

GOVERNMENT INVESTMENT, FOREIGN DIRECT INVESTMENT AND STANDARD OF LIVING IN NIGERIA

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Abstract

The study attempts to appraise government's investment decisions over time and how its ripple effects on other major investment sources affect living standard in Nigeria. Partial adjustment technique was used to estimate specified model in the study which covers the period 1980 – 2017, in an attempt to account for both short-run and long-run impacts and optimal estimates. The results revealed that government investment expenditure has statistically significant negative impact on living standard in the short-run, while government welfare expenditure, private investment, foreign direct investment and one-period lag of per capita GDP have positive impact on living standard in the short-run. The study recommends government to consider profitable investments as means of improving welfare of the citizenry, and as such should employ international best practices in managing its firms. Furthermore, it should separate the management of its firms from politics by collaborating with the private sector within specified favourable framework.

Keywords: Government Investment, Foreign Direct Investment, Economic Development, Nigeria

INTRODUCTION

Government investment is one of the means through which government ensures sustainable development. It does not only create the platform for government to generate revenue to cater for the needs of the people through less burdensome means, it also ensures a steady stream of income over the years. Since Nigeria's return to democracy in 1999 government's recurrent expenditure has grown from about 49 per cent of total expenditure as at 1999 to about 80 per cent as at 2016. The huge increase in recurrent expenditure leaves only a small fragment of government's earnings trickling to a majority of the population. That a sizeable proportion those in government's pay roll who actually partake in the disbursement of the about 80 per cent of government's earnings are still grappling with poverty shows the shocking level of deprivation and inequality that hold sway in the country (Central Bank of Nigeria Statistical Bulletin, 2016).

The Nigerian government considers employment into public service as about the easiest and most effective means of providing jobs to the teeming unemployed youths and in that line of thought rolls out welfare programs like 'You Win', where participants get paid by government for doing almost nothing, notwithstanding the country's numerous investment opportunities in so many untapped sectors and the already over bloated service. Meanwhile the country imports most of its durable goods. The Small and Medium Scale Enterprises Equity Investment Scheme (SMEEIS) is also another laudable program of the government where small scale industry owners are given credits, but it does not seem to have made visible impact in the lives of the masses. The programme is rigged unwholesome practices such that the loans do not get to those who need them and when they do, only few end up having thriving businesses due to the absence of needed social infrastructure.

Also, many of the supposed thriving businesses remain stunted for a really long time; a financial system that helps start-ups grow into big corporations is utterly absent. These could be some of the reasons for calls in some quarters for government's review of its poverty alleviation and industrialization policies, with suggestions for government to lay emphasis on size of company in its effort to generate gainful employment and attain industrialized status. Studies have shown that the size of a firm empowers it to compete effectively with other domestic and foreign competitors with oligopolistic advantage (Lee, 2009).

In line with the legacies bequeathed by the colonial masters, Nigeria's founding fathers, some of the country's earliest leaders invested in profitable ventures too. They used public funds to build social infrastructures and profitable corporations that improved government's balance sheet and living standard of the populace. A closer assessment of government's investment records shows that most of the corporate investments the Nigerian government had as at 1999 were acquired before the second republic (1979 - 1985). Conversely, government

has since the fourth republic (1999 till date) sold government assets almost as much as it has acquired; if not more.

There have been debates over the dimensions government investment expenditures have assumed; there are claims that unlike the period before 1979 when government made huge investments in building profitable firms, in recent times it prefers to act as an umpire who regulates the operations of private firms in various sectors of the economy and provides the infrastructures that facilitate production processes with greater ease. It is also believed that its investment expenditures currently focus more on social capital and in attracting local and foreign investments. Has government's investment expenditure improved Nigeria's FDI inflow? Are government investments in social capital making the needed impact on welfare? Regardless of the forms which government investments assume, whether profit oriented or purely beneficial, it is part of a concerted effort toward improving quality of lives of the populace. Thus, it would not be out of place to assert that the ultimate measure of the quality of a government's investment decisions depends on the level of impact of its investment expenditures on the living standard of the average man.

Nigeria's ranking in the United Nation's Development Programme (UNDP) Human Development Index (HDI) computations does not portray the country to be doing well in terms of social welfare. The country is still ranked as having low human development index, put at 0.514 as at 2015. Though there are indications that welfare spendings do not necessarily bring about commensurate improvement in social welfare, does Nigeria's poor development ranking stem from poor funding or misappropriation of allocated funds (Somoye, Olayiwola, Bidmoz, Oke and Odubun, 2010; United Nations Development Programme Report, 2015).

Intrigued by the phenomenal role government investment plays in improving welfare, the study tries to weigh the impact of government investment decisions on the standard of living of the average man in Nigeria, as part of a larger effort to appraise government's investment decisions. It attempts to support efforts geared towards unraveling the mystery behind why Nigeria is still grappling with the menace of poverty despite government's effort to eradicate the scourge. The study covers the period 1980 to 2017, since government's investment expenditure started experiencing drastic decline from the mid-80s.

STYLIZED FACTS ON GOVERNMENT INVESTMENT, LIVING STANDARD AND FOREIGN DIRECT INVESTMENT IN NIGERIA

The Nigerian National Petroleum Corporation (NNPC) is a state owned oil and gas company which also manages Nigeria's oil and gas resources on behalf of the government. Even though it wields a lot of influence, its profit margin has not been impressive and has on average

experienced stunted growth in the recent past. The company's performance when compared with other state owned oil and gas companies, especially in the developed countries, is far from being remarkable. NNPC like other profit making companies of the Nigerian government is constrained by bureaucratic tenets that characterize government businesses. It has an over staffed work force with pay rates and allowances that are not in tandem with the company's size or performance, its transactions are shrouded in obscurities and ensnared with corruption.

