Financial Intermediation and Private Sector Investment Activities in Nigeria: An Empirical Analysis

Benson Emmanuel PhD
Department of Banking and Finance,
Federal University Otuoke, Bayelsa State
besonemmanuel2014@gmail.com

Torutein, Oki Isiya PhD
Department of Banking and Finance,
Federal University Otuoke, Bayelsa State
isiyato@fuotuoke.edu.ng

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Abstract

This study effect of financial intermediation on private investment in Nigeria from 1990 to 2021. This was aimed at ascertaining how SAV for aggregate savings; CPS for aggregate credit to the private sector; and EFI for the efficiency of financial intermediation has stimulate private investment performance in Nigeria. Historical data was collated and estimated employing the ARDL regression technique. The empirical results indicate that both aggregate savings and the efficiency of financial intermediation exert positive impacts on private investment performance in Nigeria, while the effects from aggregate savings and credit to the private sector was negative. But as private sector credit was significant, the positive effect from the efficiency of financial intermediation was not statistically significant. On the basis of the findings of this study, the following recommendations are made: The monetary authorities have to regularly review their monetary policy direction to bring interest rate spread down and increase the efficiency of financial intermediation in the country; Since aggregate savings has been shown to exert positive and significant impact on private investment activities, it is recommended that economic policy makers sustain and improve the current platforms for savings in the country. Most especially, increase the enrollment to the contributory pension scheme.

INTRODUCTION

1.1 Background of the study

Private investment is most often seen as a major blessing to any economy (Islam, Khan, Popp, Sroka&Oláh, 2020). Believing in the role of private investment in achieving economic prosperity, researchers and policymakers search for the determinants or, in other words, the facilitators of private investments. Although many factors as attractors of private investment are emphasized, the

impact of the financial deepening has been the least explored in the financial and private investment literature. While financial deepening is regarded as the increased provision and access to financial goods and services by a country to its citizens and enterprises (Ighoroje&Ujuju, 2021), a deep financial system primarily works as a symbol of trust to both domestic and foreign investors (Islam, Khan, Popp, Sroka&Oláh, 2020). Affirmatively, Mayor(2019) availed that financial deepening is a situation where by financial institutions in an economy effectively supply savings and credit for investment purposes. This means that financial deepening is expected to attract the reservoir of savings and unused funds and allocates the fund to business, entrepreneurs, households and government for investments. Researchers agree that real sustainable benefit from private investment can only be achieved when a host country has a developed financial system (Islam, Khan, Popp, Sroka&Oláh, 2020).

The Nigerian financial markets are rudimentary and under banked, with a large volume of financial intermediation taking place in the informal sector and this have made savings not to be sensitive to the real interest rates (Nnabugwu, 2021)**.** One of the problems faced by the indicators of financial intermediation is that it is expected to play a vital role in providing channels which some key players such as banks, capital market etc. mobilize funds from the surplus units of the economy to the deficit units of the economy which in return aid the economic growth of a particular country (Ijeoma, Nwadike, Njoku & Nwadike, 2020). These indicators have faced a lot of challenges which has hinders its successful operation in mobilizing funds that will help the economy to grow. Firstly, financial intermediation is faced with deficiency in information. A financial intermediary may become uncritical about the ways in which they execute risky and investment in schemes that stands high chances of losing their depositors' funds. There is also the issue of high lending rates, inadequate mobilization of funds, the existence of high systemic risk, and inadequate supply of credit to investors(Nnabugwu, 2021). Furthermore, the Nigerian business environment is highly risky and uncertain with corruption ravaging almost all sectors of the economy. Consequently, banks demand high levels of collateral; charge high interest rates and avoid loans of more than a year maturity period.

Similarly, private investment activities in Nigeria is reported to be very low in term of survival rate and contribution to Gross Domestic Product (GDP). The low survival rate and poor contribution of private investment activities to Gross Domestic Product (GDP) is attributed by researchers to a lot of factors. According to Nnabugwu (2021),private firms' performances are constrained by two major factors: internal factor such as entrepreneur competencies, commitment, resource, strategic choice and external factor like competitors, culture, technology, and infrastructure and government policy. Among the catalogue of problems listed in extant literature, access to finance/capital remain a teething problem. Government and stakeholders at all levels in Nigeria have continued to mediate in the promotion of private investment in the country by introducing one form of economic empowerment programme or the other yet the financial mediations are rarely seen in the eye of the people. According to Onwuteaka, Molokwu and Aju (2019), the role of financial intermediation has been exemplified in numerous literatures of finance. Besides the performance of specialized tasks, several theoretical models posit that they mitigate the costs associated with information acquisition and the conduct of financial transactions.

