

Domestic Private Investment in Gambia: Are Macroeconomic Fundamentals Potent Determinants?

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Abstract

The Gambia is one of the economies that have made several developmental and industrialization attempts to reposition its economy. One of the channels adopted to enforce these attempts is the channel of domestic private investment. A retinue of statistical and econometric tests such as descriptive statistics, correlation matrix and the Autoregressive Distributed Lags (ARDL) Bounds testing procedure were employed to evaluate the empirical content of the domestic private investment-macroeconomic determinants model. Exchange rate, GDP, credit to private sector, Real Interest Rate, Inflation and money supply were empirically identified as potent exogenous variables in the domestic private investment-macroeconomic determinants model. The results indicated that interest rate, exchange rate and money supply are not statistically significant in explaining the performance of domestic private investment in the Gambia. Real Interest Rate, Real Exchange Rate, Inflation all performed below expectation. Credit to the private sector of the Gambia economy has contributed significantly and effectively to the boosting of domestic private investment in the Gambia due to the quantum of credit channeled to the economy. The study therefore suggests that exchange rate, interest rate and money supply policies should be formulated and implemented to boost domestic investment level in Gambia. The Gambian economy should prioritize the promotion of domestic private investment, as well as debasing and eliminating multi-variate barriers to domestic investment that stifle domestic private investment initiative or involvement of local investors in business ventures.

Keywords: Private Investment; Credit to Private Sector; Real Interest Rate; Inflation; Money Supply; Real Exchange Rate; ARDL; Gambia.

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1. INTRODUCTION

The Gambia like other economies in Africa has been categorized as Less Developed Country (LDC) by studies such as Ayeni (2020). This placement of the Gambia as LDC presupposes that her economy is grouped among the somewhat impoverished susceptible to the whims and caprices of underdevelopment such as low Gross National Income (GNI), weak integration of the private sector into the domestic and external economies, with the attendant weak private investment as most economic activities are regulated and controlled by government and the public sector.

Investment especially domestic private investment is a major determinant of growth in any economy as it plays very fundamental role in promoting, projecting and sustaining the performance of the economy (Kwode, 2024; Enabulu and Epor, 2022). Domestic private investment fosters the expansion of the

productive capacity of the economy by creating new employment and job opportunities, enhance technological advancement and technical progress, introduce industrial and sectoral competitiveness, diversify the productive base of the economy and eradicate and/ or alleviate poverty in the economy (Enabulu and Epor, 2022; Sisay, 2010). Considering the role of domestic private investment in economic progress and advancement, it is very important to understudy the determinants and driving factors of domestic private investment in Gambia.

There are two dominant characteristics of LDCs that are also common to the Gambia: weak private sector and extra-ordinarily dominant government and public sector (Ayeni, 2020). Government is a regulator and participator. The government and public sector is service driven and oriented while the private sector is simply profit-oriented. This goal of profit maximization drives

the private sector into both responsible production and investment. Responsible production and investment in the form of domestic private investment has made the private sector in most countries globally to be the preferred driver of the growth, development and tempo of the pattern and pace of economic transformation.

This study seeks to answer the following questions. What are the determinants of sustainable domestic private investment in the Gambia? Among the determinants of domestic private investment in the Gambia, which of them are the most potent and which are the most passive? Specifically, what is the role of credit to the private sector of the Gambia in either stimulating or inhibiting domestic private investment? what is the role of exchange rate of the Gambia in either stimulating or inhibiting domestic private investment? Has the GDP boost domestic private investment in the Gambia over the years, especially during the period 1986 to 2022? What is the role of the rate of inflation and the cost of capital in the Gambia in stimulating or retarding domestic private investment?

In order to proffer answers to the following questions, this study seeks to identify and analyze the macroeconomic determinants of domestic private investment in the Gambia.

