“What role does private sector development play in Nigeria’s economic growth?”

AUTHORS	Bosede Awoyemi John Awoyemi Oluwole Aiyegbusi

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Bosede Awoyemi (Nigeria), **John Awoyemi** (Nigeria), **Oluwole Aiyegbusi** (Nigeria)

WHAT ROLE DOES PRIVATE SECTOR DEVELOPMENT PLAY IN NIGERIA'S ECONOMIC GROWTH?

Abstract

Many studies have concluded that private sector development encourages economic growth due to many public enterprises' poor performance and technological deficiencies. However, other studies have noted that private sector development would lead to the misuse of monopoly power. Since the advocacy is from two different perspectives, there is a need to investigate further the impact of private sector development on the country's economy. The bounds cointegration test examined the long-term relationship between privatization and GDP growth. The long- and short-term connections between private sector development and GDP growth were studied using an Auto-Regressive Distributed Lag (ARDL) model. As a result, economic growth was found to be highly influenced by gross capital formation and market capitalization of domestic listed enterprises as a share of GDP, according to the ARDL estimates in the short term. In addition, the periods after privatization increase growth by about 0.23% in the short run and by 3.87% in the long run, at a 1% significance level. At a 1% significance level, gross capital formation and market capitalization of domestic listed enterprises as a share of GDP positively affected economic growth in the long term. This led to the conclusion that private sector development positively influences Nigerian economic growth in both the long- and short-term. This study recommends policy changes such as raising domestic investment and promoting privatization, capital market development, and financial institution development. This will stimulate private sector development and have a favorable impact on economic growth.

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Bosede Awoyemi, Ph.D., Associate Professor, College of Social Sciences, Department of Economics, Afe Babalola University of Ado-Ekiti, Nigeria. (Corresponding author)

John Awoyemi, Lecturer, Department of Computer Science, Federal University Oye-Ekiti (FUOYE), Nigeria.

Oluwole Aiyegbusi, Ph.D., Associate Professor, College of Social Sciences, Department of Economics, Afe Babalola University of Ado-Ekiti, Nigeria.

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INTRODUCTION

Fostering the growth of the private sector is essential for any country's economic development, but especially for low-income nations like Nigeria (Oyediran et al., 2017). As a result of fundamental economic issues like an excessive bureaucratic tailback, insufficient funding, poor technology, vast corruption, terrible misconduct, and nepotism, the incapacity of public enterprises has ballooned to an unacceptable level in some countries. As a result, the government could not offer basic social amenities, there was widespread unemployment, and the inflation rate became quite high. As a result, the International Monetary Fund (IMF) and the World Bank recommended that the countries pursue the private sector's development through the privatization of some of their public enterprises to alleviate these issues. The privatization process often entails less government involvement in business activities. Any significant transaction that results in lessening governmental ownership of ultimate corporate entities is considered privatization by the Organization for Economic Cooperation and Development (OECD, 2009). According to this definition, privatization is the sale of assets rather than the outsourcing of functions.

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Many public enterprises in Nigeria are afflicted with inefficiency, persistent corruption, and poor operation due to their bureaucratic structure and the perception that they are government-owned. Lack of transparency, inconsistency, ineffectiveness, and inadequate proper monitoring are other problems facing public-owned enterprise. These factors account for the poor results of public enterprises, leading some studies to conclude that saving money and increasing government revenue could be achieved through privatizing or otherwise dissolving ineffective public firms. Privatization of public corporations like Nigerian Telecommunication (NITEL) and Nigeria Railway was widespread after the country adopted the IMF's Structural Adjustment Program (Stephen et al., 2016). Many public firms were either equipped with substandard or ineffective machinery, as shown by Ogohi (2014), Obadan (2010), Al-Otaibi (2006), and Afolabi (2004). Thus, their continued poor performance leaves no option but to privatize them. As stated by Nwoye (2011 cited in Stephen et al., 2016), privatization of public businesses will enhance access to capital and technology in sectors where private investment has been low. It will also increase capital accumulation, stimulate the production of basic goods at minimum costs, generate jobs, attract foreign direct investment, and promote the country's overall economic development.