Furthermore, financial intermediation stimulates there structuring and liquidation of distressed firms as well as eliminating the inefficiencies associated with the absence of intertemporal

smoothing, as a result of incomplete market (Araujo &Minetti,2007). But a closer look at private investment activities in Nigeria suggest that they find it difficult to accessloan and advances from financial institutions and where they are available, there are stringent conditions that must be accomplished before the loans can be accessed. This might affect the overall development of private investment in the country. Based on the foregoing, the study evaluated the effect of financial intermediation on private investment activities in Nigeria from 1990 to 2021.

1.3 Objectives of the Study

The main objective of the study is to investigate the effect of financial intermediation on private investment activities in Nigeria. The specific objectives are to:

i. Determine the effect of credit to the private sector on private investment activities in Nigeria.
ii. Ascertain the effect of savings rate on private investment activities in Nigeria.
iii. Evaluate the effect of the efficiency of financial intermediation on private investment activities in Nigeria.

1.4 Research Questions

The following research questions will guide this study:

i. To what extent does credit to the private sector affect private investment activities in Nigeria?
ii. To what extent does saving rate affect private investment activities in Nigeria?
iii. To what extent does the efficiency of financial intermediation affect private investment activities in Nigeria?

1.5 Hypotheses

The following hypotheses postulated in null form will guide this study:

H01: Credit to the private sector has no significant effect on private investment activities in Nigeria.

H02: Savings rate has no significant effect on private investment activities in Nigeria.

H03: The efficiency in financial intermediation has no significant effect on private investment activities in Nigeria.

LITERATURE REVIEW

2.1 Conceptual framework

2.1.1 Private Sector Investment

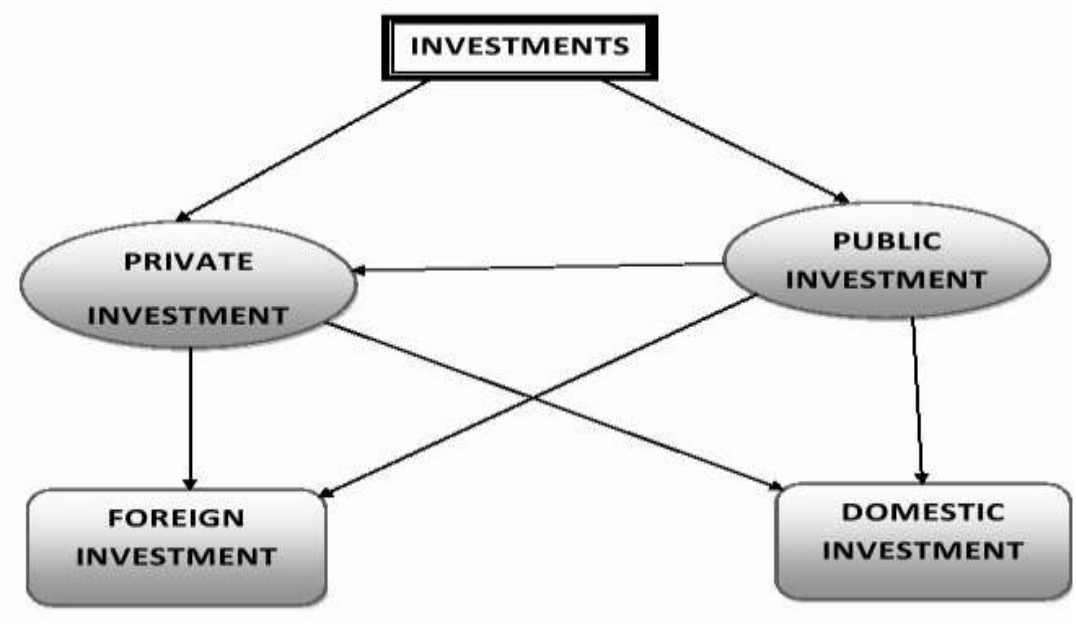
Investment is an allocation of resources for medium or long term and the expected effect is to recover the investment costs and have a high profit. Besides financial resources, material and human resources are used as well. The economic and financial environments influence investments, so expected results are uncertain. (Avram, **Savu, Avram, Ignat, Vancea&Horja**, 2009) Investment decisions are made after a complete analysis of the investment project. One of