The study is properly organized as follows: the next Section presents the importance of domestic private investment in the Gambia. This is followed by the Section that discussed the literature review basically on the determinants of domestic private investment. The Section on methodology followed the section on literature review, while this is followed by the Section on empirical results and findings. The last section concluded the study with conclusion and recommendations.

1.1 How Important is Domestic Private Investment to the Gambian Economy?

Ayeni (2020) opined that Investment in the private sector of the Gambia seems to be insignificant until 2002 when it increased relatively. This relative increase continued steadily from 2002 to 2003 but was not sustained, that is, it started exhibiting relative oscillatory movements. This means that the private sector induced an increase in the performance of domestic private investment in the Gambia in the early 2000s.

Furthermore, domestic private investment has played a very important role in the Gambia economy over the period covered by this study. For instance, it has relatively increased the productive capacity of selected firms, industries and the economy; it has also created employment and job opportunities for the employment-seeking population in Gambia; on a small scale, domestic private investment has promoted technical progress and advancement; and as a result it has reduced the level of poverty in the economy (Sisay, 2010).

Indeed, in the Gambia economy, domestic private investment has played a key role in the poverty alleviation by making funds available for investment and ensuring the funds are productively engaged.

In the 2000s, specifically 2022, Ababio, (2022) provided empirically substantiated evidence that domestic private investment was a driver of growth in selected LDCs. And in line with the observations of DFID (2002) domestic private investment has:

- i) Boost and maximized the productive potential of the economies of LDCs,
- ii) Provided the groundwork and pedestal for more income and;
- iii) It has generated job opportunities and employment for a proportion of the population who are job seekers.

2. LITERATURE REVIEW

Ayeni (2014), conducted an investigation of the determinants and causal factors of domestic private investment in the Nigerian economy. This study used annual time series data from 1979 to 2012. Five potential determinants of domestic private investment (condition in the economy, interest rate, exchange rate, rate of inflation and credit to private sector of the economy) were identified and estimated in well-specified private investment econometric model. The Autoregressive Distributed Lag (ARDL) Cointegration approach was applied to check the existence of a long-run cointegrating relationship among the determinants in the model. The result suggested that the determinants have not contributed effectively to the performance of domestic private investment in Nigeria. All the determinants exhibited converse signs.

Ayeni (2020) used the ARDL Bounds method to examined the determinants of domestic private investment for the Gambia using the data spanning from 1980 to 2019. The study used the following indicators as proxy for the following macroeconomic fundamentals: aggregate demand in the economy, competitive condition or competitiveness, liquidity constraint, and uncertainty / instability conditions. The study confirmed that government investment had a positive impact on private investment in the long and short run period.

Abdulkarim and Saidatulakmal (2021) evaluated the effects of fiscal policy on the performance of domestic private investment in Nigeria from the period 1980 to 2017 using the ARDL Bounds estimation technique to test the validity or otherwise of the time series data for Nigeria. The results show that capital expenditure is a determinant and stimulant of private investment in Nigeria.

However, Shankar and Trivedi (2021) were poised to investigate the crowding-in-effects or crowding-out-effects of the two investment components: public investment and private investment in India. The

study applied the ARDL Bounds approach for testing econometric models specified for the study for the period 1981 - 2019. The results indicated that at the macroeconomic level, there is strong empirical support for long and short run complementarity between the two investment categories.

Enabulu and Epor (2022) were poised to evaluate the macroeconomic determinants of domestic private investment in the Nigerian economy for 1981 to 2020. The study focused on inflation, credit to the private sector, lending rate, saving rate, economic growth, etc as the main macroeconomic indices. The ARDL estimation technique was the main econometric method adopted by the study. The findings were mixed: long-run equilibrium relationship was established among the selected indicators; credit allocated to the private sector and economic growth were negatively related to the growth of domestic private investment in Nigeria.