1. LITERATURE REVIEW

Privatization is often credited with boosting creativity and productivity by attracting private investors who can fund the purchase of cutting-edge machinery and tools. It allows the business organizations to grow into large-scale domestic businesses and have foreign alliances, increase the efficiency with which industrial plant is used, improve the quality of products and services produced, and implement new management methods and teams. The strongest argument in favor of privatization rests on the fact that private enterprises have a financial incentive to increase efficiency and reduce costs. A private business is incentivized to maximize profits at the expense of other considerations. While many public enterprises have become increasingly ineffective, the principle of efficiency management underpins privatization (Gberevbie et al., 2015). Privatizing public enterprises, according to Estrin and Pelletier (2018), Abdullahi (2014), and Godwin and Dagogo (2011), will eliminate nepotism, monopoly power abuse, mismanagement of funds, and corruption while fostering capital accumulation. When public funds are no longer available, privatization allows for mobilizing private resources to fund projects. The goal of privatization is to reduce the burden on the government's finances caused by debt service, subsidies, and amortization.

Public enterprises are often inefficient because they are driven more by political demands than economic and business reasons. They often employ many unneeded employees, increasing inefficiencies, and may be hesitant to lay off people due to the negative publicity that comes with job losses. In contrast to private enterprises, which frequently face pressure from shareholders to perform efficiently, public enterprises face no pressure, making it easier for them to be inefficient. If the enterprise is inefficient, it may be subject to a takeover. Privatization of public enterprises frequently occurs concurrently with deregulation, a policy that allows more businesses to join the industry and increases competition. Increased competition is what drives efficiency improvements. The privatization of the National Electric Power Authority (NEPA), for example, has improved competition in Nigeria's telecommunications and energy sectors. However, this is a one-time benefit. It also entails the government preceding future dividends from public company profits.

Contrary to the advantages of privatization, healthcare, schools, and transportation service are just a few examples of industries that deliver essential public amenities but are not suitable for privatization. The industries in these areas should not prioritize profit. For example, it is worried that if healthcare were privatized, profits would be prioritized before people's health. In addition, in the health sector, where doctors are not likely to work harder for a bonus, the profit motive is not expected to raise the quality. Privatizing utilities like water and rail leads to the creation of private monopolies. Therefore, government regulation is essential to forestall the abuse of monopolistic power. When businesses are privately owned, they may prioritize short-term earnings over long-term investments to appease their shareholders. Privatization often leads to de-industrialization in some developing nations as it leads to a systematic deterioration in the number of job opportunities available in the industrial sector (Nwachukwu & Eme, 2015).

The private sector is anticipated to adopt a more proactive approach to improving people's quality of life and creating productive jobs, adding to the expansion of an economy's production frontier. This could be achieved by utilizing opportunities for swift and sustainable growth of a diverse economy, including a contemporary agricultural sector, an export-driven industrial sector, and an effective and competitive services sector that uses the nation's comparative advantages (Iwara, 2007). Agribusiness, for example, is a sector in which development gains can be made, and the poorest households can enjoy greater access to information, equipment, and cutting-edge agricultural technology. In addition, the wide range of crops that can be planted in Nigeria due to the country's excellent climate. Plenty of arable lands provides substantial opportunities for private sector investment.

Nigeria's mining industry is growing. With over 40 mineral reserves, including gold, coal, gypsum, and clay, the industry has the potential to generate huge revenue and jobs after implementing reforms and improving infrastructure. As shown by Muhamad et al. (2020), rents from natural resources can boost private sector growth since countries with natural resources adjust more quickly than those without. The extractive and manufacturing prospects could be exploited by establishing fully functional free trade zones (FTZs). In addition, chemical and building industries may all play a role in employment opportunities. The growth of Nigeria's private sector can be aided by the efforts of entrepreneurs and the success of small and medium-sized businesses (Okoi et al., 2022). Government industrial policy reforms should also encourage and facilitate fresh capital investment in high-quality domestic production (Azubuike, 2020). With suitable policies in place, Nigeria can develop its burgeoning hi-technology and digital economy, encourage entrepreneurship, and draw investment in vital sectors (Azubuike, 2020).