the basic factors that influence the decision is the risk factor of the investment. This risk exists because it is uncertain that the cost of the investment will be recovered and a profit will be gained. Investment, investment decisions and investment behaviour can be studied from two points of view. Investment can be analysed and studied empirically and theoretically. The empirical and theoretical approaches of investment behaviour do not have much in common.

From another perspective, Parker (2010) notes that economists see investment as transactions that increase the magnitude of real aggregate wealth in the economy. This includes mainly the purchase (or production) of new real durable assets such as factories and machines. Investment in this case is the act of acquiring income-producing assets, known as physical capital, either as additions to existing assets or to replace assets that have worn out (depreciated). These assets may be in the form of fixed non-residential plant and equipment, housing (fixed residential) or business inventories. 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. It takes individuals, firms and the government to invest, which means investment can be classified into public and private investment. Private investment is generally conceptualized in terms of physical capital formation because it comprises investment in physical capital, usually undertaken by firms and individuals to accumulate, overtime, real capital goods, new machinery and equipment, new factories and offices, new techniques and other durable products, 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).

From the empirical concepts of investment reviewed revealed that investment is a complex web of activities involving capital outlays. The first categorization of investment adopted for this study is private and public investments.

Figure 1: Variants of Investment



Just as private entrepreneurs commit funds for investment and the benefits of it, so does investments by the public or governments. It is important to establish that the fundamental rationale investing differentiates private investments from public investments. While private investment is done with returns or profit expectations in view, public investments are carried out to benefit the general good of the society. However, private and public investments can be domestic and/or foreign. When private investments are foreign, it means capital funds from other countries are committed in another country. The foreign direct investments (FDI) and foreign portfolio investments (FPI) are the two main forms of foreign private investment. The domestic form of private investments is when private entrepreneurs commit funds within the shores of a country. These categorizations (domestic and foreign) are also applicable to public investments. However, the public-private investment arrangements has become a desirable practice in recent years, especially with resource-scarce countries in Africa with attributes of public inefficiencies.

2.1.2 Private Sector Investment Policy in Nigeria

Nigeria has for several decades recognised the need for private investment capital, especially foreign capital, managerial and technological skills. It has also recognised that foreign investors would be reluctant to bring in their capital unless they are welcome and assured healthy investment climate. To this end, various Nigerian governments have pursued liberal investment policies and have continued to create healthy investment opportunities for foreign investors. These policies include incentives introduced by Government to encourage foreign investors, the various laws and regulations governing foreign ownership of companies, foreign employment, entry, remittance and repatration of capital and concludes with Enterprises Promotion Acts.

2.2 Theoretical Framework

2.2.1 Theory of Financial Intermediation

The general aim of financial sector is inter-temporal and interpersonal transfer of resources (Winkler1998). Financial sector specifically as contend by Rajan& Zingales (1998) help firms to overcome the problems of moral hazard and adverse selection and this reduces the costs of external financing; as well as the transaction costs in general (Levine 1997). The theory of financial intermediation was first formalized in the works of Goldsmith (1969), Shaw (1973) and Mckinnon (1973), who see financial markets (both money and capital markets) playing a pivotal role in economic development, attributing the differences in economic growth across countries to the quantity and quality of services provided by financial institutions.

Supporting this view is the result of a research by Nwaogwugwu, (2008) and Dabwor, (2009) on the Nigerian stock market development and economic growth, the causal linkage. However, this contrasts with Robinson (1952), who argued that "financial markets are essentially hand maidens to domestic industry, and respond passively to other factors that produce cross–country differences in growth. Moreover there is general tendency for supply of finance to move along with the demand for it. The same impulse within an economy, which set enterprises on foot, makes owners of wealth, venturesome and when a strong impulse to invest is fettered by lack of finance, devices are invented to release it. The Robinson school of thought therefore believes that economic growth will bring about the expansion of the financial sector.