Kwode (2024) investigated the pattern, performance and relationship between domestic private investment and some selected macroeconomic fundamentals in Nigeria for the period of 1991-2020. The study analyzed time series data using multiple regression analytical techniques with the application of the Augmented Dickey Fuller (ADF) unit root, Johansen Co-integration and Granger causality tests econometric procedures were applied to determine causality and nature of the long-run relationship between domestic private investment and some macroeconomic fundamentals. The result show that there exist relationships (that is, both short and long-run) between

domestic private investment and the key selected macroeconomic indicators (Inflation, Lending rates, gross domestic savings, real gross domestic product, money supply) in Nigeria. The OLS result indicated that there exists a positive and statistically significant relationship between domestic private investment and the key selected macroeconomic indicators.

3. METHODOLOGY

3.1 Data Sources and Description

The secondary data used for this analysis were obtained from the World Bank World Development Indicators (WDI, for various years), The Gambia Ministry of Finance and the Central Bank of the Gambia Statistical Bulletin (for various Years).

Private investment is made up of two components: internal and external components. The internal component is known as domestic private investment while the external component is made up of two sub-components known as foreign direct investment and /or international portfolio investment. The internal component of private investment described as domestic private investment is usually owned and controlled by either indigenous or local private investors or both; and the external components are foreign direct investment (FDI) and/or international portfolio investment, both of which are owned by foreign or international private investors across the globe. Our study is therefore interested in the internal component of private investment.

Table 1: Data: Sources, Nature and Description

| Variable/Symbol | Definition / A Priori Expectation | Studies / Impact Reported on Dependent Variable |
|---|--|--|
| Domestic Private Investment (<i>dpi</i>) | The sum of the stocks of assets (including purchases plus own- account capital formation), minus any sales of used / second-hand and scrapped assets as a Percentage of GDP. | |
| Exchange Rate (<i>exr</i>) | Exchange rate of Dalasi to USD Adopted as a measure macro-economic stability. Multi-dimensional (either positively or negatively related to <i>dpi</i>). | Rao and Tolcha (2016, 2014) reported positively significant relationship with <i>dpi</i> while Nainggolan and Daulay (2015) reported negatively significant relationship with <i>dpi</i> |
| Credit to the Private Sector (<i>cps</i>) | The availability of domestic credit for domestic investors with fair interest rate. (Positively related to <i>dpi</i>). | Aklilu (2021), Maluleke <i>et al.</i> , (2023), Nwankwo and Allison (2021) Positive Significant with <i>dpi</i> |
| Annual Inflation Rate (<i>infl</i>) | It represents changes in the general price level or inflationary conditions in the economy. (negatively related to <i>dpi</i>). | Legass <i>et al.</i> , (2022), Waktola (2020), Ajide (2013) Positive Significant while Alemnew (2015), ADO (2021), Agidew (2014), Sisay (2010) established negative relationship with <i>dpi</i> |
| Annual interest rate (<i>int</i>) | It is an interest rate that has been adjusted to remove the effects of inflation to reflect the real cost of funds to yield to the real lender or to an investor. Negatively related to <i>dpi</i> | Legass <i>et al.</i> , (2022), Atoyebi <i>et al.</i> , (2012), Shabbir <i>et al.</i> , (2021) Positive Significant with <i>dpi</i> |

| | | |
|----------------------------|---|---|
| Real GDP (<i>gdp</i>) | The sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products that adjusted for inflation. positively related to <i>dpi</i>). | Legass <i>et al.</i> , (2022), Waktola (2020), Nibret (2018), Awad <i>et al.</i> , (2021), Nwankwo and Allison (2021), Ayeni and Nsiah (2020) Positive Significant with <i>dpi</i> while Kazeem (2022) negative with <i>dpi</i> |
| Money Supply (<i>ms</i>) | The study envisages a positive relationship between the growth of money supply and private domestic investment as the excess liquidity ensures that the supply of loanable funds is replenished through money supply growth. | Kwode (2024) |

Source: Author's Compilation (2024) as Adapted from Batu (2016)

3.2 ARDL Bounds Test

The domestic private investment equation was formulated and estimated using the Autoregressive Distributed Lag (ARDL) model. The ARDL model was preferred over a non-dynamic model because of the necessity to empirically address all the non-static responses in the endogenous variable occasioned by changes in own lags and the lagged and contemporaneous values of the other exogenous variables (Wood and Stockhammer, 2020).

