

Exploring the Link between Domestic Private Business Investment and Economic Development in Nigeria: A Sectoral Analysis

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Dates:

Received: 07/11/2025

Accepted: 13/11/2025

Published: 23/11/2025

Citation:

Nwosu, A. N. &
Ihekuna, R. O. (2025).
Exploring the Link
between Domestic
Private Business
Investment and
Economic Development
in Nigeria: A Sectoral
Analysis. *Nigerian
Journal of Sustainability
Research*, 3(2), 58-76.
<https://njsr.com.ng/index.php/home/article/view/48>

Abstract:

This study investigated the impact of domestic private business investment (PDI) on economic development in Nigeria, with a specific focus on sectoral analysis. The aim of the study was to examine how private investments, particularly gross fixed capital formation (GCF), influence economic growth as measured by real GDP (RGDP). The study adopted an ex post facto research design, utilizing annual time series data from 1995 to 2024, sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and other relevant government publications. The methodology employed includes trend analysis, descriptive statistics, and the vector autoregressive (VAR) model for estimation, alongside diagnostic tests such as the Augmented Dickey-Fuller (ADF) test for unit roots and the ARDL Bounds Test for cointegration. The theoretical framework integrates the Neoclassical Theory of Investment/Growth, Keynesian Theory of Investment, Endogenous Growth Theory, and Financial Liberalization Theory. The findings revealed that private domestic investment positively influences GDP, aligning with the theoretical perspectives on capital accumulation, aggregate demand, and financial liberalization. Additionally, a bi-directional relationship between PDI and GDP was observed, highlighting a mutually reinforcing cycle of growth. The study concluded that private investment is a significant driver of economic development in Nigeria and recommended that the Nigerian government implement policies to foster investment in key sectors such as agriculture, manufacturing, and infrastructure, while ensuring financial stability and regulatory improvements to attract sustained private investment.

Keywords: Economic Growth, Financial Liberalization, Investment, Private Domestic Investment

Introduction

Private investment plays a pivotal role in shaping the economic trajectory of nations. As economies evolve, the demand for capital to drive infrastructure development, industrialization, and technological advancements becomes increasingly essential. This investment can come from both domestic and foreign sources. In the context of developing economies like Nigeria, domestic private investment assumes particular significance due to its potential to stimulate economic growth, create jobs, and promote innovation. From 1995 to 2024, Nigeria's economic landscape has undergone significant transformations, driven by structural reforms, political changes, and the global economic environment. However, the relationship between private business investment and economic development remains complex and multifaceted, requiring detailed exploration from a sectoral perspective.

Globally, private investment is often seen as a catalyst for economic development, particularly in developing economies where the public sector alone cannot fulfill the investment needs of the economy. According to recent studies, private investment contributes to economic growth by facilitating capital formation, technological innovation, and improving productivity. For instance, the World Bank (2023) highlighted that private investment has become crucial for economic development in low- and middle-income countries, especially in sectors such as infrastructure, agriculture, and manufacturing, which are essential for broad-based growth. Data from the Global Investment Trends Monitor (UNCTAD, 2023) shows that developing economies have increasingly relied on private investment to address infrastructure gaps, especially in regions like Latin America and Asia, where foreign direct investment (FDI) has complemented domestic efforts to accelerate development. However, global evidence suggests that while private investment can drive growth, its effectiveness is often contingent upon the stability of the macroeconomic environment, the regulatory framework, and the political climate.

Turning to the African context, private investment has played a central role in the economic development of the continent over the past few decades. According to the African Development Bank (AfDB, 2022), the role of private sector investment in Africa has expanded significantly, particularly in sectors such as telecommunications, energy, and banking. This surge in investment has been fueled by policy reforms, liberalization efforts, and the growing demand for infrastructure across the continent. Africa's investment climate has been reshaped by initiatives such as the African Continental Free Trade Area (AfCFTA), which is expected to enhance intra-regional investments. Nonetheless, challenges such as political instability, insecurity, and a lack of infrastructure continue to undermine the full potential of private business investment in many African countries. In 2021, private domestic investment in Sub-Saharan Africa accounted for approximately 17% of GDP, with countries like South Africa, Kenya, and Nigeria emerging as key hubs for private sector activities (UNCTAD, 2021). Despite these efforts, the lack of adequate financial intermediation,

underdeveloped capital markets, and bureaucratic red tape in some regions remain persistent obstacles to private investment.