The NNPC's recent search for oil in the Lake Chad Basin and other northern parts of the country is no doubt commendable as it is geared toward dampening the effects of shocks that come with disruption of oil production and supply by the ever rampaging Niger-Delta youths (Ezenekwe, Umeghalu and Uzodigwe, 2018). Surprisingly, it does not show that the managers of the country's economy are doing so with a meticulously written and actionable blue print. About \$340 million and an additional N27 billion is said to have been spent in seismic expedition, searching for hydrocarbons in the Lake Chad basin alone (Punch, 2017). The amount spent on oil exploration, including those expended in the Benue trough and Bauchi State is estimated to be enough to buy a controlling stake in a relatively small mobile phone or computer manufacturing firm with brands that sell in Nigeria. This simple decision could have far reaching implications for the country's economy, including job creation, saving and earning of foreign exchange and spurring technological advancement.

Table 1 below shows Nigeria's net foreign direct investment, FDI inflow and its percentage as the country's Gross Domestic Product, GDP from 1980 – 2014 (World Development Indicator, 2014). While detailed data on government's profitable investments tend to be scanty, available data shows that net FDI flow into the country is negligible when compared to many countries in Europe and North America. It was also observed that a high proportion of the country's FDI inflow goes to the Oil and Gas sector. Since FDI is directly proportional to government's profitable investments, it will not be far from right to assert that government investment expenditure is still very low (Haruna Danja, 2012).

Table 1 Nigeria's Foreign Direct Investment, Net Inflow

Year	FDI (\$ US' ml)	FDI as % of GDP
1980	738.8	-1.15
1985	485.6	1.68
1990	587.9	1.91
1995	1,097.3	3.78
2000	1,140.1	2.46

2005	4,982.5	4.44	Table 1...
2010	6,026.2	1.63	
2014	4,655.8	0.82	

Source: World Bank, 2014

Amidst the absence of a regulatory body, international postal service companies remain the biggest players in Nigeria's postal service sector despite the huge advantages the country's government owned Postal Service Company has over them. Nigerian Postal Service, NIPOST has by far the highest number of branches in strategic locations, even in smaller towns and does not pay taxes like the private courier firms do. The abounding potentials of the sector are not just limited to making doing business in the country easier, it also has the potentials to provide gainful employment and generate revenue for the government. It will be ludicrous to compare Nigeria's NIPOST with highly efficient courier firms like DHL, UPS, and FedEx, as they are all highly efficient multinational firms with thousands of employees in their payroll, whereas NIPOST continues to struggle for survival.

A keen assessment of investment decisions of the Ministry of Transportation, especially in recent times shows that the Ministry could have made better decisions. Monumental social service projects like railways are capital intensive; hence, they are usually subjected to meticulous evaluations, including viability and sustainability tests. A thorough project evaluation and research would have helped the key decision makers in the Ministry to make informed decisions, and as such should have known that the Lagos – Calabar standard gauge railway project is not prudent at this stage of the national railway project. Even without carrying out a thorough study, virtually everyone knows that the busiest routes in the country are Lagos – Onitsha, Lagos – Kano and Onitsha – Kano routes respectively. Therefore, it behoves an effective Ministry to give priority to the Lagos – Kano route, with stations in Ibadan, Benin and Onitsha in addition to the Abuja and Kaduna Stations; as their completion will generate enough funds needed to expand the rail network to other parts of the country. It is important to note that the cost of the Lagos – Calabar standard gauge rail project is about sufficient to construct a standard gauge railway from Lagos to Abuja, with stations at the afore stated cities. From the foregoing, it becomes glaring that if government had carried out a painstaking investment analysis it might not find itself in the position where it continues to seek for loan; if at all it would, it would not be as a government but as a viable business entity capable of paying the borrowed funds from profits generated from the project.

Attempts to mitigate the adverse effects of oil export earnings instability led to the establishment of the excess crude oil account and Sovereign Wealth Fund, with Nigeria

Sovereign Investment Authority as the investment arm. That the Nigerian economy is still vulnerable to oil price and quantity shocks as evidenced by the country's recent plunge into recession in 2016 like it did in pre-sovereign wealth fund era, in 1990 and 1998 respectively, despite the creation of institutions saddled with the responsibility of forestalling such occurrences implies that the country's sovereign wealth fund is nowhere close to performing at optimal level. With the prevailing interest rate in the country, even if the country's sovereign wealth fund were managed in an orthodox manner like the Norwegian Trust Fund, it should have worth a lot more than it used to be as at 2013 (Central Bank of Nigeria Statistical Bulletin, 2016).

Table 2 Sovereign Wealth Fund of Select Countries and their Management Ratings

Country	Sovereign Wealth Fund Name	Assets (\$US Bn)	Inception	Source	Linaburg-Maduell Transparency Index
Norway	Government pension Fund	998.93	1990	Oil	10
UAE-Abu Dhabi	Abu Dhabi Investment Authority	828	1976	Oil	6
Kuwait	Kuwait Investment Authority	524	1953	Oil	6
Saudi Arabia	SAMA Foreign Holdings	514	1952	Oil	4
Qatar	Qatar Investment Authority	320	2005	Oil/Gas	5
Saudi Arabia	Public Investment Fund	223.9	2008	Oil	4
UAE-Abu Dhabi	Mubadala Investment Company	125	2002	Oil	10
Iran	National Development Fund of Iran	91	2011	Oil/Gas	5
Libya	Libya investment Authority	66	2006	Oil	1
Brunei	Brunei Investment Authority	40	1983	Oil	1
Oman	State General Reserve Fund	18	1980	Oil/Gas	4
Algeria	Revenue Regulation Fund	7.6	2000	Oil/Gas	1
Mexico	Oil Revenue Stabilization Fund of Mexico	6.0	2000	Oil	4
Angola	Fundo Sobera no de Angola	4.6	2012	Oil	8

Source: Sovereign Wealth Fund Institute, 2017

Emulating the more proactive ingenuity of the Gulf countries like United Arab Emirates, Qatar, and Saudi Arabia among others, the country's sovereign wealth fund should have snow-balled into a sizeable multinational corporation; a feat that could have been consolidated through mergers, acquisitions and healthy borrowings and would have saved government the burden of building a national air carrier, a bullet train network, low income housing projects and state of the art health facilities. Investing in the above stated sectors would have been a lot more productive than partnering with a construction company to construct the second Niger Bridge.