It has been argued widely in literature especially by Banerjee *et al.*, (1993), Charemza and Deadman (1997), Johnston and DiNardo (1997) and, Wood and Stockhammer (2020) that, directly estimating a non-dynamic long-run model may produce imprecise coefficient estimates and may not capture the immediate, short and long-run responses generated from the system.

We confirmed the existence of the long-run cointegrating relationship among the variables in the equation by using the values of F-statistic. The decision rule guiding the interpretation of results is: if the

computed F-statistic is greater than the upper critical bound at 0.05 significance level, it suggests the existence of co-integration; that is, there is long-run relationship among the variables. Otherwise, when the value of the lower critical bound is greater than the computed F-statistic, it shows that there is no co-integration. The results are regarded as inconclusive if the value of the F-statistic falls between the lower and the upper bounds of the critical values, (Pesaran *et al.*, 1999; Nyoni and Bonga, 2017).

3.3: The ARDL Bounds Model

The functional form of the model is specified as:

$$dpi_t = f(exr_t, gdp_t, int_t, infl_t, ms_t, cps_t) \dots\dots (1)$$

The functional form states that domestic private investment in the Gambia at time t is a function of the performance of exchange rate (*exr*), gross domestic product(*gdp*), cost of capital (interest rate, *int*), inflation (*infl*), money supply (*ms*) and credit to the private sector (*cps*) of the Gambia at time t.

Therefore, the ARDL Bounds testing model adopted by our study is specified as follows:

$$\Delta \ln dpi_t = \alpha_0 + \alpha_1 \sum_{i=1}^n \Delta \ln dpi_{t-i} + \alpha_2 \sum_{i=1}^m \Delta \ln exr_{t-i} + \alpha_3 \sum_{i=1}^r \Delta \ln gdp_{t-i} + \alpha_4 \sum_{i=1}^r \Delta \ln int_{t-i} + \alpha_5 \sum_{i=1}^q \Delta \ln infl_{t-i} + \alpha_6 \sum_{i=1}^q \Delta \ln ms_{t-i} + \alpha_7 \sum_{i=1}^s \Delta \ln cps_{t-i} + \beta_1 \ln dpi_{t-1} + \beta_2 \ln exr_{t-1} + \beta_3 \ln gdp_{t-1} + \beta_4 \ln int_{t-1} + \beta_5 \ln infl_{t-1} + \beta_6 \ln ms_{t-1} + \beta_7 \ln cps_{t-1} + \mu_t \dots\dots\dots (2)$$

The null hypothesis of the ARDL Bound Testing approach is stated as:

$$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = 0$$

The alternative hypothesis of the ARDL Bound Testing approach is stated as:

$$H_1 : \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 \neq \beta_5 \neq \beta_6 \neq \beta_7 \neq 0$$

4. EMPIRICAL RESULTS AND FINDINGS

4.1 Results of the Correlation Matrix for Gambia

This section presents econometric evidence on the determinants of domestic private investment for the

Gambia, that is, our analysis focuses on only selected determinants of domestic private investment in the Gambia.