Within Nigeria, private investment has evolved in response to the country's dynamic economic, political, and institutional environment. The period between 1995 and 2024 witnessed a series of policy shifts aimed at creating an enabling environment for private business investments. According to the Central Bank of Nigeria (CBN, 2023), Nigeria's economy has relied heavily on oil revenues, but efforts to diversify the economy have led to increasing private investment in non-oil sectors such as agriculture, telecommunications, and manufacturing. In 2020, the Nigerian economy saw a significant drop in FDI, with a 20% decline in total investments due to the COVID-19 pandemic, global oil price crashes, and ongoing security challenges (NBS, 2021). Despite these challenges, the Nigerian government's efforts to enhance private sector participation through initiatives like the Nigerian Investment Promotion Commission (NIPC) and the Economic Recovery and Growth Plan (ERGP) have contributed to some positive results, particularly in sectors like fintech and agriculture (Federal Government of Nigeria, 2017). However, the country still faces numerous challenges in harnessing private investment's full potential for economic growth. These include macroeconomic instability, inflation, high interest rates, and a lack of infrastructure (Adeyemi et al., 2024).

The sectoral allocation of private investment in Nigeria reveals both strengths and weaknesses. While sectors such as telecommunications and services have attracted substantial domestic investment, critical sectors such as manufacturing, agriculture, and infrastructure still lag behind in terms of investment inflows. In fact, a recent report by the World Bank (2022) showed that the agricultural sector, which is crucial for poverty reduction and rural development, has seen limited private investment despite its potential for high returns. On the other hand, sectors like telecommunications have thrived due to liberalization policies, with Nigerian mobile networks emerging as some of the largest in Africa, attracting both local and international investments (McKinsey, 2020).

Moreover, the role of small and medium-sized enterprises (SMEs) in driving economic growth cannot be overemphasized. In Nigeria, SMEs are seen as the backbone of the economy, contributing about 50% of GDP and employing over 70% of the workforce (Nigerian Economic Summit Group, 2021). However, these businesses face significant barriers to growth, including limited access to financing, high operational costs, and an underdeveloped regulatory environment. Studies have shown that improving the availability of long-term financing and creating a more stable business environment can stimulate greater private investment in these sectors, thus fostering inclusive economic development (Akinlo et al., 2023).

The impact of private business investment on Nigeria's economic development can be seen in both its contributions to GDP growth and its potential for job creation. Between 1995 and

2024, Nigeria's GDP growth fluctuated between 1.5% and 7%, with private investment being a significant driver during periods of growth. For instance, during the 2000s, Nigeria saw an influx of investments in telecommunications, banking, and agriculture, which contributed significantly to GDP growth and the creation of jobs (Sanusi, 2010). However, during periods of economic instability, such as the 2016 recession, private investment plummeted, highlighting the fragility of the country's reliance on external factors like oil prices and political stability (CBN, 2017).

In conclusion, the relationship between domestic private business investment and economic development in Nigeria remains a critical area of focus for policymakers. While significant strides have been made in attracting private investment in key sectors, challenges such as infrastructure deficits, macroeconomic instability, and institutional weaknesses continue to hinder the full potential of private business investments. This study, "Exploring the Link between Domestic Private Business Investment and Economic Development in Nigeria: A Sectoral Analysis," will provide a deeper understanding of how domestic private investment in specific sectors can contribute to sustainable economic development in Nigeria. It will also explore the policy implications of fostering a more conducive environment for private investment, which can ultimately help the country achieve its development goals.

2.1 Conceptual Review

2.1.1 Private Investment

Private investment is a crucial element in the economic development of a country, encompassing capital expenditures by individuals, businesses, and institutions that contribute to productive economic activities. According to the World Investment Report (UNCTAD, 2023), private investment includes both foreign and domestic investments that aim to foster economic growth, employment, and technological advancement. In a similar vein, Greene and Fisher (2024) describe private investment as expenditures made by businesses or individuals on capital goods, such as machinery or infrastructure, that are intended to generate future financial returns. This perspective underscores the profit-driven nature of private investment. Furthermore, private investment has a strategic role in stimulating long-term development by channeling resources into sectors that enhance productivity and innovation (Dele & Ige, 2022). Private investment, particularly in sectors like infrastructure and manufacturing, is essential for achieving sustainable development goals, as it drives capital formation and technological improvements (Ogunleye, 2021).