Private sector development aims to position the country for strong economic growth by fostering broader private-sector-led growth that creates jobs while reducing poverty and inequality. However, many challenges continue to stymie the private sector's vibrancy and conduciveness, which are required to propel economic growth. One of these issues is need for more funding. There is inadequate access to funds in the capital and money markets, and the banking financial institutions frequently do not respond favorably owing to the private sector's financial problems. Nigeria has a large informal business sector with lower start-up costs and less investment capacity. As noted by Osemeke (2011) and Afolabi (2004), private enterprises have been harmed by multiple taxes and fees, high equipment and working capital costs, and inadequate and deteriorating infrastructure support, such as electricity and water, and transportation. In addition, there is an over-reliance on imports, poor management practices, and a lack of entrepreneurial skills. According to IFC (Azubuike, 2020), the private sector often faces persistent challenges such as inadequate infrastructures, exchange rate fluctuation and high inflation rate, income inequality, and excessive reliance on raw material imports and exports, such as crude oil.

From a theoretical standpoint, the theory of property rights offered a framework for comprehending how privatization affects economic growth. Increases in GDP per person over time have traditionally been linked to increases in capital, labor, and technology (Williams et al., 2009). The fundamental factors that influence these variables include, among others, the institutional environment, degree of integration with the worldwide economy, and macroeconomic stability (World Bank, 2005). Property rights are one type of economic institution, and Rodrik (2007) found that institutions have indeed been significant growth predictors since the 1990s. More recently, the usefulness of property rights as a core component of institutions fostering growth has been emphasized (Besley & Ghatak, 2010), as well as the state's role in standardizing and safeguarding such rights (Acemoglu et al., 2004). This was suggested in contrast to other studies that pointed to geography (McArthur & Sachs, 2001), religion, or the colonial and legal roots of various systems (La Porta et al., 1999) as critical growth drivers.

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Investment is required for growth, which is the economic basis for securing property rights. However, investors will not make investments if there is a risk of expropriation by the government or other parties (Besley & Ghatak, 2010; Acemoglu et al., 2004). Because property owners have the legal right to bar others from using a good or asset, property rights are synonymous with private property or ownership rights in this context. Property rights influence economic growth via efficiency and security channels (Besley & Ghatak, 2010). The efficiency channel boosts asset mobility through transactions by transferring assets to people who can use them more effectively. As determined by the World Economic Freedom Index, part of the business-friendly environment is the legal system and property rights security that emphasizes intellectual property protection (Hood, 2007). A supportive environment encourages investment, which is anticipated to generate income through a secure channel that must be guarded against expropriation by strong, clearly defined property rights. This protection gives an enticement to invest. Property rights suggest that, in general, the private sector, enterprises, or individuals can use assets transferred to them productively through their investments and efforts, thereby promoting economic growth.

Conflicting conclusions have been drawn from the empirical literature on the influence of the private sector's development on economic growth. Multiple regression analysis was used by Oyediran et al. (2017) to determine whether privatization had a direct effect on GDP growth in Nigeria between 1980 and 2014. The results demonstrate that after privatization, the interaction of capital spending, investment, and the inflation rate had a favorable and significant impact on GDP. Nwakoby and Bernard (2016), Andabai (2014), and Kolawole and Omobitan (2014) showed that the progress of private sector has a favorable and tangible effect on the growth in Nigeria. While some privatized businesses in Nigeria improved financially and operationally, others did not, according to Abdullahi et al. (2012). Boubakri et al. (2009) used GMM estimation methods to analyze whether privatization affected economic growth in 56 developing and developed nations from 1980 to 2004. Moreover, they found that privatization via stock market equity investment is correlated with economic growth, suggesting that this may be one route to reaping the returns on privatizing public enterprises.