Despite government's discouraging records in managing profitable ventures, as could be seen from performance of firms completely owned by government now or before they were privatized, one cannot help but wonder why it is bent on creating and managing agencies in sectors of the economy with huge bearings on the living standard of the masses, particularly when these roles could be effectively managed by the private sector. This explains why the huge potential gains that come with the country's National Health Insurance Scheme, NHIS remain elusive. The scheme is marred by issues bordering on eligibility of participating hospitals, coverage, nature and quality of services given to participants, accountability and general management. These inefficiencies have even led to the suspension and eventual sack of the scheme's Executive Secretary whose administration has been fraught with allegations of fraud. Also, the corruption scandal that has rocked the country's pension scheme, the National Pension Commission, comes close to justifying the position that government should improve its investment skills by introducing relevant laws and guidelines or just play the role of an umpire.

The Bureau of Public Enterprise, BPE saddled with the responsibility of privatizing government owned business enterprises with the aim of making them more effective and profitable is one of those agencies whose methods and even existence have attracted wide public criticism. With one of the most vibrant stock exchange markets in the world, why would the Nigerian government need an agency to sell off its priced assets on its behalf through not-very transparent auctions when it could get big wallet investors plus the average man's excessive patronage if the stock exchange market were to be used? If formerly government owned firms like Ajaokuta Steel Complex, NITEL and other moribund privatized companies were transferred to private investors through the equity market, they might have been a lot more productive than they are today.

Social Capital Investment

It could be argued that government's investments in recent times have taken a different turn when compared to government investments before 1979. There has been increase in

government spending on social capital since 1999, and that these investments are both beneficial and generate revenue might want to dwarf the arguments that question government investment decisions; but are these government investment ventures sustainable? The Nigerian government created about 10 new universities, with plans to build more, whereas only one of all the existing Federal universities in the country is ranked among the first one thousand best universities in the world, yet they depend on government for a substantial size of their funding. The federal government spends a huge amount of money in the health sector annually, whereas only a small proportion of Nigerians patronize Federal University Teaching Hospitals or the Federal specialist hospitals; those who do, do so only when they have unusual complications, and are given treatments at exorbitant rates in these hospitals, yet the hospitals depend on government funding for sustenance.

Are government social investments making the needed impact in Nigeria? One of government's most laudable projects since 1999 is the Universal Basic Education (UBE) programme. It seeks to ensure that all Nigerian kids acquire the least education that they require to excel in all endeavours, even if they do not want to pursue white collar vocations. Though the programme has improved since its inception, it is still far from living up to its billings. The sad reality of the programme's dismal performance becomes more noticeable when students in the UBE programme are compared with their peers in low standard private schools. The poor performance of kids in the programme vis-à-vis those in private schools, despite the bigger salary package of teachers working in government schools compared to that of teachers in the private schools suggest that government's investment is not even close to yielding the desired result.

Though the quality and ease of access to medicare in Nigeria have improved as indicated by the country's life expectancy value which has increased from 45.33 years in 1980 to 53.43 years in 2016 (World Bank, 2017). The attainment of this feat cannot be attributed to government's effort alone. International agencies, civil society organizations, groups and individuals have also made huge contributions toward this achievement. Notwithstanding the supposed attained feat, the country continues to grapple with the elimination of polio, the diminishing number of medical doctors/ nurses per thousand patients, while accessing medicare in federal hospitals is still out of reach of the common man. Also, the prevalence of malaria, child and maternal mortality and other preventable health anomalies are still on the high side (Somoye, Olayiwola, Bidmoz, Oke, & Odubunmi (2010)).

Table 3 Nigeria's Life Expectancy

Year	Life Expectancy (Years)	Maternal Mortality Ratio (Per 1000 live births)	Mortality Rate, Under-5 (Per 1000 live births)	Physicians per 1000 persons
1980	45.33		214.50	0.113
1985	46.12		209.90	0.192
1990	45.89	1, 350	212.90	
1995	45.85	1, 250	208.30	
2000	46.26	1, 170	187.40	0.269
2005	48.24	946	157.90	0.281
2010	50.84	867	129.60	0.395
2015	52.98	814	108.00	
2016	53.43		104.30	

Source: World Bank, 2017

The health sector in Nigeria is generally below international standard, this explains why top government officials and other wealthy country men seek medical treatments abroad. That the country's health sector is largely dominated by government tends to suggest that the rot in the sector is traceable to poor funding or misappropriation of allocated funds (Somoye et al, 2010).

Foreign Direct Investment in Nigeria

There is empirical evidence that government investment expenditure has a positive relationship with Foreign Direct Investment (FDI), this suggests that the trend of a country's FDI could be used to assess the performance of government's investment decisions (Haruna Danja, 2012). The flow of FDI in Nigeria dates back to the 1820s and was led by the British; the British thrust was spear-headed by the merchants who had established a bridge head on the Niger Delta in the 1820s.

According to Ekundaro (1973), two important developments were responsible for the influx of British traders into the Niger Delta in the period after 1850. The first was the regular appearance of steam ships in the Niger Delta which provided cheap freight, the second was the re-organization of business units in English which allowed for Limited Liability Companies to be formed, and after then came the English trading companies in Nigeria.

It is widely acknowledged that Foreign Direct Investment (FDI) is an important aspect of the recent wave of globalization. United Nations Conference on Trade and Development, UNCTAD (2001) notes that FDI in the world rose from US \$57 billion in 1983 to US \$1,271 billion in 2000. Even so, only a few countries have been successful in attracting significant FDI flows. Africa as a whole and Sub-Saharan Africa (SSA) in particular has not particularly benefited from the FDI boom. For most of the time since 1970, FDI inflows into Africa have

increased only modestly, from an annual average of about US\$1.9 billion in 1983 – 1987 to US \$3.1 billion in 1988 – 1992 and US \$4.6 billion in 1991 – 1997.