2.3 Empirical Evidence

Agbada and Osuji, (2013) paper seeks to analyze empirically the trends in Financial Intermediation and Output (GDP) in Nigeria from the banking crises period beginning from 1981 to 2011. In doing so, the study used the endogenous components of financial intermediation such as Demand Deposits (DD),Time/Savings deposits (T/Sav) and Credits (Loans and Overdraft) as explanatory variables to predict the outcome of our dependent variable Output (GDP). Data were sourced from CBN statistical Bulletin, 2011and regression estimation was carried out using IBM SPSS statistics 20. The findings suggests that though there exist a positive growth relationship between financial intermediation and output in Nigeria, there also exist elements of negative short-run growth relationship, especially for the periods that suffered financial shocks resulting from the global financial crisis and perhaps, numerous bank failures. These findings may serve to buttress existing research outcomes and will be relevant to regulatory authorities in formulating policies that are capable of positively enhancing financial intermediation and output growth in the economy.

Arabi (2014) employed Johansen approach to co integration and vector error correction model to examine the dynamic relationship between economic growth and financial development in Sudan over the period1970 to 2012. He used three indicators to measure the financial development, namely: Domestic credit to the private sector to GDP, deposit liability to GDP, and money supply GDP ratio. The result indicates that a long-run co integration exists between financial development and economic growth.

Andabai and Tonye, (2014) examined the relationship between financial intermediation and economicgrowth in Nigeria using data spanning (1988-2013). Using vector error correction model and the test for stationarity to test the hypotheses, it proves that the variables are integrated in the order which implies that unit roots do not exist among the variables. There is also long-run equilibrium relationship between economic growth and financial intermediation and the result also confirms about 96% short-run adjustment speed from long-run disequilibrium. The coefficient of determination indicates that about 89%of the variations in economic growth are explained by changes in financial intermediation variables in Nigeria.

Oleka, Sabina and Onyeze (2014) study the impact of intermediation roles of banks on the performance of the real sectors of the Nigerian economy. The study analyzed published audited accounts of twenty (18)out of twenty-five (25) banks that emerged from the consolidation exercise that took place in 2005 in Nigerian banking industry and data from the CBN Statistical Bulletin of various issues. The study covers an 8 year period (2005-2013). Parametric statistics in forms of analysis of variance-ANOVA, mean, standard deviation, t-test, co-efficient of correlation and simple linear regression were used to analyze the data. The study found out that banking sector intermediation has significantly improved the GDP component of the manufacturing sector, hence, has contributed marginally to the overall growth of the real sectors for sustainable development.

Nwaeze, Michael and Nwabekee (2014) examined the impact of financial intermediation on the economic growth of Nigeria between the periods of 1992 – 2011. The study adopted the ex-post facto research design. Time series data for the twenty years period 1992 – 2011 were collated from secondary sources and the Ordinary Least Squares (OLS) regression technique was used to estimate the hypotheses formulated in line with the objectives of the study. Real Gross Domestic Product, proxy for economic growth was adopted as the dependent variable while the independent variables included total bank deposit and total bank credit. The empirical results of this study shows that both total bank deposit and total bank credit exert a positive and significant impact on the economic growth of Nigeria for the period 1992 – 2011.

Alkhuzam et al. (2014) applied Granger causality and cointegration techniques to investigate the direction of causality and the long-run relationship between economic growth and financial development in Qatarusing annual data from 1990 to 2012. They used three alternative indicators to measure the financial development which are domestic credit provided by banking sector as ratio to GDP, Bank credit to private sector as ratio to GDP, and broad money supply (M2) to GDP ratio, while the real GDP measures the economic growth. Their analysis showed that a positive long-run relationship exists between all the three financial development indicators and real GDP. They also found that in the short-run a unidirectional causality running from the real GDP to domestic credit provided by the banking sector. However, no causal relationship between bank credit to the private sector to GDP and real GDP, and between other two financial indicators and real GDP was been found.