This is in line with Filipovic (2006) and Boubakri et al. (2004), who found that privatization enhances growth. In addition, Barnett (2000) used country-level panel data from 18 nations, 10 of which were developing nations and the remaining were transition economies, to observe how privatization impacted growth, investment, unemployment, and fiscal variables. The empirical result showed a positive connexion between privatization and real GDP growth rates. The study predicts that privatizing 1% of GDP will boost real GDP growth by 0.5% during privatization and 0.4% thereafter. With a positive link between the private sector's GDP and bank credit, Haque (2020) argues that the private sector's growth is crucial to bank development.

From the House of Commons and Allison's (2012) report, the private sector is becoming increasingly acknowledged as a key force in development. Players in private establishments encourage economic growth by investing, creating jobs, and starting businesses. This is because private businesses invest in innovative ideas and manufacturing facilities (IFC, 2011). In divergence with Ilegbinosa et al. (2015), who found that private investment has a favorable but negligible effect on growth in Nigeria, Kalu and Onyinye (2015) asserted that private investment has a direct influence on growth. Furthermore, Udoka and Anyingang (2012) confirmed that the growth of Nigeria's private sector was closely linked to the country's economic growth. This is similar to Namibia, where private investment has a substantial and favorable impact on growth over the long and short terms (Kandenge, 2010). The private sector in Africa employs 90% of the labor force and generates about 80% of overall production, 67% of overall investment, and 75% of credits to the economy (AfDB, 2011). Olowofeso et al. (2015) found that private sector's lending had a favorable effect on growth in Nigeria. Amoo et al. (2017) showed that Nigeria's private sector benefits from adequate credit transfer. Iheonu et al. (2020) also confirmed that increasing credit transfer to the private sector in ECOWAS has a direct, albeit modest, effect on domestic or local investment.

While some studies found a direct effect of privatization on GDP growth, others showed a negative impact. Cook and Uchida (2003) used the extreme bound analysis framework to conduct a cross-country growth regression. The data analysis of sixty-three developing nations between 1988 and 1997 revealed that privatization inhibits growth. The explanation for this contradictory finding was attributed to private enterprises' lack of competitiveness. Using an error correction model (ECM), Ifionu and Ogbuagu (2013) looked into how privatization influenced Nigeria's GDP growth. The results indicate that privatization had no direct impact on the Nigerian economy, attributed to various factors, including political unrest, corruption, and the failure of prior policies to deliver better results.

Davis (2016) argues that public companies and political interference in the private sector's activities are significant impediments to the expansion of privately held businesses. Where conflict and instability abide, options for private sector engagement are substantially more constrained (Spicer & Bousquet, 2019). According to Cheuvart (2017), if private enterprises are to partake in the developmental process, they should not be in a state where human, labor, and environmental rights violations are tolerated, or where the government is unwilling or corrupted. Confirming that private actors will respect and commit to social, labor, and environmental standards is critical. Al-Otaibi (2006) used the OLS technique and panel data to examine how privatization affects economic growth in 15 developing nations. The OLS result showed that privatization significantly affected GDP levels in Argentina, Jordan, Iran, India, Saudi Arabia, Kuwait, Mexico, Bahrain, Morocco, Pakistan, Indonesia, Malaysia, and Venezuela at a 5% significance level. For both Egypt and Turkey, the results showed a negative effect of privatization measures on GDP. This is very similar to Warren (1998), who looked at the impact of large-scale privatization in four countries: Mexico, Bolivia, Chile, and Jamaica. His studies focused on nations that implemented comprehensive privatization strategies, albeit with various degrees of approaches. In Mexico and Jamaica, privatization positively correlates with economic growth, but negatively correlates with growth in Bolivia and has no impact on growth in Chile.

Overall, these studies determined how private sector development influences economic growth across different countries. Furthermore, many methods and techniques have been exploited to explain the roles of the private sector's development, emphasizing the disparities in findings and policy recommendations.