Table 2: Results of Correlation Matrix for Gambia

| SERIES | <i>dpi</i> | <i>Exr</i> | <i>gdp</i> | <i>infl</i> | <i>int</i> | <i>ms</i> | <i>cps</i> |
|-------------|------------|------------|------------|-------------|------------|-----------|------------|
| <i>dpi</i> | 1.000000 | - | - | - | - | - | - |
| <i>exr</i> | -0.593269 | 1.000000 | - | - | - | - | - |
| <i>gdp</i> | 0.959330 | -0.757529 | 1.000000 | - | - | - | - |
| <i>infl</i> | -0.068650 | 0.164934 | -0.156182 | 1.000000 | - | - | - |

| | | | | | | | |
|------------|-----------|-----------|-----------|-----------|-----------|----------|----------|
| <i>int</i> | -0.271569 | -0.286206 | -0.132818 | 0.141785 | 1.000000 | - | - |
| <i>ms</i> | 0.987931 | -0.630364 | 0.973598 | -0.090534 | -0.274823 | 1.000000 | - |
| <i>cps</i> | 0.056105 | -0.136821 | 0.043983 | 0.592198 | 0.001243 | 0.086319 | 1.000000 |

Source: Author’s Computation (2024).

Table 2 presents the correlation matrix for macroeconomic fundamental determinants of domestic private investment. The table indicated that domestic private investment correlates positively with economic growth, money supply alongside credit to the private sector. However, it has negative correlation with exchange rate, inflation and interest rate implying they exhibit reducing effects on the performance of domestic private investment. A strong positive correlation exists

between economic growth and money supply as well as between domestic private investment and money supply.

Furthermore, the Table 2 also indicated that the correlation between interest rate and credit to the private sector is very weak. All the explanatory variables, including exchange rate, economic growth, inflation, interest rate, money supply and credit to the private sector were included in subsequent regression analysis.

Table 3: Results of Descriptive Statistics for The Gambia

| Sample: 1986 2022 | | | | | | | |
|---------------------|--------------|--------------|-------------|------------|-------------|------------|--------------|
| | <i>Indpi</i> | <i>lngdp</i> | <i>lnms</i> | <i>int</i> | <i>infl</i> | <i>exr</i> | <i>lncps</i> |
| Mean | 21.58 | 23.59410 | 22.18738 | 27.09077 | 8.298363 | 139.5248 | 8.198741 |
| Median | 22.017 | 24.08662 | 22.44563 | 27.00000 | 6.463804 | 107.5440 | 8.321402 |
| Maximum | 24.42948 | 25.51824 | 24.89462 | 36.50000 | 56.56017 | 222.2530 | 15.09179 |
| Minimum | 19.17868 | 20.97449 | 19.43461 | 19.50000 | 0.844970 | 72.75768 | 3.727217 |
| Std. Dev. | 1.602204 | 1.292787 | 1.670883 | 3.160400 | 9.335726 | 53.04352 | 2.568251 |
| Skewness | 0.116991 | -0.387015 | -0.031921 | 0.322223 | 3.965092 | 0.264415 | 0.355945 |
| Kurtosis | 1.640091 | 2.113672 | 1.658071 | 5.383738 | 20.67571 | 1.272455 | 2.750545 |
| Jarque-Bera | 2.935489 | 2.134748 | 2.782475 | 9.400340 | 578.6161 | 5.032110 | 0.877231 |
| Probability | 0.230445 | 0.343910 | 0.248767 | 0.009094 | 0.000000 | 0.080778 | 0.644929 |
| Sum | 798.3523 | 872.9816 | 820.9329 | 1002.358 | 307.0394 | 5162.418 | 303.3534 |
| Sum Sq. Dev. | 92.41410 | 60.16670 | 100.5067 | 359.5726 | 3137.608 | 101290.1 | 237.4529 |
| Observations | 37 | 37 | 37 | 37 | 37 | 37 | 37 |

Source: Author’s Computation (2024).

Table 3 presents the descriptive statistics of the macroeconomic fundamentals explored on the Gambia covering the period 1986-2022. The mean of domestic private investment(*dpi*), Gross Domestic Product (*gdp*), money supply to the Gambian economy(*ms*), interest rate (*int*), rate of inflation (*infl*), exchange rate (*exr*) and credit to the private sector (*cps*) of the Gambia is 21.58, 23.59, 22.19, 27.090, 8.298, 138.52 and 8.20 respectively. The mean of *dpi* shows an impressive average performance from 1986 to 2022. The mean value of GDP shows that, in the Gambia, the GDP has the potential of encouraging the relative performance of both *dpi* and other macroeconomic aggregates and it implies that there is a relatively good variation in the average value of GDP during the period studied. The standard deviation of *gdp* indicated the observations of GDP for the Gambia for 1986 to 2022 are appropriately clustered around the mean and can be relied on for policy purposes.