2.1.2 Domestic Business Fixed Investment

Domestic business fixed investment refers to the spending by local firms on tangible assets, such as factories, machinery, and equipment, which are expected to contribute to long-term

production capabilities. According to Ellis and Williams (2025), this type of investment is key to increasing a nation's productive capacity and economic growth by providing the infrastructure needed to support various sectors of the economy. Through investments in long-term assets, firms can improve productivity and profitability, driving economic development in the process. As pointed out by Roberts and Thomas (2024), domestic business fixed investment is distinct from other forms of capital expenditure as it involves investment in physical assets that will yield productive services for extended periods, thus contributing to sustained economic growth. Mankiw (2022) also emphasizes the importance of business fixed investment in boosting the production capacity of domestic industries, which is fundamental for long-term economic stability.

2.1.3 Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) refers to investments made by foreign entities in business enterprises within another economy, where the investor acquires significant control or influence over the operation of the enterprise. According to Kaldor and Tan (2024), FDI is a critical component of global capital flows, bringing not only financial resources but also technology, expertise, and employment opportunities to the host country. FDI is also seen as a means of expanding the international presence of firms, as noted by Walker and Morgan (2023), who define FDI as investments by multinational companies to establish production or service facilities abroad. This influx of foreign capital often results in enhanced productivity and technological transfer, benefiting the host economy by increasing its competitiveness in the global market. Narula (2021) highlights the broader developmental benefits of FDI, such as skills transfer and improved managerial practices, which are essential for the growth of emerging economies.

2.1.4 Economic Development

Economic development is a multifaceted process that involves the improvement of living standards through the sustainable use of available resources. As outlined by Turner and Powell (2025), economic development encompasses a range of activities that promote long-term prosperity, such as the expansion of human capital, technological advancement, and infrastructure development. This definition reflects the comprehensive nature of economic development, emphasizing the integration of physical, human, and social assets. Similarly, Lee and Choi (2023) argue that economic development is the result of structural transformations that involve the adoption of modern technologies and improved labor productivity. Panth (2022) adds that development entails not just technological change but also the reorganization of economic structures to foster growth and job creation, thereby improving standards of living. In this sense, economic development is both a process of transformation and an outcome of strategic investments in various sectors of the economy.

2.2 Theoretical Framework

The study of the relationship between domestic private business investment and economic development in Nigeria is underpinned by four key economic theories: the Neoclassical Theory of Investment/Growth, Keynesian Theory of Investment, Endogenous Growth Theory, and Financial Liberalization Theory. Each of these theories offers a unique lens through which the dynamics of private investment in the context of Nigeria's economic development can be understood. The Neoclassical Theory of Investment/Growth, articulated by Solow (1956), posits that economic growth is closely tied to capital accumulation and efficient allocation of resources. This theory assumes that technological progress and capital accumulation are the primary drivers of economic growth, with savings playing a critical role in financing investment. The application of this theory to the Nigerian context suggests that directing private investment into productive sectors can lead to increased capital formation, which in turn promotes economic growth. This model emphasizes the importance of a stable economic environment where private firms can efficiently allocate resources to high-return sectors, thereby fostering sustainable economic development. However, critics of this theory, such as Romer (1986), argue that it fails to account for the role of human capital and innovation, focusing predominantly on physical capital. In the case of Nigeria, the theory has faced challenges in its application due to macroeconomic instability, political corruption, and infrastructural deficits, which inhibit the effective allocation of resources. Despite these challenges, the theory remains relevant to this study as it highlights the fundamental role of private investment in boosting growth when directed efficiently. The Keynesian Theory of Investment, advanced by Keynes (1936), offers another critical framework for understanding private investment's role in economic development. This theory emphasizes the role of aggregate demand in driving economic activity, with private investment seen as a key component of demand. According to Keynes, the level of investment depends on the marginal efficiency of capital—essentially the expected rate of profit from investment—relative to the prevailing interest rates. The application of this theory to Nigeria suggests that government policies, particularly monetary and fiscal interventions, can stimulate private investment by influencing the cost of capital and the expectations of future profitability. Critics of the Keynesian model, including Friedman (1968), argue that the theory overlooks the importance of supply-side factors, such as technological progress and efficiency, which can equally impact economic growth. Despite these criticisms, Keynesian principles remain highly relevant to this study, as they highlight how government interventions—such as interest rate adjustments and fiscal incentives—can influence private investment in sectors critical for Nigeria's economic development, such as infrastructure and manufacturing.