Although UNCTAD's World Investment Report 2004 reported that Africa's outlook for FDI is promising, the expected surge is yet to be manifest. FDI is still concentrated in only a few countries for many reasons ranging from negative image of the region to poor infrastructure, corruption, foreign exchange shortage and unfriendly macroeconomic policy among others.

Nigeria is one of the few countries that have consistently benefited from the FDI inflow into Africa. Nigeria's shares of FDI inflow to Africa averaged around 10% from 24.19% in 1990 to a low level of 5.88% in 2001 up to 11.65% in 2002. Prior to the early 1970s foreign investment played a major role in the Nigerian economy, a sizeable proportion of it was controlled by large foreign owned trading companies that had a monopoly on the distribution of imported goods. Between 1963 and 1972 an average of 65% of total capital was in foreign hands (Jerome & Ogunkola, 2004).

Successive governments in Nigeria viewed FDI as a vehicle for political and economic domination, hence, the thrust of government's policy through the Nigeria Enterprise Promotion Decree (NEPD) (Indigenization policy) was to regulate rather than promote FDI. The NEPD was promulgated to limit foreign equity participation in manufacturing and commercial sectors to a maximum of 60%. In 1997, a second indigenization decree was promulgated to further limit foreign equity participation in Nigeria business to 40%. Hence, between 1972 and 1995, official policy toward FDI was restricted. The regulatory environment discouraged foreign participation resulting in an average flow of only 0.79% of GDP from 1973 to 1988.

Table 4 Nigeria's FDI and Exchange Rate

Year	Exchange Rate (N per US \$) per	FDI (N' mln)
1970	0.7143	128.6
1975	0.651	253
1980	0.5464	440.1
1985	0.8938	434.1
1990	8.0378	4686
1995	21.8661	75940.6
2000	102.1052	115952.2
2005	132.147	654193.1
2010	150.198	690375.1
2015	181.2	611492.6

Source: CBN Statistical Bulletin, 2016

The adoption of the Structural Adjustment Programme in 1986 initiated the process of termination of the hostile policies towards FDI. A new industrial policy was introduced. The Industrial Development Coordinating Committee (IDCC) was established in 1988 as a one-step agency for facilitating and attracting foreign investment flow. This was followed in 1995 by the repeal of the Nigeria Enterprises Promotion Decree and its replacement with the Nigerian Investment Promotion Commission Decree 16 of 1995. The NIPC absorbed and replaced the IDCC and provided for a foreign investor to set up a business in Nigeria with 100% ownership. Upon provision of relevant documents, NIPC will approve the application within 14 days (as opposed to four weeks under IDCC) or advise the applicant otherwise. Furthermore, in consonance with the NIPC decree, the Foreign Exchange (Monitoring and Miscellaneous Provision) Decree 17 of 1995 was promulgated to enable foreigners to invest in enterprise in Nigeria or in money market instruments with foreign capital that is legally brought into the country. The decree permits free regulation of dividends accruing from such investment or of capital in event of sale or liquidation (Akinsanya, 1994).

Despite the consistent effort to attract foreign investment in Nigeria, the inflow is still relatively very low, for instance, the inflow of FDI fell drastically from N5, 672.9 million in 1996 to stabilized at N32,434.40 million in 1998 and declined to N13,531.2 million in 2003. Inflows of foreign direct investment has been attributed to a number of factors among which macroeconomic instability, as evidenced by rising inflation, interest rate and unstable exchange rate arising from fiscal dominance. The table above shows prevailing exchange rates alongside foreign direct investment in the country over the years. Nigeria's exchange rate against the US dollar appreciated from 0.7143 to 0.5464 from 1970 to 1980, but depreciated from 0.8938 to 181.2 from 1985 to 2015. FDI on the other hand increased from 128.6 million naira to 611, 492.6 million naira from 1970 to 2015, with decrease from 440.1 million naira to 434.1 million from 1980 to 1985, and relative decreases in 1978, 1982, 1983, 1990, 1998, and 2012 respectively (Central Bank of Nigeria Statistical Bulletin, 2015).

LITERATURE REVIEW

The uncertainties that surround its occurrence and the tendency of envisaged outcomes to turn out the other way round make investment a more complicated phenomenon than it seems. The arcane aspects of investment border largely on the disparities and similarities between capital and investment and how they change over time. It is these obscurities that most of the early investment theories tried to bring to limelight. The investment theory put forward by Irving Fisher and John Maynard Keynes were quite about fixed capital. Capital is said to be comprised of two

major components: the fixed capital and the circulating capital, where theory of capital and theory of investment become one when the entire capital is circulating capital.

The issue of capital stock remained largely untreated until Post Keynesian and Neo-Keynesian theorists picked up from where the study stopped. They tried to inject capital stock into Keynesian theory in a bid to obtain a more comprehensive microeconomic theory; only to end up adhering to Keynes's strategy of placing the investment decision as the anchor and subordinating capital stock considerations to it. The acceleration theory is of the position that an increase in the rate of output of a firm will require a proportionate increase in its capital stock or optimum capital stock. The flexible theory removes one of the major weaknesses of the simple acceleration principle, that capital stock is optimally adjusted without any time lag. It emphasized on the existence of lags in the adjustment process between the level of output and the level of capital stock. The theory has been developed in various forms by Chenery, Goodwin, Kyock and Junankar, but the most accepted approach is by Kyock. Further works on investment have seen the emergence of other theories, including the profits theory of investment and financial theory of investment (Junankar, 1972).

The profit theory lays emphasis on profits, particularly undistributed profits as a source of internal funds for financing investment. It specifies that investment depends on income. The financial theory of investment developed by James Duesenberry highlights on the role of capital in investment decisions, which Duesenberry claims has been ignored in the accelerator theories. The theory assumes that the market rate of interest represents the cost of capital and does not change with the amount of investment made (Junankar, 1972).

A number of development theories stress the importance of private and government investment in the process of development. These development theories are of the position that there are forces that impede the development of developing countries, hence the need for a counter force. They hinted that the counter force should be a collection of expenditures, mostly investment expenditure. The impediments to development were referred to as vicious circle of poverty, indivisibilities and income depressing forces by the vicious circle of poverty theory, the big push theory and the critical minimum effort theory respectively (Todaro and Smith, 2011).

