria's debt-service ratios were almost treble of the 10% maximum recommended by the World Bank. The ratio of debt stock to export measures the outstanding debt stock of a given year as a percentage of export receipts of the same year whereas the ratio of external debt to GDP measures the percentage of debt stock to GDP. From the year 1983 through 2005, the outstanding debt stock in each of the years exceeded export proceeds of the same year several times. In the same vein, the ratio of debt stock to GDP was significantly high. For the years, 1987 through 1991, the debt stock in each of the years was far above the GDP values. The implication is that if Nigeria's export receipts for each year in the period, 1983-2005, or the GDP value for each year in the period, 1987- 1991, were to be applied in full to retire the outstanding debt stock of the same year in question, then the export proceeds or the GDP will be grossly inadequate. Indeed, Nigeria's external debt burden was large. It created uncertainty in the macroeconomic environment which affected private investment in many ways. The funds available for investment were greatly reduced because of high debt service payment. A higher ratio of external debt to GDP shows that Nigeria had a large debt "overhang". This discouraged private investment (domestic and foreign) because a reasonable proportion of returns from investment which could have been retained in the country were allocated for repayment of debt obligations. Also, as Nigeria incurred a high debt such that there was difficulty in servicing the debt, its relationship with external creditors was unhealthy. Consequently, inflow of further foreign capital from international capital market into Nigeria was greatly constrained.

Public Investment Rates: Public investment rate is measured as the ratio of domestic public investment expenditure to GDP. The effect of domestic public investment on private investment is ambiguous. It depends on the composition of public investment and whether it complements or substitutes for private investment. If public investment concentrates on activities that substitute directly for private investment, public investment crowds-out private investment. The higher the complementarily of public and private investment, the more likely that public investment will have a net positive effect on private investment. It follows that if domestic public investment is mainly on basic infrastructure such as electricity, transportation, education, health care services, water supply and sewage disposal, public investment may complement and foster private investment initiatives. These types of

projects tend to reduce the cost of production, enhance private sector output, boost the expected rate of return and encourage more private investment. On the other hand, domestic public investment has the ability to diminish or crowds-out private investment if it imposes excessive burdens on private sector through high and multiple taxes. Public investment can also impinge on private investment through high interest rates and reduction in loanable fund available for private sector borrowers caused by excessive domestic borrowing by the government to finance heavy government spending on public sector capital projects, especially when private entrepreneurs would want to raise some of their working capital from the domestic banking system. Table 3 (A, B, C and D) shows public and private investment rates in Nigeria between 1973 and 2005. The available data show that for most of the years, public investment rates exceeded private investment rates. For instance, from 1974 to 1994, the ratios of public investment expenditure to GDP were higher than the ratio of private investment expenditure to GDP. From 1999 to 2005, though public investment rates were still significant compared to private investment rates in those years, the ratios of the private investment rates were higher.

Table3 A: Investment / GDP Ratio (%) in Nigeria (1973 - 2005)

Year	1973	1974	1975	1976	1977	1978	1979	1980	1981
Public	7.8	10.0	18.2	24.3	18.4	16.8	14.1	15.4	16.8
Private	14.6	7.0	7.0	7.1	9.9	10.8	8.0	6.8	6.5
Total	22.4	17.0	25.2	31.5	28.3	27.6	22.1	22.2	23.3

Source: (1) Ariyo, A. (1998). (2) The World Bank (2007)

Table3 B: Investment / GDP Ratio (%) in Nigeria (1973- 2005)

Year	1982	1983	1984	1985	1986	1987	1988	1989	1990
Public	13.9	10.5	7.2	6.9	11.6	9.8	9.4	9.7	8.4
Private	6.1	4.2	2.3	2.0	3.3	3.9	4.1	4.4	6.1
Total	20.0	14.7	9.5	8.9	14.9	13.7	13.5	14.1	14.5

Source: (1) Ariyo, A. (1998). (2) The World Bank (2007)