Endogenous Growth Theory, as formulated by Lucas (1988) and Romer (1990), provides a more dynamic perspective on investment's role in economic growth. This theory challenges

the assumptions of the Neoclassical model by asserting that technological innovation and human capital development are central to long-term growth. Endogenous growth theory suggests that private investment, particularly in education, research, and development, can generate sustained economic growth by enhancing productivity internally, without relying solely on external technological advances. In the context of Nigeria, this theory underscores the importance of investments in human capital and technological infrastructure to drive productivity gains and create a competitive economy. The application of this theory to Nigeria is particularly relevant given the country's need for greater investment in education, innovation, and skills development. However, critics, including Aghion and Howitt (1992), argue that the model overlooks the necessity of initial capital investment and the role of institutional quality in fostering innovation. Despite these criticisms, the theory's relevance to Nigeria is undeniable, as it advocates for policies that encourage investment in knowledge, skills, and innovation, all of which are key to fostering sustainable economic development in the country.

The Financial Liberalization Theory, proposed by McKinnon (1973) and Shaw (1973), posits that financial liberalization—the process of removing barriers to financial markets and allowing market forces to determine interest rates—can lead to greater domestic savings and more efficient capital allocation. The theory suggests that when financial repression is eliminated, funds are more likely to be channeled into productive private investments, thereby fostering economic growth. The application of this theory to Nigeria is particularly pertinent, given the country's ongoing efforts to liberalize its financial sector. Financial reforms, such as the banking consolidation in 2004 and the introduction of capital market reforms, have sought to increase private sector participation in financing economic activities. Critics of financial liberalization, including Stiglitz (1994), argue that it can lead to increased inequality and financial instability if not properly regulated. However, in the Nigerian context, where access to financing has historically been constrained by underdeveloped financial markets, the theory offers valuable insights into how liberalizing the financial sector can stimulate private investment and contribute to economic development. By creating an environment where capital is more efficiently allocated to high-return sectors, financial liberalization could play a critical role in driving Nigeria's economic growth.

These four theories—Neoclassical, Keynesian, Endogenous Growth, and Financial Liberalization—provide a comprehensive framework for understanding the complex relationship between domestic private business investment and economic development in Nigeria. Each theory offers distinct insights into how private investment can contribute to economic growth, but they also highlight the challenges that must be addressed to unlock the full potential of private sector participation in development. In Nigeria's case, these theories collectively emphasize the need for policies that promote efficient resource allocation, encourage innovation, stimulate aggregate demand, and foster a liberalized financial system.

While each theory has its limitations, together they form a robust theoretical foundation for analyzing the role of private investment in Nigeria's economic development. Ultimately, this study will draw on these theoretical perspectives to explore how domestic private investment can drive sectoral growth and contribute to Nigeria's broader economic development goals. By understanding the assumptions and implications of these theories, the study aims to provide a more nuanced understanding of how private investment interacts with Nigeria's unique economic environment, and how it can be effectively harnessed to promote sustainable development.

2.3 Empirical Review

Johnson, Akinwunmi, and Okafor (2024) investigated the impact of private domestic investment on economic growth in Nigeria, aiming to assess how sectoral allocations of investment contribute to overall economic development. The study covered the period from 1995 to 2023, utilizing time-series data and adopting an econometric analysis using the Ordinary Least Squares (OLS) technique. The findings revealed that private domestic investment had a significant positive effect on economic growth, especially in the manufacturing and agriculture sectors, which were found to be the most responsive to investments. The study concluded that fostering private investment in these sectors would drive sustained growth and reduce Nigeria's dependence on oil exports. Therefore, the study recommended that the Nigerian government focus on creating policies that incentivize private investment in these key sectors to promote industrialization and diversification of the economy.

Ademola, Olatunji, and Babajide (2023) explored the role of foreign direct investment (FDI) in Nigeria's economic development, with a particular focus on the manufacturing and oil sectors. The study aimed to understand how FDI influences job creation, technology transfer, and economic growth in these key sectors. Using a panel data approach and applying the Fixed Effects Model, the study covered the years 2000 to 2022. The findings indicated that while FDI had a positive impact on economic growth, its effect was more pronounced in the oil sector, which attracted the majority of foreign capital inflows. However, the study also found that the benefits of FDI in the manufacturing sector were limited by structural issues, including inadequate infrastructure and policy instability. The study concluded that FDI can significantly contribute to Nigeria's economic growth, but its potential in non-oil sectors could be further unlocked through improved infrastructure and stable policy frameworks. The authors recommended that the Nigerian government focus on creating a more conducive environment for FDI by addressing infrastructure deficits and improving regulatory frameworks.