Research works on investment are replete in the literature, though a lot fewer border on government investment. There are two major categories of investments in an economy. Domestic investment and foreign investment; while the domestic investment is comprised of government investment and private investment, the foreign investment is comprised of foreign direct investment (FDI) and foreign private investment. Research papers analyzing the impact of government investment expenditure on the economy are acutely scarce.

There is a number of studies on private investment and the economy; a handful of them emphasis on the role of government in enhancing private investment and its overall impact on development. Oyedokun and Ajose (2018) attempted to investigate why Nigeria's domestic investment has not been growing and its impact on economic growth. They used Ordinary Least Squares technique to carry out the study over the period 1980 - 2016 and found out that domestic investment positively influences real Gross Domestic Product (GDP). The works of researchers like Soyibo (1996), Ajide (2013) and Akanbi (2010) toed almost a similar line, they all found the existence of a positive correlation between investment and economic growth, with real output, cost of capital and governance indicators as some of the core determinants of private investment in Nigeria; albeit Busari, Omoke, and Adesoye (2002) who assessed the impact of trade practice and its credibility on private investment in Nigeria had a contrary view. The findings of the works of Dailami and Walton (1992), Luintel Mavrotas (2005), Fripong and Marbuah (2010) and Fawowe (2011) that were carried out on countries other than Nigeria also showed a positive relationship between private investment and economic growth and governance indicators.

The performance of government governance indicators in relation to investments could also be weighed from the rate of growth of FDI flow into the country, and the relationship between FDI and government's economic policies. In this guise, Aqeel and Nishat (2004) attempted to ascertain the determinants of growth in FDI in Pakistan, they found out that tariff rate, exchange rate, tax rate, credit to private sector and per capita GDP have significant positive relationship with FDI, whereas wage rate and share price index were insignificant.

While Zakari (2017), Ullah, Haider and Azim (2012), Bo (2009) and Adeleke, Olowe and Fesesin (2014) investigated the impact of exchange rate on FDI, Serven (2003), Chowdhury and Wheeler (2008), Osinubi and Amaghionyeodiwe (2009) and Ellahi (2011) examined the impact of exchange rate volatility on FDI. Most of the researchers found the existence of a positive relationship between FDI and exchange rate and a negative relationship between FDI and exchange rate volatility.

Introducing new variables, Kiat (2010), Udoh and Egwaikhide (2008) and Omakhanlen (2001) examined the impact of inflation on FDI while Lemi and Asefa (2003) assessed the impact of political instability on FDI, in addition to the impact of exchange rate and exchange rate volatility. They found the existence of a positive relationship between exchange rate and FDI, while exchange rate volatility and political instability share a negative relationship with FDI.

Haruna Danja (2012) took a rare twist, he investigated the impact of government investment expenditure on FDI in Nigeria and found that government investment expenditure

has a positive relationship with FDI; hence, an increase in government investment expenditure brings about a sequacious increase in FDI.

METHODOLOGY

Theoretical Framework

The theoretical framework of the study is anchored on the works of Leibenstein, the critical minimum effort theory. Leibenstein was of the position that the economies of developing countries are characterized by the vicious cycle of poverty, a kind of development trap that prevents them from achieving their economic advancement pursuits, hence the need for a minimum effort. He referred minimum effort as the efforts needed and investment required to raise per capita income to that level beyond which the further growth of per capita income would not be associated with income depressing forces. Leibenstein posits that a critical minimum effort is required to propel the economy from one stage of development to another stage in the quest for a better living standard (Leibenstein, 1954).

Most of the research works in the literature only try to peruse how government through its policy and expenditure framework affects domestic and foreign investments. The idea of government being less of a partaker in investments in the real sector of the economy and more of a regulator or umpire leaves the development of the real sector in the hands of the private sector. Economies where the private sector alone drives production tends to lose out on the potential benefits accruable to the economy if the government were a more active player, since it has the clout to raise huge capital outlay required to build sizable corporations. The dearth of capital in developing countries is one of the core factors hindering industrialization in developing countries; though it is argued that there is acute lack of entrepreneurial expertise, the abundance of such acumen would amount to little without capital (Onwuka, 2011).

Aside from the work of Haruna-Danja (2012) there are rarely other research works assessing the impact of government's expenditure on the economy. The study will not only be filling an important gap in the literature by doing that, but will also provide a guide for using government investment in improving living standard in Nigeria and other developing countries at large. The crucial role of government investment in development of even the more advanced economies makes the study insightful.

Model Specification

In line with the theoretical framework and following the earlier works of Aigheyisi (2013) and Bose, Hague and Osborn (2007) who specified economic growth as a function of government expenditure, and the works of Babalola (2015) and Martins and Veiga (2012) who went further

to specify economic development as a function of government expenditure, economic development is depicted to be a function of government investment spending. Government investment expenditure entails government savings which are invested in profitable ventures and social capital; it also includes government expenditures geared towards encouraging domestic and foreign investment. Hence, the functional relationship is specified as follows:

$$PCGDP = a_1 + a_2GIVP + a_3GWEP + a_4PIVP + a_5FDIP + U_t \quad 1$$

Where: PCGDP is per capita GDP; GIVP is government investment expenditure as percentage of total expenditure; GWEP is government welfare expenditure as percentage of total expenditure; PIVP is private investment as percentage of total GDP and FDIP is foreign direct investment as percentage of GDP

Partial adjustment model

Partial adjustment models have often been used to deal with the problem of capital adjustment and to differentiate between short-run and long-run adjustments. An interesting formulation of this model is the logarithmic flow adjustment model, in which:

$$PCGDP_t / PCGDP_{t-1} = \pi \{ PCGDP_t^* / PCGDP_{t-1} \} \quad 2$$

This implies that the ratio of per capita GDP in the current period ($PCGDP_t$) to that in the preceding period ($PCGDP_{t-1}$) is the root of the ratio of desired per capita GDP ($PCGDP_t^*$) to the actual per capita GDP in the preceding year ($PCGDP_{t-1}$), and π represents an adjustment factor.