2. AIM

This study observes the short-and long-run effects of private sector's development on Nigerian growth. The positive or negative consequences will lead to policy recommendations addressing the problems related to the private sector's development. Negative effects of privatization will solve public enterprise difficulties and private sector development. The outcomes of this analysis should help policy-makers and stakeholders understand the full impact of Nigeria's privatization program and the need for policy reforms or adjustments.

3. METHODOLOGY

Different proxy measures were used to capture private sector development. They include market capitalization of listed domestic companies as a ratio of GDP (DMKTCAP), domestic credit to private sectors as a proportion of GDP (DCPRS_GDP), claims by private sectors as a share of broad money (DCPRM2), and privatization policy variable (PRV). Next, economic growth was proxied by real GDP (LRGDP). The control variables are the gross capital formation as a ratio of GDP (DGCF_GDP) and unemployment rates (DUNEMPT). This study spans the years 1980–2020 to reflect the performance of the private sector from when Nigeria realized it could no longer support the enormous waste and inefficiencies of public enterprises and has been implementing privatization programs since 1988. The PRV is a dichotomous variable that captures the periods prior to and after the introduction of privatization in Nigeria. The Autoregressive Distributed Lag (ARDL) method examined the short- and long-run effects. The bounds cointegration test was used to observe cointegration among the variables. However, because time series variables are used, it is critical to examine their properties to avoid producing

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a spurious (nonsense) regression, which refers to the modeling of the non-stationary series; the Augmented Dickey-Fuller (ADF) unit root test was done. Following the theoretical framework, the empirical model is stated both implicitly and explicitly as follows:

$$RGDP = f(CPRM2, MKTCAP, UNEMPT, DCPR\_GDP, GCF\_GDP, PRV, \mu), \tag{1}$$

$$\ln RGDP_t = \alpha_0 + \alpha_1 CPRSM2_t + \alpha_2 UNEMPT_t + \alpha_3 MKTCAP_t + \alpha_4 DCPRS\_GDP_t + \alpha_5 GCF\_GDP_t + \alpha_6 PRV_t \alpha_5 + \varepsilon_t. \tag{2}$$

The ECM model is specified as:

$$\begin{aligned}\ln RGDP_t = {} & \alpha_0 + \sum_{i=o}^{p} \gamma \vartriangle \ln RGDP_{t-i} + \\ & + \alpha_1 \vartriangle CPRSM2_t + \alpha_2 \vartriangle UNEMPT_t + \\ & + \alpha_3 \vartriangle MKTCAP_t + \alpha_4 \vartriangle DCPRS\_GDP_t + \\ & + \alpha_5 \vartriangle GCF\_GDP_t + \alpha_6 \vartriangle PRV_t + \\ & + \sum_{i=o}^{p} \alpha_1 \vartriangle CPRSM2_{t-i} + \\ & + \sum_{i=o}^{p} \alpha_2 \vartriangle UNEMPT_{t-i} + \\ & + \sum_{i=o}^{p} \alpha_3 \vartriangle \ln MKTCAP_{t-i} + \\ & + \sum_{i=o}^{p} \alpha_4 \vartriangle DCPRS\_GDP_{t-i} + \\ & + \sum_{i=o}^{p} \alpha_5 \vartriangle GCF\_GDP_{t-i} + \\ & + \sum_{i=o}^{p} \alpha_6 \vartriangle PRV_{t-i} + \rho ECM_{t-1} + \varepsilon_t,\end{aligned} \tag{3}$$

where Δ is the 1st-difference indicator and α_0, α_1, α_2, α_3, α_4, α_5, α_6 are the parameters. ε = Error Term.

4. RESULTS

4.1. Summary statistics and ADF unit root test

The basic statistical features of the series under consideration, which include mean, median, standard deviation, minimum and maximum observations, are summarized in Table 1. The observation provides information about the mean, median, minimum, and maximum to describe different indications of the central value of the distribution. At the same time, the standard deviation is used to determine how the series spread out around the mean. For example, a mean of the real GDP (LRGDP) is N31.08214, and a median is N 30.84250. A mean value exceeds a median indicating that RGDP is skewed to the right (positively skewed). In addition, a standard deviation is N0.511418, meaning there is a narrow spread around the mean. An average value of the unemployment rate (DUNEMPT) is N4.361414, a median is N3.767000, and a standard deviation is N1.485783.