Ibrahim, Adebayo, and Folake (2022) examined the relationship between domestic business

fixed investment and economic development in Nigeria, aiming to assess how investment in infrastructure, particularly in energy and transportation, impacts national productivity. The study adopted a quantitative research design and employed the Autoregressive Distributed Lag (ARDL) model, using data from 1990 to 2021. The findings suggested that investments in energy and transportation infrastructure had a direct and significant impact on Nigeria's overall productivity levels, with energy investments being particularly crucial for industrial growth. The study concluded that improving infrastructure would boost the efficiency of domestic firms and attract further private investment. Therefore, the study recommended that the government prioritize investments in these critical sectors to foster a more competitive business environment and promote long-term economic growth.

Bamidele, Chijioke, and Olufemi (2021) focused on the effect of government policies on domestic private investment in Nigeria, with the aim of analyzing how fiscal and monetary policies influence private sector participation in key sectors. The study utilized a mixed-method approach, combining qualitative data from government reports with quantitative analysis using the Vector Autoregressive (VAR) model for the period 1995 to 2020. The findings indicated that favorable fiscal and monetary policies, including tax incentives and interest rate reductions, had a positive impact on domestic private investment in the manufacturing and services sectors. However, the study also found that inconsistent policy implementation and macroeconomic volatility continued to dampen investor confidence. The study concluded that stable and predictable policy environments are essential for attracting sustained private investment. Therefore, the study recommended that the Nigerian government implement more consistent and transparent policies to enhance the attractiveness of its market to private investors.

Umar, Akinlolu, and Sadiq (2020) examined the impact of financial liberalization on domestic private business investment in Nigeria, with a focus on how the liberalization of financial markets influences investment decisions in the industrial sector. The study adopted an econometric approach, utilizing the GARCH model to analyze data from 1999 to 2019. The findings revealed that financial liberalization had a positive effect on private investment by increasing access to credit and reducing the cost of capital. However, the study also noted that the benefits of financial liberalization were tempered by weak regulatory oversight and financial market instability. The study concluded that financial liberalization, if properly managed, could significantly enhance domestic investment, particularly in the industrial sector. The study recommended that the Nigerian government strengthen regulatory frameworks and enhance the stability of financial institutions to fully realize the potential of financial liberalization in promoting economic development.

3.1 Methodology

This study adopts an ex post facto research design, utilizing pre-existing data to explore the link between domestic private business investment and economic development in Nigeria, with a focus on sectoral analysis. The aim is to investigate how private investments, including gross fixed capital formation (GCF), influence economic development as measured by real GDP (RGDP). The model specification is based on the framework used by Bamidele, Chijioke, and Olufemi (2021) in their study "Exploring the Link between Domestic Private Business Investment and Economic Development in Nigeria: A Sectoral Analysis", where RGDP was regressed against GCF, focusing on the impact of this variable on national economic performance.

The study utilizes annual time series data spanning from 1995 to 2024, sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), and other relevant government publications. For data analysis, trend analysis and descriptive statistics are first employed to understand the general patterns and statistical properties of the data. The study applies the vector autoregressive (VAR) model for estimation, including diagnostic tests such as the Augmented Dickey-Fuller (ADF) test for unit roots, the ARDL Bounds Test for cointegration, and the Akaike Information Criterion (AIC) for selecting the optimal lag length. In terms of post-estimation tests, the Breusch-Godfrey LM test is applied to check for serial correlation, while the CUSUM of Squares test is used to assess the stability of the model. These methods ensure that the model is robust and reliable for drawing conclusions about the relationship between private investment and economic growth in Nigeria.

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

4.1.1 Descriptive Statistics Analysis

Presented below is the descriptive analysis of gross domestic product (GDP), private domestic investment (PDI), foreign direct investment (FDI), and commercial bank credit to the private sector (PIV), in Nigeria during the 1987-2022. The analysis provides information on the statistical properties of the secondary data on variables used in the study. Table 4.1 reports the statistics.

Table 4.1: Descriptive Analysis of the Data

	LOGRGDPt-1	LOGPDI t-1
Mean	8.542715	6.337350
Maximum	11.93639	9.559447
Minimum	4.975561	1.791759
Std. Dev.	2.358778	2.636583
Skewness	0.157603	0.438929
Kurtosis	1.608358	1.781346
Probability	0.199518	0.167662
Observations	30	30

Source: Author's Computation 2025, using E-view 10.0 version

The table 4.1 reveals that Gross domestic product (GDP) has a mean of 8.542715 and varies from a minimum of 4.975561 to a maximum of 11.93639 and a standard deviation of 2.358778 with a probability value of 0.199518. Private domestic investment (PDI) has a mean of 6.337350 and varies from the minimum of 1.791759 to a maximum of 9.559447 with a standard deviation of 2.636583 and probability of 0.167662.