In log form this model can be written as:

$$\ln PCGDP_t - \ln PCGDP_{t-1} = \pi \{ \ln PCGDP_t^* - \ln PCGDP_{t-1} \} \quad 3$$

Desired per capita GDP is then formulated as:

$$\ln PCGDP_t^* = \phi_1 + \phi_2GIVP + \phi_3GWEX + \phi_4PIVP + \phi_5FDIP + Z_t \quad 4$$

By substituting the value of $\ln PCGDP_t^*$ in equation 2 we obtain:

$$\ln PCGDP_t - \ln PCGDP_{t-1} = \pi \{ \phi_1 + \phi_2GIVP + \phi_3GWEX + \phi_4PIVP + \phi_5FDIP + Z_t - \ln PCGDP_{t-1} \}$$

$$\ln PCGDP_t - \ln PCGDP_{t-1} = \pi \phi_1 + \pi \phi_2GIVP + \pi \phi_3GWEX + \pi \phi_4PIVP + \pi \phi_5FDIP + \pi Z_t - \pi \ln PCGDP_{t-1}$$

$$\ln PCGDP_t = \pi \phi_1 + \pi \phi_2GIVP + \pi \phi_3GWEX + \pi \phi_4PIVP + \pi \phi_5FDIP + \ln PCGDP_{t-1} - \pi \ln PCGDP_{t-1} + \pi Z_t$$

$$\ln PCGDP_t = \pi \phi_1 + \pi \phi_2GIVP + \pi \phi_3GWEX + \pi \phi_4PIVP + \pi \phi_5FDIP + (1 - \pi) \ln PCGDP_{t-1} + \pi Z_t$$

$$\ln PCGDP_t = \Pi_1 + \Pi_2GIVP + \Pi_3GWEX$$

$$+ \Pi_4PIVP + \Pi_5FDIP + \Pi_6 \ln PCGDP_{t-1} + V_t \quad 5$$

Equation 5 is the partial adjustment model whose coefficients represent the short-run elasticity. The short-run parameters describe the short run effects of the explanatory variables on the dependent variable. On the other hand, the long-run coefficients are represented by $\phi_{j's}$ (for $j = 1, 2, \dots, 5$) as depicted in equation 4. These estimates can be derived from the short-run parameters as follows:

$$\Phi_1 = \frac{\pi_1}{\pi}; \Phi_2 = \frac{\pi_2}{\pi}; \Phi_3 = \frac{\pi_3}{\pi}; \Phi_4 = \frac{\pi_4}{\pi}; \Phi_5 = \frac{\pi_5}{\pi}; \Pi_6 = 1 - \pi \text{ (or } \pi = 1 - \Pi_6) \text{ and } V_t = \pi Z_t$$

The adjustment parameter π measures the speed of adjustment and lies between 0 and 1. The closer it is to 1 the faster the speed of adjustment. On a priori, we expect all the variables to exert positive impact on per capita GDP.

Estimation Procedure

Prior to the estimation of the partial adjustment model, the time series properties of the variables are investigated. The purpose is to determine the order of integration. The Autoregressive Distributed Lag (ARDL) approach (which utilizes the bounds testing approach to cointegration) proposed by Pesaran and Shin (1999) and Pesaran et al. (2001) is used in this study. This technique has a number of features that give it some advantages over the approach suggested by Engel-Granger (1987) and the maximum likelihood based approach proposed by Johansen and Juselius (1990) and Johansen (1991). Firstly, it can be used with a mixture of I (0) and I (1) data, that is, it can be used whether the variables are mutually cointegrated or not. Secondly, it involves just a single-equation set-up, making it simple to implement and interpret. Thirdly, different variables can be assigned different lag-lengths as they enter the model. And, the model can be tested by using the OLS (ordinary least square) once the order of ARDL has been recognized (Pesaran and Shin 1999; Pesaran et al 2001).

Data Sources and Measurement

The study employed secondary time series data which were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin of various issues and World Development Indicator (WDI). It covers the period 1980 – 2017.

ANALYSIS AND RESULTS

Correlation Analysis

Given the manner some of our data are constructed, there is tendency that some of them may be correlated. There is therefore the need to investigate this to ensure that multicollinearity does

not constitute a problem. Multicollinearity occurs when two regressors are correlated to a higher degree.

Table 5 Summary of Correlation Analysis

	LEXR	LFDI	LFDIMAN	LFIDEV	LINF	LINSQ	LOPN
PCGDP	1						
GIVP	0.69	1					
GWEP	0.66	0.53	1				
PIVP	0.45	0.52	0.55	1			
FDIP	0.45	0.62	0.65	0.76	-0.42	1	

Table 5 shows the result of pairwise correlation coefficients of the variables of the model. Following a rule of thumb, a pairwise correlation between two variables is said to be high if the correlation coefficient is in excess of 0.8. The result shows that there is no problem of multicollinearity since the pairwise correlation coefficients for all the variables are less than 0.8.

Unit Root Test

The study made use of Perron (1989) and Vogelsang and Perron (1998) break point unit root test. This test is preferred because structural breaks and unit roots are closely related, such that conventional unit root tests (such as ADF, PP, KPSS) are biased toward a false unit root null when the data trend are stationary with a structural break. The results of this test are summarized in Table 6.