Similarly, market capitalization of registered domestic firms as a ratio of GDP (DMKTCAP_GDP) has a mean of N13.18024 and a standard deviation value of N6.182035. Also, a mean value and median value of gross capital formation as a proportion of GDP (DGCF-GDP) equal N36.38538 and N34.10954, respectively, with a standard deviation value of N19.05300. A mean value of domestic credit to private sectors as a proportion of GDP (DDCPRS_GDP) is N9.268218, and its median value is N8.201661, with an average standard deviation of N3.534790. Finally, the average claims by private sectors as a proportion of broad money (DCPRM2) is valued at N13.73k with a median value of N11.66k and a standard deviation of 14.23. These summary statistics signify that the variables are skewed to the right. There is evidence of variations in the series, as indicated by the wide gaps between the lowest and maximum values.

The outcomes of the unit root test for individual variables are presented in Table 2. The ADF results show that real GDP, domestic credit for private sectors as a share of GDP (DCPRS GDP), gross capital formation as a proportion of GDP (DGCF GDP), unemployment rate (UNEMPT), and policy variable (PRV) are stationary at the 1st difference $I(1)$ and a 5% significance level, signifying that theoretical assumptions in this study are accepted. In addition, both market capitalizations as a proportion of GDP (DMKTCAP) and private sector claims (DCPRSM2) are stationary for constant and trend and intercept models. Overall, the variables have different integration orders, necessitating the usage of ARDL.

Table 1. Summary statistics of the model variable

Source: World Bank (2022).

Descriptive Statistics	LRGDP	DMKTCAP_GDP	PRV	DUNEMPT	DGCF_GDP	DCPRS_GDP	DCPRSM2
Mean	36000.00	13.18	0.53	4.36	36.39	9.27	13.73
Median	248000.00	11.63	1.00	3.77	34.11	8.20	11.66
Maximum	721000.00	30.80	1.00	8.39	89.38	19.63	65.05
Minimum	162000.00	2.49	0.00	3.54	14.90	4.96	–10.63
Std. dev	193000.00	6.18	0.51	1.49	19.05	3.53	14.23
Skewness	0.74	0.98	–0.10	2.10	1.06	1.15	1.72
Kurtosis	1.99	4.05	1.01	5.63	3.83	3.92	7.12
Jarque-Bera	5.38	5.60	6.67	29.68	8.37	10.20	48.01
Probability	0.07	0.06	0.04	0.00	0.02	0.01	0.00
Observations	40	27	40	29	39	40	40

Table 2. Results of ADF unit root test

Source: World Bank (2022).

Variables	Constant/Intercept Model			Trend and Constant/Intercept Model		
	Level	1st Difference	Remark	Level	1st Difference	Remark
LRGDP	0.9845	–32144	I(1)	–1.737	–3.3384	I(1)
	(0.5004)	(0.0268)**		(0.7146)	(0.0754)*	
DCPRSM2	–4.0356	–8.2888	I(0)	–3.9987	–8.1812	I(0)
	(0.0032)***	(0.0000)***		(0.0169)**	(0.0000)***	
DGCF_GDP	–3.6323	–4.4764	I(0)	–2.7238	–5.1907	I(1)
	(0.0096)*	(0.0010)***		(0.2370)	(0.0008)***	
DUNEMPT	0.5284	–4.0953	I(1)	–0.5752	1.9813	I(1)
	(0.9847)	(0.0039)***		(0.9728)	(1.0000)***	
PRV	–1.0267	–6.1644	I(1)	–1.9419	–6.0805	I(1)
	(0.7342)	(0.0000)***		(0.6137)	(0.0001)***	
DCPRS_GDP	–2.3371	–5.4530	I(1)	–3.3505	–5.3713	I(0)
	(0.1661)	(0.0001)***		(0.0736)*	(0.0005)***	
DMKTCAP_GDP	–3.7936	–5.4780	I(0)	–4.1479	–5.3497	I(0)
	(0.0083)***	(0.0002)***		(0.0158)**	(0.0012)***	

Note: ADF statistics and the probability value are in parentheses at level and 1st difference.