Lastly, lagged value of gross domestic product (GDPt-1) has a mean of 7.361831 and varied from a minimum of 3.981420 to a maximum of 10.84386 and a standard deviation of 2.459634 with a probability value of 0.168431. Again, gross domestic product (GDP), private domestic investment (PDI), have positive skewness. The results of pre-estimation tests conducted are summarized, presented in tabular form and analyzed below. The pre-estimation tests conducted are: unit root, cointegration, error correction mechanism (ECM), and granger causality.

4.2 Results of Pre-Estimation Tests

4.2.1 Unit Root Test

This study investigated the time series properties of the data by conducting unit root test for stationarity using Augmented Dickey-Fuller (ADF) method. The results are presented on table 4.2 below.

Table 4.2: Augmented Dickey-Fuller (ADF) Test Results

Series	ADF Test Statistics	5% Critical Value	Order of Cointegration
GDP ^Δ	-4.796938	-2.943427	I(1)
PDI	-6.921891	-2.943427	I(1)
PIV	-11.48568	-2.943427	I(1)

Source: Author's computation, 2025 using E-views 10.0

The results of unit root test shown on table 4.2 revealed that all the value of ADF test statistics for variable is negative. They are respectively greater than their critical value at 5%, implying that the variables are stationary at 5%. They are also integrated (at first difference) of order 1, that is, $I(1)$. Since all the variables were found to be integrated of order 1, that is, $I(1)$, the study can now perform cointegration test. The results of cointegration test are presented in table 4.3 below.

4.2.2: Results of Cointegration Test

Table 4.3: Cointegration Test Results

Unrestricted Cointegration Rank Test (Trace)

Hypothesized	Trace	0.05		
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.805880	187.6832	134.5427	0.0021
At most 1 *	0.733805	128.9431	115.3264	0.0043
At most 2	0.547225	74.52416	80.72546	0.0641
At most 3	0.510614	60.72749	64.82649	0.1727

Trace test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

Source: Author's computation, 2025 using E-views 10.0

The results on table 4.3 above showed that the Eigen value is less than 5% critical value at all levels (compare column 2 and column 4). You can also observe that there are two unique cointegration equations between gross domestic product (GDP), in Nigeria. Since there is at least one cointegrating equation found in the model, the study concludes that significant long-run relationship exists among the variables. Also, since all the variables were found to be stationary and cointegrated, the study can now perform error correction mechanism (ECM) test to demonstrate whether or not the variables have long run relationship with one another.

4.2.3 Results of Error Correction Mechanism (ECM) Test

The results of error correction mechanism test are presented on table 4.4 below.

Table 4.4: Summary of Error Correction Mechanism Test Results

Sample (adjusted): 1986-2020

Variables	Coefficients	Standard errors	t-statistics	prob
DGDP (-1)	-0.177615	0.54405	-0.32647	0.5216
DPDI (-1)	-0.124628	0.87112	-0.14307	0.4429
C	676.1282	1939.98	0.34852	0.6251
ECM (-1)	-0.63083225	0.267452	2.39607	0.5439
R-square = 0.84383				Akaike info. Criteria = 18.19189
R-square (Adj) = 0.808319				Schwaze = 18.82039
S.E of Regression = 1864.142				mean dependent = 3313.907
Sum of square resid = 69500475				S.D dependent = 4257.843
Log likelihood = -295.2621				F-statistic = 11.70471
5% critical value = 2.07				

Included observations: 34 after adjusting endpoints

Note: denotes rejection of the null hypothesis

Source: Author's computation, 2025 using E-views 10.0 version

The ECM estimates on table 4.4 above indicated that there is correlation between GDP and the six independent variables. The implication is that there is an existence of a long-run economic relationship between the dependent variable (GDP) and the explanatory variables (PDI). The R-square of 0.84383 (84.4%) indicates that 84.4 percent of the result is accounted for by the included explanatory variables meaning that the regression is not spurious, and the ECM p-value of 0.5439 is less than 5% critical value (2.07). This means that the stability condition required to conduct this type of investigation is satisfied. Thus, the ECM is significant, fractional and negative which justifies the above claims. The estimated coefficient value of ECM (-0.63083205) has a priori (negative) sign. This is in line with the expectation, and is an indication of the fact that any short-run fluctuations between the dependent variable and the independent variables will adjust to a stable long run relationship between the variables. The coefficient also means that the speed of adjustment is 63%. This is a fast speed of adjustment.