Table 6 Summary of Perron (1989) and Vogelsang and Perron (1998) breakpoint unit root test

Series	Break date	t-Statistic@ level	t-Statistic@ difference	Remark
PCGDP	1993	-3.29 (-4.95)	-6.78*** (-4.95)	I(1)
GIVP	1999	-5.60*** (-4.95)		I(0)
GWEP	1988	-4.79 (-4.95)	-9.06*** (-4.95)	I(1)
PIVP	1997	-5.09*** (-4.95)		I(0)
FDIP	1995	-4.27 (-4.95)	-9.38*** (-4.95)	I(1)

Note: *** denotes significant at 1% significance level. The test critical values in bracket [()]

The results of Perron (1989) and Vogelsang and Perron (1998) breakpoint unit root test indicated that per capita GDP, government welfare expenditure as percentage of total expenditure and foreign direct investment as percentage of GDP are first difference stationary at 1% significance level, while government investment expenditure as percentage of total expenditure and private investment as percentage of total GDP are level stationary at 1% significance level. The test further indicated that most probable break-points in the data occurred during the pre-civil rule era in Nigeria (period before 1999). However, breaks in government welfare expenditure as percentage of total expenditure occurred in 1988, while that of exchange rate occurred in 1999. Since the results of the unit root test show that some series are stationary at levels while others are stationary at first difference, the application of ARDL Bound testing approach to cointegration is justified.

Cointegration Test

The result of the cointegration test is presented in Table 7.

Table 7 Result of ARDL Bounds Testing for Cointegration

Test Statistic	Value	K
F-statistic	3.82**	4
Critical Value Bounds		
Significance	I(0) Bound	I(1) Bound
10%	2.2	3.09
5%	2.56	3.49

The cointegration result indicates that the null hypothesis of no co-integration is rejected at 5 per cent level. The result shows that the computed F-statistic exceeds the 5 per cent upper bounds critical values. From Table 7, we conclude that there is a strong support for a long run relationship between living standard measured by per capita GDP and its modeled fundamentals. Thus, these variables are co-moved in the long run.

Estimation of the Partial Adjustment Model

The partial adjustment model is estimated to account for both the short-run and long-run impact of the determinants of standard of living in Nigeria, and then assess the speed of adjustment of living standard to changes in its determinants. The results of the short-run and long-run estimates of the partial adjustment model are shown in Table 8.

Table 8 Summary of short-run and long-run elasticity of the partial adjustment model
(equations 3.5 and 3.4 respectively)

Variable	Short-run elasticities			Long-run elasticities
	parameter	t-stat	P-value	
Intercept	$\Pi_1 = 5.38^{***}$	5.13	0.0000	$\phi_1 = 31.65^{***}$
GIVP	$\Pi_2 = -0.10^{**}$	-2.18	0.0365	$\Phi_2 = -0.59^{**}$
GWEP	$\Pi_3 = 0.23^{***}$	4.98	0.0000	$\Phi_3 = 1.35^{***}$
PIVP	$\Pi_4 = 0.005$	0.43	0.6683	$\Phi_4 = 0.03$
FDIP	$\Pi_5 = 0.12^{***}$	3.40	0.0018	$\Phi_5 = 0.71^{***}$
PCGDP(-1)	$\Pi_6 = 0.83^{***}$	9.94	0.0000	

Adjustment parameter (π) = $1 - 0.83 = 0.17$
Adjusted R² = 71%; DW = 1.8
F-stat = 23.67^{****}
(0.0000)

In Table 8, we estimated a partial adjustment model to account for the short run elasticities of per capita GDP equation, using the estimated short run coefficients we also obtained long run elasticities of the model. The result indicated that government investment expenditure has statistically significant negative impact on living standard in Nigeria in the short-run. The impact of government welfare expenditure, private investment, foreign direct investment and one-period lag of per capita GDP have positive impact on living standard in the short-run, but the impact of private investment is not statistically significant.

In the short-run, a per cent increase in government welfare expenditure, private investment, foreign direct investment or one-period lag of per capita GDP would increase living standard by 0.23%, 0.005%; 3.40% or 0.83% respectively. On the other hand, a per cent increase in government investment expenditure would bring about 0.10% decline in living standard in the short-run. Similarly, in the long-run, all the indicators and living standard are positively related, except government investment expenditure. The adjusted R² is about 0.71, suggesting that about 71% changes in living standard is caused by variations in government investment expenditure, government welfare expenditure, private investment and foreign direct investment. This is a good fit and it is expected, because expenditure in whatever forms (whether in the form of government spending or private investment), is a major macroeconomic aggregate that has the potency to drive any economy.

The partial adjustment parameter (π) which measures the speed of adjustment of living standard to changes in its determinants in the short-run is about 0.17. This implies that observed changes may not equal to the desired changes in living standard in Nigeria, this is

because the speed of adjustment is very slow. The result also implied that the short-run coefficients of the drivers of living standard in Nigeria are not equal to the long-run coefficients.

The optimal living standard in Nigeria

Next, we derive the optimal or desired living standard in Nigeria using the long-run estimates. This will help in assessing the performance of government expenditures over time, whether they have been able to raise living standard to its desired level. To achieve this, we pick eight different periods starting from 1980 with interval of five periods. The selected years include: 1980, 1985, 1990, 1995, 2000, 2005, 2010 and 2015. We estimated the optimal living standard (desired living standard) by substituting the observed values of government investment expenditure, government welfare expenditure, private investment and foreign direct investment into the desired living standard function (equation 4) and then compared the value with the actual living standard level. The long-run living standard function is given in equation 4 as:

$$PCGDP_t^* = \phi_1 + \phi_2GIVP + \phi_3GWEX + \phi_4PIVP + \phi_5FDIP + Z_t.$$

Substituting the long run estimates into the above equation, we obtained the following results:

Table 9 Desired living standard, actual living standard and gap in living standard in Nigeria for some selected periods