4.2. Short-and long-run effects of private sector development on economic growth

The bounds cointegration test was used to determine the long-run dynamics of the model. In Table 3, the null hypothesis (*H0*) of no cointegration is not accepted at a 5 percent level of significance because the computed F-statistic of 5.520637 is larger than the upper-critical bound *I*(1) value of 3.5, showing the existence of a cointegration or long-term association among all variables. Since cointegration has been established, the short- and long-run dynamic impact of the private sector's development on economic growth was examined.

From Table 4, the R-Squared, which is the coefficient of determination, indicates that the exogenous variables account for 72% of variations in real GDP. The F-statistics (3.928) and p-value (0.0167) are significant at 5%. These confirm the high predictive ability and usefulness of the specified model. Durbin-Watson statistics (2.17) show that the model suffers from autocorrelation. The negative and significant value of the co-integrating variable, which is 0.003180 (P = 0.0135), indicates that the model is stable and adjusted to equilibrium at a 5% significance level. The parameters of the exogenous variables show that in the short-run, a unit rise in claims by the private sector, as a proportion of broad money (DCPRSM2), will cause LRGDP to decrease by about 0.023% at a 5% level of significance. This indicates that claims by

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private sectors as a proportion of the broad supply of money indirectly affect LRGDP. Similarly, the unemployment rate (DUNEMPT) is negatively related to LRGDP with a coefficient of 0.019175.

In contrast, gross capital formation as a proportion of GDP (DGCF_GDP) and Domestic credit to private sectors as the ratio of GDP (DDCPRS_GDP) are significant with a positive coefficient value of 0.01179 and 0.04447, respectively, at a 5% significance level. Similarly, market capitalization as the ratio of GDP (DMKTCAP_GDP), and privatization policy variable (PRV) are significant with a positive coefficient value of 0.12715 and 0.0022641 correspondingly at a 1% level of significance. Overall, in the short-run private sector's development (measured by privatization policy variable), market capitalization, and gross capital formation will foster economic growth. In contrast, the unemployment rate and claims by the private sector have a negative effect on LRGDP. Moreover, from Table 4, a unit increase in gross capital formation (DGCF_GDP) increases LRGDP by 11.31% at a 1% significance level. Likewise, a unit increase in market capitalization (DMKTCAP_GDP) increases LRGDP by 25.86% at a 1% significance level. In addition, periods after privatization (PRV) increase LRGDP by about 3.87% at a 1% level of significance. This indicates that as gross capital formation (DGCF_GDP), market capitalization (DMKTCAP_GDP), and privatization increase, economic growth will likewise rise in the long run.

5. DISCUSSION

The findings establish the theoretical prediction that the private sector's development is vital for economic growth. The principle of property rights advocates that the handover of assets and wealth to private firms or individuals through privatization can be used productively, thereby stimulating economic growth. This is due to privatization allowing private resources to be mobilized to finance investments that could previously only be funded by public funds. According to Abdullahi et al. (2012), some Nigerian enterprises improved significantly after privatization.

Table 3. Bounds cointegration test result

Source: World Bank (2022).

Critical values	F-stat	Lower Bound *I*(0) Values	Upper Bound *I*(1) Values
10%	5.520637	2.03	3.13
5%		2.32	3.5
2.5%		2.6	3.84
1%		2.96	4.26

Table 4. ARDL short- and long-run results

Source: World Bank (2022).