Iwedi and Igbanibo (2015) paper models the relationship between financial intermediation functions of banks and economic growth in Nigeria using data spanning (1970-2014). Credit to private sector (CPS),banks deposit liabilities (DLS), and money supply (MOS) were used as proxy for bank financial intermediation functions while gross domestic product represents economic

growth. The econometric tools of the regression analysis and co integration test were used. The analysis revealed that no short run relationship existence between CPS, DLS and GDP in Nigeria. However, the analysis revealed a long run relationship between bank financial intermediation indicators and gross domestic product in Nigeria. Murtala, Siba, Ahmad, Muhammad and Ali (2015) empirically tested the relationship between financial intermediaries and economic growth in Nigeria.

Using annual time series data covering 1970 to 2013 to analyze the long run and short run relationship between the development of financial intermediaries and economic growth along with the direction of causality between the indicators, the results of the unit root test show that the variables are integrated atI(1). Co integration is being found between the series in the presence of a structural break in 1987, 1992and 1996. Using bound testing technique for co integration a stable long-run relationship was found between the indicators of financial intermediaries and the economic growth. Error correction coefficient was statistically significant. It was concluded that insurance premium and value of stock transaction have a positive impact on economic growth in both short runs and long-run. However, bank credit has a negative influence on economic growth. The causality test reveals a bi-directional relationship between bank credit and economic growth while a unidirectional causality moves from economic growth to insurance premium and value of stock transactions.

Nyasha and Odhiambo (2015) study examines the impact of bank-based financial development on economic growth in Ghana during the period from 1970 to 2014 using the autoregressive distributed lag(ARDL) bounds testing approach. The empirical results of this study showed that the impact of bank based financial development on economic growth in Ghana is sensitive to the proxy used to measure bank based financial development. The results also tend to vary over time. Overall, the results show that when the ratio of domestic credit extension to the private sector by banks to GDP, and the composite index are used as proxies, bank-based financial development has a positive impact on economic growth in Ghana. However, when the ratio of deposit money banks' assets to GDP is used as a proxy, bank-based financial development has a negative impact on economic growth. These results apply, irrespective of whether the analysis is done in the short run or in the long run. Other results show that when the ratio of the claims of deposit money banks on the private sector to broad money is used as a proxy for bank-based financial development, bank-based financial development is found to have a negative impact on economic growth in the short run, but a positive impact in the long run. However, when the ratio of quasi liquid liabilities to GDP is used, the relationship tends to be positive in the short run, but negative in the long run.

RESEARCH METHODOLOGY

3.2 Research Design

To examine the effect financial intermediation on private investment activities, the study used explanatory research design and quantitative research approach. The study used the ordinary least squares (OLS) model which contains a framework for two groups of variables: dependent and independent variables. The multiple regression model was used for empirical analysis of data and

testing of our research hypothesis. The data was collected from CBN statistical 2021. This analysis employed econometric model using Least Square techniques involving the construction and estimation of multiple regression model to ascertain the Impact of Financial Intermediation Indicators on private investment activities.

3.3 Data Collection Methods

Secondary data will be used in this study. Secondary data refers to information gathered from existing, available resources. Specifically, the data will be collected from the published CBN Statistical Bulletin which is a composite of annual reports of the economic activities in Nigeria. To establish the relationship between financial intermediation and private investment activities in Nigeria over the period 1990 to 2021. Making it a total of 30 observations.

3.4 Analytical Framework and Model Derivation

In order to capture the effects of the trend of financial intermediation on private investment, an empirical model is designed. In this model, the proxies used in measuring financial intermediation are incorporated in to the endogenous neoclassical growth model which sees growth purely from within than from without. This is not different from the theoretical models adopted by (Demetriades& Law, 2004; Liu & Hsu, 2006). amongst others in modelling the relationship between the level of financial intermediation and economic growth. On the basis of this, the empirical model for this study is specified as. So, the operational formular becomes:

$$PINV = f(SAV, CPS, EFI)$$

3.5 Method of Data Analysis

The simple ordinary least squares based on the ARDL framework to examine the relationship between private investment, as dependent variable, and aggregate savings, aggregate credit to the private sector and efficiency of financial intermediation, as independent variables. The model is autoregressive because the dependent variable is explained in part by the lagged values of itself. The approach involves estimating the following equation:

$$PINV_t = \alpha_0 + \alpha_1 PINV_{t-i} + \alpha_2 SAV + \alpha_3 CPS + \alpha_4 EFI + \mu_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.1)$$