The statistics revealed that credit to the private sector, inflation and interest rate dropped significantly during the study period. The mean values of the series, besides exchange rate and inflation are lower than their median, indicating that the distributions are negatively skewed. The average value of *exr* for the promotion of domestic private investment during the period 1986 to 2022 is about 139.52 with the value of the standard deviation is 53.043 which imply that 139.52 percent of average of Gambia Dalasi per USD. This indicated high variation between the Gambian Dalasi and the USD during the study period. Furthermore, it implies relative difficulty in regulating and monitoring exchange rate during this period. The standard deviation for *exr* revealed that exchange rate was extremely high with high volatility rate. Inflation recorded the highest figure, followed by interest rate and credit to the private sector in that order.

Table 4: Gambia Specific ARDL model estimates with *dpi* indicators

| |
|---|
| Dependent Variable: <i>Indpi</i> |
| Method: ARDL |
| Sample (adjusted): 1988 2022 |
| Included observations: 35 after adjustments |
| Maximum dependent lags: 2 (Automatic selection) |
| Model selection method: Akaike info criterion (AIC) |
| Dynamic regressors (2 lags, automatic): <i>lngdp lnms lncps exr int infl</i> |

| INTR | | | | |
|---|-------------|--------------------------------|-------------|--------|
| Fixed regressors: C | | | | |
| Number of models evaluated: 1458 | | | | |
| Selected Model: ARDL(1, 2, 1, 0, 0, 2, 0) | | | | |
| Indicator | Coefficient | Std. Error | t-Statistic | Prob.* |
| $l;ndpi(-1)$ | 0.380 | 0.108519 | 3.505 | 0.0020 |
| $Lngdp$ | 0.932 | 0.616096 | 1.513 | 0.1444 |
| $lngdp (-1)$ | -1.100 | 0.390658 | -2.817 | 0.0100 |
| $lngdp (-2)$ | -1.226 | 0.316082 | -3.880 | 0.0008 |
| $Lnms$ | -0.382 | 0.5784 | -0.660 | 0.5161 |
| $lnms (-1)$ | 1.966 | 0.632 | 3.110 | 0.0051 |
| Cps | -0.0978 | 0.055 | -1.768 | 0.0909 |
| Exr | -0.004 | 0.0044 | -0.920 | 0.3673 |
| $Infl$ | 0.0013 | 0.0180 | 0.0725 | 0.9429 |
| $infl (-1)$ | -0.0712 | 0.0239 | -2.985 | 0.0068 |
| $infl (-2)$ | 0.0237 | 0.00963 | 2.463 | 0.0221 |
| Int | -0.00701 | 0.0265 | -0.265 | 0.7934 |
| C | 12.860 | 7.262 | 1.771 | 0.0904 |
| Vital Statistics of The ARDL Bounds Test | | | | |
| R-squared | 0.986 | Mean dependent variable | 21.70771 | |
| Adjusted R-squared | 0.978 | S.D. dependent variable | 1.546740 | |
| S.E. of regression | 0.231 | Akaike info criterion | 0.189044 | |
| Sum squared residua | 1.178 | Schwarz criterion | 0.766745 | |
| Log likelihood | 9.692 | Hannan-Quinn criteria. | 0.388466 | |
| F-statistic | 124.780 | Durbin-Watson stat | 2.367722 | |
| Prob(F-statistic) | 0.000 | | | |
| *Note: P-values and any subsequent tests do not account for model selection. | | | | |

Source: Author's Computation (2024).