Variable	Coefficient	Std. error	t-statistic	Prob.
Cointegrating/Short-Run Form				
D(DCPRSM2)	–0.00023	0.00008	–2.87550	0.0125**
D(DDCPRS_GDP)	0.044472	0.018874	2.356272	0.0220**
D(DGCF_GDP)	0.011791	0.005893	2.000789	0.0328**
D(DMKTCAP_GDP)	0.127154	0.032430	3.920830	0.0003***
D(PRV)	0.002264	0.000383	5.911227	0.000***
D(DUNEMPT)	–0.019175	0.008967	–2.138350	0.0457**
CointEq(-1)	–0.003180	0.001199	–2.652210	0.0135**
Long Run Effect				
DCPRSM2	–0.010756	0.008160	–1.31814	0.8900
DDCPRS_GDP	0.011793	0.013499	0.873623	0.4170
DGCF_GDP	0.113101	0.026308	4.299034	0.0001***
DMKTCAP_GDP	0.258570	0.066819	3.869687	0.0004***
PRV	0.038666	0.557263	5.323695	0.000***
DUNEMPT	–0.017677	0.130774	–0.135169	0.8940
C	33.826757	1.237034	27.345043	0.0000***

Note: *, **, *** indicate 10%, 5%, and 1% levels of significance; R-Squared (0.724), F-Statistics (3.928), Prob. = (0.0167), Durbin-Watson (2.173).

Similarly, Al-Otaibi (2006) provided evidence that privatization increases the throughput of all economic components, resulting in the rise of gross investment and economic progress. In contrast to central planning, the free-market system ensures higher efficiency, higher output, and improved living standards through the increased emergence of the private sector. Thus, free-market development strategies that promote greater participation from the private enterprises and sector are essential. According to Afolabi (2004), in nations like Croatia, Albania, and Poland, the private sector's development has been essential to economic recovery and progress. In Nigeria, Ifionu and Ogbuagu (2013) discovered that privatization had no favorable impact on economic progress. However, these results are similar to those of Andabai (2014) and Kolawole and Omobitan (2014), who also found that the private sector's development significantly contributes to Nigeria's economic growth. In conclusion, boosting the private sector's involvement in Nigeria's development process is anticipated to yield substantial short- and long-term benefits.

CONCLUSION

According to the study's findings, private sector development directly impacts Nigeria's economic growth. Furthermore, factors such as gross capital formation as a share of GDP, market capitalization of listed domestic companies as a share of GDP, and privatization policy can all help to boost economic growth in the short and long run. In addition, the private sector's development attracts investors, expands the economy, reduces unemployment through economic expansion, and produces better services and output.

Given the enormous potential benefits of privatization to economic growth, this study suggests that the private sector's development should be pursued. Moreover, it should be accompanied by policy restructuring, such as creating enabling business environment through secure property rights, increasing domestic investment, promoting privatization, and increasing the lending capacity of the financial institutions to fully exploit their benefits and reduce their costs to boost economic growth. The capital market's development should also be pursued to encourage the private sector's development. The market allows investors to obtain long-term funds for investment purposes. If this market develops well, private enterprises will be able to access funds, and the market value of domestic listed companies' shares will rise. The involvement of banking financial institutions, particularly banks, should be harnessed to increase the transfer of financial credit to the private sector to encourage private participation in the economy's development.

AUTHOR CONTRIBUTIONS

Conceptualization: Bosede Awoyemi, John Awoyemi, Oluwole Aiyegbusi.
Data curation: Bosede Awoyemi, John Awoyemi, Oluwole Aiyegbusi.
Formal analysis: Bosede Awoyemi, John Awoyemi, Oluwole Aiyegbusi.
Funding acquisition: Bosede Awoyemi.
Investigation: Bosede Awoyemi.
Methodology: Bosede Awoyemi, John Awoyemi.
Project administration: Bosede Awoyemi, John Awoyemi.
Resources: Bosede Awoyemi, John Awoyemi.
Software: John Awoyemi.
Supervision: Bosede Awoyemi.
Validation: Bosede Awoyemi.
Visualization: John Awoyemi.
Writing – original draft: Bosede Awoyemi, John Awoyemi, Oluwole Aiyegbusi.
Writing – review & editing: Bosede Awoyemi, John Awoyemi, Oluwole Aiyegbusi.

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