Where:

PINV = private investment;

SAV = aggregate savings;

CPS = aggregate credit to the private sector;

EFI = efficiency of financial intermediation;

t = represent the time dimension

α_0 = Intercept;

$\alpha_{1t} - \alpha_{3t}$ = model coefficient to be estimated

u_t = model error terms

3.6 Hypothesis Testing and Decision Rule Criteria

The decision rule was employed to test the hypothesis of the study and to make comparison between the probability value and the critical value. The study adopted 5% as its level of significance. The following decision rules were adopted for rejecting or accepting the null hypotheses: If,

i. Probability value (p-value) > 0.05 critical value; do not reject the null hypothesis (H_{0i}).
ii. Probability value (p-value) < 0.05 critical value; reject the null hypothesis (H_{0i}).

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the framework for analyzing this research with the primary purpose of linking financial intermediation (SAV for aggregate savings; CPS for aggregate credit to the private sector; and EFI for the efficiency of financial intermediation) to private investment in Nigeria. In addition, the empirical model developed in chapter three is used in this chapter. The chapter discusses evenly the model estimation process, the instrumental variables used and findings.

4.2 Descriptive Statistics

The study conducted the descriptive statistics of the relevant variables involved. Table 4.1 vividly shows these statistics. It shows total number of observations, mean, median, maximum, minimum, standard deviation and the sum of mean deviation. This study's dependent variable is private investment (PINV), while the independent variables are SAV for aggregate savings; CPS for aggregate credit to the private sector; and EFI for the efficiency of financial intermediation. However, PINVhas a minimum of 12.80% and a maximum value of 48.26% of Nigeria's GDP. In the same measure, the maximum and minimum values for CPS are 22.75% and 5.806%; for EFI are 11.06% and 3.27%%; for INF are 13.68% and 3.29%, respectively.

Table 4.1: Descriptive Statistic

	PINV	CPS	EFI	SAV
Mean	24.99424	12.58404	7.573636	8.252517
Median	24.04968	9.700550	7.447500	6.579534
Maximum	48.26039	22.75484	11.06417	13.68187
Minimum	12.80052	5.806165	3.268333	3.291754
Std. Dev.	9.900731	5.770652	1.642881	3.515630
Skewness	0.579727	0.289074	-0.068215	0.192290
Kurtosis	2.398927	1.332762	3.447617	1.424023
Jarque-Bera	2.274164	4.151915	0.291966	3.508805
Probability	0.320754	0.125436	0.864172	0.173011
Sum	799.8158	402.6892	242.3563	264.0806
Sum Sq. Dev.	3038.759	1032.313	83.67077	383.1493
Observations	32	32	32	32

Source: Researcher

For the degree of volatility, the standard deviation in table 4.1 showed that private investment in Nigeria was more volatile having a standard deviation value of 90900. This is clearly so because the standard deviation value is the highest among all the data included in the model.

4.3 Model Estimation

The estimated ARDL model at levels from the coefficients is stated below:

PINV = - 6.06 - 5.98*CPS + 4.34*EFI + 8.45*SAV

From the model estimation above, EFI and SAV have positive relationship with private investment, while CPS is having a negative impact on private investment. However, the contribution of SAV to private investment is seen to be the highest with a coefficient value of 8.45.

4.4 Hypotheses Testing

To test the hypotheses, we will use probability criteria, if:

$p > 0.05$: Accept H_O.

$p < 0.05$: Reject H_O.

4.4.1 Testing of Hypothesis One (1)

Hypothesis one is restated below:

H01: Credit to the private sector has no significant effect on private investment activities in Nigeria.

Table 4.2: Extraction for Testing Hypotheses One

Variable	Coefficient	t-Statistic	Prob.*	Decision
CPS	-5.983	-2.523	0.027	Reject H01

Source: Researcher

First of all, the result shows that there is a negative and significant relationship between CPS and PINV (representative of the private investment) in Nigeria. The result means that a single unit increase in CPS leads to a decrease of 5.983 units in private investment performance in Nigeria. Since the computed probability value of CPS (0.027) is less than the critical test level of 0.05 (i.e. $P < 0.05$), we reject the null hypothesis and conclude that Credit to the private sector has a significant effect on private investment activities in Nigeria.