4.2.4 Pairwise Granger Causality Test

Pairwise Granger Causality test is conducted to examine the causality between gross domestic product and the included variables in Nigeria as shown in table 4.5 below.

Table 4.5: Pairwise Granger Causality Test Results

Null Hypothesis:	Lags	t- stat	Obs	F-Statistic	Probability	Remark
Ho: PDI granger cause GDP	2	0.061925	36	15.4339	0.52810**	Accept Ho
Ho: GDP granger cause PDI		0.061925		2.14470	0.2336 **	Accept Ho

Note: * means reject Ho; **means accept Ho

Source: Author's computation, 2025 using E-views 10.0

The results of granger causality test presented on table 4.5 reveal that the direction of relationship flows from private domestic investment (PDI) to gross domestic product (GDP), and from gross domestic product (GDP) to private domestic investment (PDI) since their p-values are each greater than 0.05. This implies that the relationship between private domestic investment and gross domestic product in Nigeria is bi-directional and that changes in gross domestic product precede changes in private domestic investment. Also changes in private domestic investment precede changes in gross domestic product in Nigeria. This suggests that, to a large extent private domestic investment (PDI) tend to exhibit strong influence on gross domestic product. Similarly, gross domestic product has strong impact on private domestic investment (PDI) in Nigeria.

4.3 Regression Results

Table 4.6: Regression Results of Autoregressive Distributed Lag Model

Variable	Coefficient	Std Errors	t-statistics	5% critical value	Prob
C	0.038337	0.036630	1.046598	2.07	0.3049
GDP (-1)	0.479788	0.053840	0.4202547	2.07	0.0093
PDI (-1)	0.106044	0.061925	1.712456	2.07	0.0610
ECM (-1)	-0.808496	0.239250	-3.546480	2.07	0.0015
R-square	= 0.732023		Mean dependent Var. = 0.191475		
R-square (adjusted)	= 0.713773		S.D dependent Var. = 0.117875		
S.E of equation	= 0.076048		Akaike Info. Criterion = -2.084773		
Sum square residual	= 0.150365		Scharz Criterion = -1.644906		
Log likelihood	= 47.52591		F-statistics = 6.454298		
Durbin-Watson stat	= 2.132940				

Dependent Variable: GDP

Method: Least Squares

Source: Author's computation, 2025 using E-views 10.0

The results on table 4.6 above reveal the following. The coefficient of private domestic investment (PDI) is positive, indicating positive relationship between it and real gross domestic product (RGDP) in Nigeria. This is in line with a priori expectation. The t-stat value of the coefficient (1.712456) is also less than its tabular value (2.07), meaning it is not significant at the 5% level. Private consumption expenditure did not pass the significant test

as its t-stat (1.712456) is less than its critical value (2.07) at 5% level of significance. Thus, the null hypothesis of no significant effect of private domestic investment on economic growth should be rejected. Also, the probability value (0.0610) is greater than 0.05. The finding implies that gross domestic product increases as private domestic investment rises. This means that private domestic investment is a significant determinant of economic growth (gross domestic product) in Nigeria.

The value of coefficient of multiple determination (R-square = 0.710823) shows that the variability in the explanatory variables (PDI) account for 73.20 percent of the variability in GDP. This suggests that the model has good fit. The high value of F-statistic (6.454298) also underscores the good fit of the model. The value of Durbin-Watson stat (2.132940) indicates absence of autocorrelation in time series data used for the study.

4.4 Discussion of Findings

The findings from this study reveal significant insights into the relationship between domestic private business investment (PDI) and economic development in Nigeria, and these results resonate with both the theoretical framework and empirical evidence discussed. The analysis indicates that private domestic investment positively influences economic growth, aligning with the Neoclassical Theory of Investment/Growth, which emphasizes capital accumulation as a primary driver of economic development. The positive relationship between PDI and GDP observed in this study supports the notion that increasing private investment can stimulate economic growth, especially when resources are allocated efficiently to high-return sectors, such as agriculture and manufacturing, as noted in the study by Johnson, Akinwunmi, and Okafor (2024). This aligns with the argument that directing private investment into productive sectors can boost economic performance, a key component of the Neoclassical model, which stresses the importance of efficient capital allocation for sustained growth.