Table 3C: Investment / GDP Ratio (%) in Nigeria (1973-2005)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
Public	6..1	10.3	11.8	13.3	-	-	-	-	10.4
Private	8.4	6.0	4.6	0.3	-	-	-	-	13.0
Total	14.5	16.3	16.4	13.6	-	-	-	-	23.4

Source: (1) Ariyo, A. (1998). (2) The World Bank (2007)

Table 3D: Investment / GDP Ratio (%) in Nigeria (1973-2005)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Public	9.6	13.8	10.0	9.7	9.1	9.3	-	-	-
Private	10.7	10.3	16.2	14.2	13.2	12.0	-	-	-
Total	20.3	24.1	26.2	23.9	22.3	21.3	-	-	-

Source: (1) Ariyo, A. (1998). (2) The World Bank (2007)

Poor Provision of Public Infrastructure: Business enterprises thrive well in an environment where there are basic infrastructural facilities like good road network, functional port services and railway system, adequate and reliable electricity supply, telecommunication services and water supply, among others. Hence, **s**ufficient and efficient provision of critical **i**nfrastructure is quintessential for private investment growth. Available data show that Nigeria lags behind the average on almost all major infrastructure measures. In addition, the quality of service is low, supplies are unreliable, and disruptions are frequent and unpredictable. For example, it has been observed that for over three decade, Nigeria's electric power sector was ineffective and inefficient in the generation, transmission and distribution of adequate electricity to meet the minimum country's requirement; leading to a wide gap between the demand for and the supply of electricity (Ekpo and Adaowo, 2012). Poor and erratic public provision of infrastructures makes private investment in Nigeria costly and highly unprofitable because firms have to accommodate these through private provisions. It has become a custom for any firm that wants to operate in Nigeria to make private arrangement for their social and economic infrastructural needs. Over 90% of firms in Nigeria have to provide their own electricity generators, dig boreholes for water supply and construct access roads to their sites. These, coupled with the hostility of some communities highly discourage private investors from investing in Nigeria.

Level of Per Capita Income: A higher level of per capita income would lead to a higher private investment. Nigeria, as a country, is rich in abundance natural, economic and human resources but mismanagement of these resources, selfish personal interest and lack of purposeful leadership by successive government, over the years, has perpetuated poverty on Nigerians resulting in low per capita income. During the past three decades the country has earned over US$300 billion from crude oil alone but Nigeria's basic social indicators place her as one of the 25 poorest countries in the world (Omojolaibi, 2012). In Africa Development Indicators (2007), Nigeria is categorised as a low income country. The per capita income had been below $1,000. The gross national income

per capita which was $810 in 1980 reduced to and stagnated at $280 in 1990, 1999 and 2000. It gradually rose to $560 in 2005. This explains why there is low private investment in Nigeria.

The Size and Growth of Market: This is determined by the size of the population of the country and domestic demand in the economy occasioned by the income of the citizens. It has been argued that private investment (domestic and foreign) will flourish in a country where the population size is large and domestic demand (or the market size) is large enough to permit economies of scale. Nigeria is a country with a large and rapid rate of population growth. The population of Nigeria in 1973 and 1991 were estimated at 79.76 million and 88.514 million respectively. In the year 2000 and 2004, the populations were estimated at 126.9 million and 128.71 million respectively. The official growth rates were given as 2.5% and 2.9% per annum though private estimates suggested higher rates of growth of between 2.48% and 3.5% per annum (Onokerhoraye, 2002). The population of Nigeria in 2006, 2007, 2008 and 2009 were 140.0 million, 144.5 million, 149.1 million and 153.9 million respectively. The population growth rates are given as 2.9%, 3.2%, 3.2% and 3.2% respectively. The market size of Nigeria, in terms of population size and growth rate, is quite above average and ought to have been a booster to private investment growth. However, in a situation where the population of a country is high but domestic demand is low occasioned by low income of the citizens and high unemployment rate as it is the case in Nigeria, private investment may not really flourish. As earlier stated above, Nigeria is a low income country. The per capita income had been below $1,000.