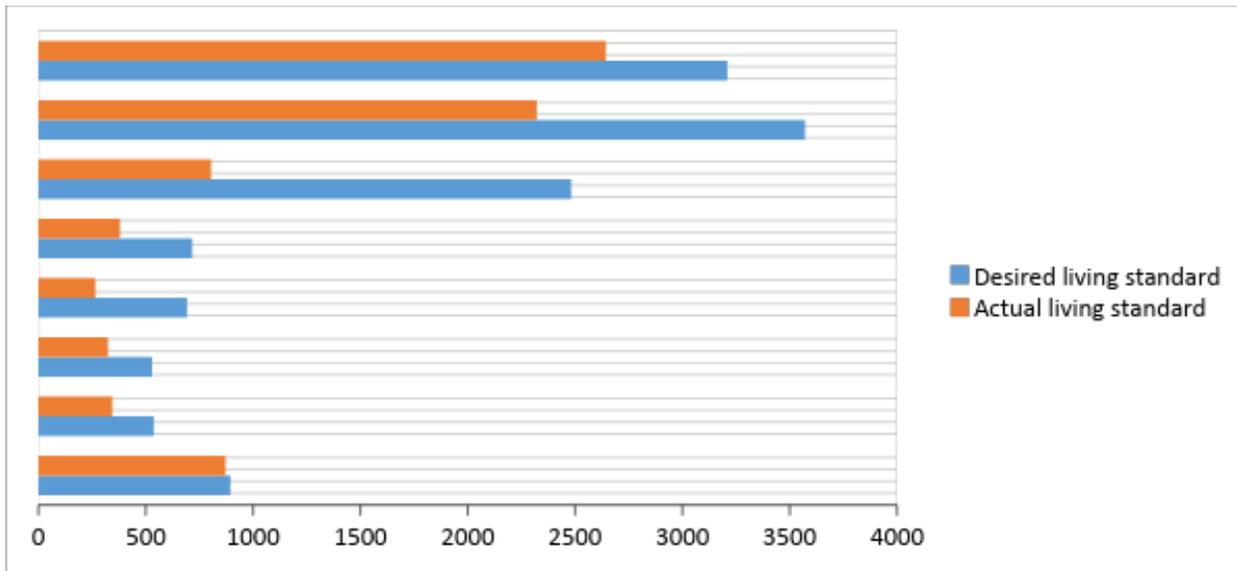
Year	Actual living standard	Desired living standard*	Gap (Actual - Desired)*
1980	871.3119	894.5184	-23.2065
1985	343.7793	537.3404	-193.561
1990	323.7592	529.6679	-205.909
1995	265.0716	692.2952	-427.224
2000	379.9349	716.6011	-336.666
2005	804.3223	2482.228	-1677.91
2010	2321.572	3571.744	-1250.17
2015	2643.873	3209.648	-565.775

Note: the desired living standard and the Gap were computed by the researchers

From the above table, the actual living standard in Nigeria has been less than the desired level. For instance, in 1980 the actual living standard as measured by per capita income (adjusted for PPP) was about \$871, while the desired per capita income was \$894, the gap in per capita income was about \$-23, this implies that actual living standard lagged behind the optimal value by \$23 in that year. Similarly, the actual per capita income in 2015 was about \$2,643, while the desired value was \$3,209, the gap in per capita income was about \$-565. The figure below

summarizes the behaviour of actual and potential per capita incomes in Nigeria for some selected periods.

Figure 1 Actual and Desired Per Capita Income in Nigeria for some selected periods from 1980 to 2017



CONCLUSION

The study made effort to scrutinize government's investment policies and expenditures, and their impact on the living standard of the average Nigerian. The partial adjustment technique was used to estimate the specified model in an attempt to account for both short-run and long-run impacts and optimal estimates. From findings deduced from the study we have come up with the following recommendations:

The primary purpose of government is to improve the collective welfare of the people, in that line of thought, the leaderships at various levels are expected to make decisions that have long term benefits on a majority of the masses. Thus, Government owned firms should be managed prudently and profitably in line with international best practices, with performance comparable to what obtains in the private sector. Consequently, all bureaucratic inclinations found in government cycles should be jettisoned. The best hands should be recruited regardless of their biological background or religious affiliations and only when there is the need for it; not just to get some persons off the labour market as it is done in the public service.

The gains accruable to a firm do not only come in the form of profits; they could also be achieved through increase in size and innovations. Research studies have shown that the size of a firm affords it privileges unavailable to smaller firms; a salient reason why private firms

owned by African entrepreneurs are outperformed by rival foreign firms in more advanced climes. Research and innovations also give these sizeable firms unbridled edge, since they are usually able to finance it. Government's motive for investment should not be narrowed down to profit making, even though it rarely makes profit, government should focus more on size and efficiency. A government owned firm that focuses on spreading its tentacles beyond the borders of its country is not only positioning itself to be a force to reckon with globally but also stands to generate gainful employments that are not hazardous to government finances.

Government owned businesses with profit-making motives should not be owned and managed by government alone; government should initiate policies that stipulate a ceiling for government ownership in profitable ventures. It should also be ensured that instead of selling off government firms in their entirety, only a part of them should be sold and the stock exchange market should be used when doing so, since it stands to offer efficient and better service at a lower cost.

Government enterprises should be separated from government. If government business ventures were independent entities as it obtains in many high income countries, they will not be placed in positions where their borrowing plans are scrutinized and delayed by the legislature nor will it indulge in bureaucratic practices that are inimical to their effective performances. It will also enable government business managers to make shrewd business decisions that border on mergers and acquisitions, and sourcing for funds from veritable sources like the stock exchange and bond markets.

Even though the amount of money expended by the government on the standard gauge railway project so far is enough to establish a steel plant complex capable of meeting the metal needs of the country and that of other patronizing countries, the Ministry of transportation would not give this great project a chance; despite the fact that steel consists over 75 per cent of the materials needed to construct the rail project and a lot more other projects and ventures. This is probably because it is not under the purview of the Ministry; showing a vivid absence of coordination in government activities. A National Development Plan would have given priority to a steel plant complex, of which a part of it could be sold to raise funds for the rail project. The need for a National Development Plan cannot be over emphasized, especially a long term National Development Plan which the country has never had before, since its independence in 1960. The plan will chart a realistic course for actualizing the collective aspirations of the people, taking cognizance of the country's strengths and weaknesses and ensuring coordination, prudent management of resources and improved welfare.

Further studies in this direction should be able to establish that government's participatory role in a country's economic activities as an investor could bring about

improvement in the living standard of the populace. These studies should also spell out clearly the threshold for recurrent and beneficial capital expenditures, while identifying the minimum proportion of total government expenditure that should be allocated for profitable investments to be able to move a country from one stage of development to another.

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