4.4.2 Testing of Hypothesis two (2)

Hypothesis two is restated below:

H02: Savings rate has no significant effect on private investment activities in Nigeria.

Table 4.3: Extraction for Testing Hypotheses Two

Variable	Coefficient	t-Statistic	Prob.*	Decision
SAV	8.4457	2.2776	0.0419	Reject H02

Source: Researcher

The result in table 4.3 as issued in regression revealed that there is a positive and significant relationship between SAV and PINV (representative of the private investment) in Nigeria. The result means that a single unit increase in SAV leads to an increase of 8.4457 units in private investment performance in Nigeria. Since the computed probability value of CPS (0.0419) is less than the critical test level of 0.05 (i.e. $P < 0.05$), we reject the null hypothesis and conclude that savings rate has a significant effect on private investment activities in Nigeria.

4.4.3 Testing of Hypothesis three (3)

Hypothesis three is restated below:

H03: The efficiency in financial intermediation has no significant effect on private investment activities in Nigeria.

Table 4.4: Extraction for Testing Hypotheses Three

Variable	Coefficient	t-Statistic	Prob.*	Decision
EFI	4.3368	1.6796	0.1189	Accept H03

Source: Researcher

Thirdly, the result in table 4.4 as issued in regression revealed that that there is a positive and significant relationship between EFI and PINV (representative of the private investment) in Nigeria. The result means that a single unit increase in EFI leads to an increase of 4.3368 units in private investment performance in Nigeria. Since the computed probability value of SAV (0.1189) is greater than the critical test level of 0.05 (i.e. P > 0.05), we accept the null hypothesis and conclude that the efficiency of financial intermediation has a significant effect on private investment activities in Nigeria.

4.5 Discussion of Results

Effect of credit to the private sector on private investment in Nigeria

The first objective of this study was to determine the effect of credit to the private sector on private investment in Nigeria. The regression analysis shows that credit to the private sector have negative and significant relationship with private investment in Nigeria. The outcome of the model shows that a rise in credit leads to a decrease in private investment. It was expected that when credit is available to customers, money in circulation will increase and the economy will be agitated and therefore ignite investment and capital development, but this inverse revelation means that credit is a detrimental determinant of private investment in the economy. The account of Markjackson, Timinipre, Nelson and Okoyan(2017) avails that most of these loans were committed to ventures that died in their infancy due to lack of technical and managerial capital and their inability to penetrate the local market for their products due to the fact that Nigeria is a dumping ground for foreign goods. According to a study of about small private firms' performance in Nigeria has it that about 30-35 percent of the 39 enterprises understudied firms operated under their established capacity from 1995 to 1996 with turnover and profit volume indicating little or no increase. Also, most of the funds extended to the private sector firms could have been used for purposes other than investing in the business. However, the results for the long run show that the predictor variable can contribute enormously to economic growth in Nigeria.

Effect of savings rate on private investment in Nigeria

The second objective of this study was to determine the effect of savings rate on private investment in Nigeria. The regression analysis shows that savings rate is positive and significant; implying that an increase in value of savings rate in Nigerian would increase private investment in Nigeria. The coefficient of the value of savings rate in Nigeria is positive. This implies that the value of savings rate has a positive impact on private investment in the Nigerian economy.

The results of the research concerning the correlation between savings and private investment in Nigeria is generally consistent with economic growth theories. From the point of view of a standard theory of economic growth, positive cause and effect relation between domestic savings and economic growth may in economies, in which quite high domestic savings may constitute an essential source of financing domestic investment and an economic growth factor, without thenecessity of using foreign investment. For the same reason, in a poorcountry like Nigeria, thereshould not be any relation between domestic savings and private investment, as the country,in

order to finance its investment, use mostly foreign savings as their domestic savings arequite scarce. Contrary to this view point, savings has been revealed to exert positive and significant impact on private investment in Nigeria. This is not so surprising as there have been increased savings platforms in the financial structure of the country. The impact of insurance savings, pension savings cannot be ignored.