Political and Economic Stability: Private investors will be attracted to a nation where there is political and economic stability. In fact, a stable political system accompanied by consistent economic policies is not just a requirement but also a necessary condition for private investment to thrive in an economy. It is important to note that civil strife, political conflict and macroeconomic instability does not ensure a favourable investment environment. Investors (domestic and foreign) want a safe haven for their investment. They take into consideration the loss of their capital assets on account of damage to property due to civil unrest, political conflict and intertribal or community wars. In a country where socio-political and economic environment is highly volatile, investors may not invest and may wait until adequate incentives are provided to compensate for any risks/uncertainties associated with any commitment to long-term investment. Sometimes they might decide only to undertake investments with self-insurance character, i.e. investments whose cycles are very short and can easily be undone.

Civil strife, political/religious and inter-tribal or community conflicts and macroeconomic instability are common occurrence in Nigeria. The Central Bank of Nigeria Periodic Report confirmed that in Nigeria, the inflow of foreign private investment had been constrained by macroeconomic and political instability and unconducive social environment. For instance, during the 1993/94 civil strife caused by the annulment of the “June 12 presidential election”, the Nigerian economy experienced capital flight as most foreign and domestic investors shut their business. Banks and Insurance companies experienced mass withdrawals and series of claims. This may be one the reasons for stauted growth of private investment in Nigeria as well as why many investors in Nigeria are in trading (wholesale and retail) business rather than production sector like industrial and agricultural sectors

Investment Climate: Among the conditions considered to be necessary foundations for investment growth include a minimal degree of social stability, a minimal degree of macroeconomic stability, and a minimal degree of allocative efficiency (i.e. resources allocation) (Soludo, 1998). Private investment would not strive well in a country where there is social disorder, macroeconomic instability, political unrest or inefficient resources allocation. A situation where some of these constraints exist simultaneously will greatly deter private investment. In Nigeria, political instability, social disorder and macroeconomic instability had existed together. In the several years of military dictatorship rule in Nigeria (between 1966-1979 and 1983-1999}, there was serious political instability in the country characterised with coups and counter-coups, frequent and sudden policy reversals, and social disorder. In addition, the mayhem created by the activities of ethinic militia like the Niger Delta Militants, Oduduwa People’s Congress, Bakassi Boys in the 1990s and of recent, the terrorist group called Boko Haram have seriously disrupted peace in the country. It has created unfriendly environment and a hostile and risky investment climate for private investment in Nigeria.

Institutional factors: Institutional factors such as corruption, bureaucratic red tapes, weak judicial system and unnecessary government interference in business affect private investment (Soludo, 1998). All these factors increase the operational cost of business, engender insecurity, encourage capital flight and deter private investment. For instance, corruption is a high tax on investment. It increases transaction costs of business and engenders uncertainty. Corruption had been an endemic problem in Nigeria. It has been a nom for investors to bribe their ways through in everything as well as go through unnecessary rigorous and complicated procedures and red tapes of paper work to register companies, import capital inputs and clear same. However, in recent times the civilian government has made some franctic effort to curb some of these institutional problems. Among the steps taken include establishment of one-stop-shop-centre at Federal Ministry of Trade and Industry to hasten the processing of application for entry into Nigeria by prospective foreign investors and registration and establishment of businesses, series of Port reforms and Banking sector reforms carried out by the government.