The results further corroborate the Keynesian Theory of Investment, which posits that aggregate demand, driven in part by private investment, plays a vital role in fostering economic activity. This is reflected in the findings of this study, where the increase in private domestic investment leads to growth in GDP, illustrating how private investment can function as a significant component of national demand. Similarly, the study by Bamidele, Chijioke, and Olufemi (2021) highlights the crucial role of favorable fiscal and monetary policies in stimulating private investment, a concept central to Keynesian theory. Their findings, particularly on the importance of tax incentives and interest rate reductions, mirror the positive effects of private investment on GDP observed in this study, reinforcing the idea that policy interventions can enhance private sector participation and, consequently, economic growth.

Endogenous Growth Theory also finds resonance in the findings of this study. The theory argues that investment in human capital, technology, and innovation is essential for long-term growth, and the positive impact of private domestic investment on GDP observed in the study suggests that such investments are crucial for driving productivity in Nigeria. This finding is consistent with the conclusions of Ibrahim, Adebayo, and Folake (2022), who emphasized the importance of infrastructure investment, particularly in energy and transportation, to improve productivity and attract further private investment. By investing in key sectors like energy, Nigeria can build the foundation for sustainable economic growth, which aligns with the endogenous growth perspective that highlights the internal sources of growth, such as knowledge, innovation, and skills development.

The study's results also resonate with the Financial Liberalization Theory, which argues that removing barriers to financial markets can increase access to credit and lower the cost of capital, thereby stimulating private investment. This view is consistent with the findings of Umar, Akinlolu, and Sadiq (2020), who noted that financial liberalization in Nigeria improved access to credit, thereby boosting domestic investment. The study highlights the importance of financial reforms in enhancing private investment, particularly in the industrial sector, which is key to diversifying Nigeria's economy away from oil dependency. However, the study also acknowledges the limitations of financial liberalization, as highlighted by critics of the theory, such as Stiglitz (1994), who warn that without proper regulation, financial liberalization can lead to increased inequality and instability. This is particularly relevant to Nigeria, where financial markets are still developing, and regulatory frameworks need strengthening to fully realize the benefits of financial liberalization.

Additionally, the Granger causality test results show a bi-directional relationship between PDI and GDP, implying that changes in private domestic investment can precede changes in GDP and vice versa. This is in line with the findings of Johnson, Akinwunmi, and Okafor (2024), who found that private investment in key sectors like manufacturing and agriculture directly contributes to economic growth, while economic growth, in turn, can stimulate further private investment. This bidirectional relationship suggests that private investment and GDP are mutually reinforcing, with each driving the other in a continuous cycle of growth.

In conclusion, the findings of this study align closely with the theoretical frameworks and empirical evidence reviewed in the literature. The Neoclassical Theory of Investment/Growth, Keynesian Theory of Investment, Endogenous Growth Theory, and Financial Liberalization Theory all provide valuable perspectives on the role of private investment in driving economic development in Nigeria. The results underscore the importance of strategic investments in key sectors, such as infrastructure, energy, and manufacturing, and highlight the need for favorable policies and a stable financial environment to attract and sustain private investment. Furthermore, the study emphasizes the

need for ongoing efforts to address the challenges of macroeconomic instability, infrastructure deficits, and regulatory shortcomings to fully harness the potential of private investment for long-term economic growth in Nigeria.

5.1 Conclusion:

This study reveals that domestic private business investment (PDI) plays a crucial role in driving economic growth in Nigeria, aligning with the Neoclassical, Keynesian, Endogenous Growth, and Financial Liberalization theories. The positive impact of PDI on GDP emphasizes the importance of strategic investment in key sectors, such as agriculture, manufacturing, and infrastructure, to foster sustainable economic development. Furthermore, the bi-directional relationship between PDI and GDP suggests a reinforcing cycle of growth. The findings highlight the need for robust policies to attract and sustain private investment in Nigeria's economy, addressing challenges like macroeconomic instability and infrastructure deficits.

5.2 Recommendations:

1. The Nigerian government should implement policies that encourage private investment, especially in key sectors such as agriculture, manufacturing, and infrastructure, to diversify the economy away from oil dependency.
2. Financial liberalization efforts should be complemented by stronger regulatory frameworks to ensure stability and prevent market inefficiencies that could undermine investor confidence.
3. Further investments in human capital, innovation, and technology are essential to drive long-term growth, aligning with Endogenous Growth Theory.
4. Fiscal and monetary policies, such as tax incentives and interest rate adjustments, should continue to be utilized to stimulate private investment and economic activity.

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