4.5.3 Effect of on the efficiency of financial intermediation on private investmentin Nigeria

From the findings, it was established that the efficiency of financial intermediation has positive and insignificant effect on private investment in Nigeria. The coefficient of gross fixed capital formation was found to be positive. This implies that the efficiency of financial intermediation exerts a direct impact on private investment in the economy. Further observations indicate that the efficiency of financial intermediation is statistically invalid in this respect. The efficiency of financial intermediation or interest rate spread is a vital variable in the financial system. On a number of levels the efficiency of financial intermediation are important. On an individual level, high efficiency of financial intermediation deters one from embarking on an investment because the financing cost would be extremely high. On the other hand, low efficiency of financial intermediation could motivate one to save because one can earn more interest income (Claessens, Coleman, & Donnelly, 2018). High efficiency of financial intermediation might cause a company to postpone an investment such as purchasing a new machinery to expand operations, thus thwarting the effort to create more jobs to foster economic growth.

The lack of significance of the efficiency of financial intermediation in Nigeria, even after several financial liberalization and reforms, may be connected to the rigidityof banks and banking behaviors especially in terms of market power from unchanged operating structures (Haruna, 2012). Other sources of rigidity may include increased loan provisioning from increased high-risk assets' investment in pursuit of larger market share; high non-financial (operating) expenses; and effects of macroeconomic instability or the policy environment. Hesse (2007) argued that even the boomexperienced by the Nigerianbanking sector after liberalization was largely due to proliferation of new banks driven byattractive arbitrage opportunities in the foreign exchange market. Banks seem only willingto be increasing lending rates while holding the deposit rates low in order to maintain highspread. He pointed out that on comparative basis with pre-liberalization period, financial intermediation did not improve but declined after financial liberalization began in 1986.

CONCLUSION AND RECOMMENDATION

5.1 Summary

The purpose of this study was to provide a deeper understanding of the effect of financial intermediation on private investment in Nigeria. In the first chapter, the issues that aroused interest in this work are highlighted under the research background, after which certain issues arose that the study aimed to address. Three research objectives were clarified and three hypotheses were developed as unambiguous answers to the research questions posed by the research problem. Also, the importance of research was highlighted, in terms of prospective benefits; the scope of the study was clearly defined and other factors that could hinder research from achieving its objectives.

The second chapter was devoted to a review of related literatures. As such, this research has rooted in the path of various authors and researchers in the field of private investment and financial intermediation. This is done under three main headings, namely; conceptual framework, empirical framework and theoretical framework.

In the third chapter, the approach adopted in conducting this study is presented in a systematic way. The study relied on census data on private investment and financial intermediation available in the Central Bank of Nigeria Statistical Bulletin. The tool of regression analysis for the study is proposed in Chapter Three.

The fourth chapter focuses on the presentation and analysis of data and the evaluation of hypotheses. The data collected is presented in tables. Specifically, descriptive statistics are first performed as an initial analysis and then the model is estimated using the Ordinary Least Squares Regression procedure.

The study relied on private investment (PINV) as dependent variable, while the independent variables are SAV for aggregate savings; CPS for aggregate credit to the private sector; and EFI for the efficiency of financial intermediation.

5.2 Conclusion

This study effect of financial intermediation on private investment in Nigeria. This was aimed at ascertaining how SAV for aggregate savings; CPS for aggregate credit to the private sector; and EFI for the efficiency of financial intermediation has stimulate private investment performance in Nigeria. Historical data was collated and estimated employing the ARDL regression technique. The empirical results indicate that both aggregate savings and the efficiency of financial intermediation exert positive impacts on private investment performance in Nigeria, while the effects from aggregate savings and credit to the private sector was negative. But as private sector credit was significant, the positive effect from the efficiency of financial intermediation was not statistically significant.

5.3 Recommendations

On the basis of the findings of this study, the following recommendations are made.

a) The monetary authorities have to regularly review their monetary policy direction to bring interest rate spread down and increase the efficiency of financial intermediation in the country.
b) Since aggregate savings has been shown to exert positive and significant impact on private investment activities, it is recommended that economic policy makers sustain and improve the current platforms for savings in the country. Most especially, increase the enrollment to the contributory pension scheme.
c) It clearly shows that the regulatory, monitoring and supervisory oversight on private sector firms are poor as credit are being eroded away, there is need to strengthen regulatory, monitoring and supervisory oversight on private sector firms by the Government, banks and self-regulatory bodies.

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