5.0 Conclusion and Recommendations

This paper examines issues on and determinants of private investment in Nigeria. It has been established that from the colonial government era up to the Nigeria's First Development Plan of 1964, there was commitment to the promotion of private investment. The interventionist role of the government concentrated mostly in the provision of physical infrastructures such as ports, roads and railways, the enforcement of law and order, and access to credits which private enterprise development critically needs. The relative non-performance of the private sector in general and the disappointing inflow of expected foreign capital during the First National Development Plan in particular, spurred the need for greater public sector initiative and involvement in economic activities in Nigeria. The unprecedented increase in crude oil earnings from the 1970s through the early 1980s accentuated public sector participation in the "commanding heights of the economy" and the establishment of many state owned enterprises. This shift in developmental paradigm was expressed as a quest for purposeful national development and as the basis for the promotion of public interests. Gradually, public sector moved in and dominated the scene in the Nigerian economy, with a small and weak private sector resulting in the preponderance of public investment and low level of private investment. With the wind of global change in the role of the government in economic development process blowing into Nigeria and domestic realities where the government could not adequately funded the public enterprises following dwindling government revenue caused by a fall in crude oil prices in international market, it became necessary to return Nigerian economy to private sector driven economy and stimulate private investment. In pursuit of this, many economic policies such as privatization, commercialization and deregulation, as well as sectoral reforms aimed at restructuring the economy, down-sizing the government and enhance private investment had been formulated and implemented. So far, the result has not been impressive. The level of private investment is not relatively low due to adverse impacts exerted by most of the determinants of private investment and private sector is small. The determinants of private investment in Nigeria identified in this work include domestic inflation rate, availability and access to bank credit, interest rate, fiscal deficits and external debt burden. Others determinants are public investment rate, poor provision of infrastructure, low per capita income, size and growth rate of market, political and economic stability, investment climate and institutional factors.

Notwithstanding the low level of private investment prevalence in the past three decade, there is prospect for high level of private investment in Nigeria. It is the conviction of the writer that Nigeria has the potential to become a strong private sector driven economy like China, Japan and United State of America. To fast-track this and make it a reality, the following recommendations are made. The banking sector should ensure proper mobilization of investible fund in the economy through high saving deposits rates and accessibility of such fund by private investors through low lending rate. The Minimum Rediscounting Rate (rechristened Monetary Policy Rate (henceforth MPR) by the Central Bank of Nigeria in 2006), which is under the perpetual grip of the Central Bank of Nigeria, has the capacity to influence other rates of interest in the economy, hence should used adequately. The Commercial Banks should desist from its exploitative tendencies of paying low saving rate on saving deposits and low MPR to the Central Bank but charge high lending rate on loans offered to private investors. Excessive deficit financing should be avoided and government borrowing from the banking sector should be drastically reduced. The structure of public expenditure should emphasized development oriented capital expenditure as this is classified as productive expenditure and represents investment in private sector production. Hence, public investment should concentrate on the provision of critical economic and social infrastructure like road, electricity supply, water supply, education and health services which enter private sector production directly, reduce production cost, enhance productivity, products competiveness, profitability and consequently boost private investment. There should be creditability, transparency and accountability in the privatization of public enterprises in Nigeria and privatised enterprises should be sold to genuine and serious investors capable of reviving the enterprises and make them functional.

Internal security, political stability and good governance are strongly recommended as there is a strong tie between internal security, political stability and economic stability. The political instability and continuous internal insecurity experienced for many years in Nigeria resulted in series of crises which created unconducive and unstable investment climate in the country. It resulted in increased wave of insecurity to lives, property and investment. The frequent changes of government through coups and counter coups in Nigeria did not encouraged private investment as they were followed by suspension of existing economic policies and formulation of new policies which crippled plans and projection of investors. Democratic government should be sustained in Nigeria. Democratic governance is seen as a pre-condition for good governance which promotes investment, economic growth and development. The government should perform its constitutional mandate of protecting life and property in the country by providing adequate internal security and curb all forms of insecurity in the country. Considering the instability in crude oil prices in international markets, in order to raise the required foreign exchange to meet the need of the economy, drastic steps should be taken to diversify the Nigerian economy to make it more export-oriented. This will take care of balance of payment deficit, ensure availability of foreign exchange and put downward pressure on foreign exchange rate.

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