Table 4 presents the empirical results for an ARDL model for the Gambia on the relationship between macroeconomic fundamentals and domestic private investment over the period 1986 – 2022. An evaluation of the probability values show that all the variables are statistically significant except the coefficient of the log of gdp , exr , $infl$, and int . In terms of sign, the sign of the coefficients of the lagged values of gdp , ms , exr , cps , $infl(-1)$ and int exert negative impacts on current performance of dpi in the Gambia. The negative impact exerted by the coefficients of exr implies that at very high exchange rate, domestic investment is stifled.

In line with the results obtained by Ayeni (2020) for the Gambia, the coefficient of interest rate is negative. This can be explained by using the dogma of two schools of thought on interest rate relationship with domestic private investment. First, the neoclassical school observed that investment function incorporates real interest rate as an integral component of the cost of using capital; hence it is expected to affects domestic private investment adversely. Second, another school of thought hypothesizes that high real interest rate will increase the inflows of bank credits to the desired units, in order to complement savings in the private sector. This will increase domestic private investment in the economy. Ayeni (2020) concluded that the negative coefficient of the real interest rate indicator observed in the Gambia connoting the effect of user cost of capital in the economy.

The Table 4 indicates that the coefficient of gdp (proxy for economic growth) is positive but not significant. This is in consonance with findings of Ayeni (2020) whose results established a positive but statistically insignificant relationship between gdp and dpi . and inflation relate positively to domestic private investment in Gambia with economic growth being statistically significant. This implies that an increase in gdp would raise domestic private investment in Gambia. In turn, money supply, credit to the private sector, exchange rate and interest rate, negatively relate to domestic private investment. Credit to the private sector is statistically significant. This result appears reasonable considering the adjusted R-square value that explained the variation of the dependent variable by the independent variables. The model explored is reliable and stable by the outcome of the diagnostic tests.

For the Gambia, the results indicated amongst others that the coefficients of interest rate (int), exchange rate (exr) and money supply (ms) were not statistically significant in explaining the behaviour and performance of domestic private investment (dpi) while total credit to the private sector (cps), gdp and inflation ($infl$) were statistically significant in explaining the behaviour of domestic private investment (dpi).

During the 1986 to 2022 period covered by our study the empirical results and findings for the Gambia indicated the following amongst others:

- i) The current value of Interest rate (*int*) variable is not statistically significant in explaining the performance and behaviour of domestic private investment (*dpi*) in the Gambia.
- ii) The current value of total credit to the private sector (*cps*) is statistically significant but negative in explaining the behaviour of domestic private investment (*dpi*) in Gambia. This result is a violation of our theoretical expectations.
- iii) The Exchange rate (*exr*) indicator is not statistically significant in explaining the changes and performance of domestic private investment (*dpi*) in the Gambia during 1986 to 2022 period.
- iv) The coefficient of the logarithm of *gdp* (the proxy for economic growth in this study) is not statistically significant in explaining variations and / or changes in domestic private investment (*dpi*) in Gambia. But the coefficients of the logarithm of the first and second lagged values of *gdp* are statistically significant in explaining the pattern of the performance of domestic private investment (*dpi*) in the Gambia. This implies that the impact of *gdp* on domestic private investment in the Gambia to be retrospectively-tended.
- v) The current value of Money supply (*ms*) variable is not statistically significant in explaining the behaviour and changes in domestic private investment (*dpi*) in the Gambia. But the coefficient of the logarithm of the first lagged value of MS is positively and statistically significant in explaining the pattern of the performance of domestic private investment (*dpi*) in the Gambia.
- vi) The current value of the rate of inflation (*infl*) is not statistically significant in explaining the performance of domestic private investment (*dpi*) in Gambia. But the logarithm of the first lagged value of *infl* is negatively and statistically significant in explaining the pattern of the performance of domestic private investment (*dpi*) in the Gambia. The coefficient of the second lagged value of *infl* is positively and statistically significant in explaining the pattern of the performance of domestic private investment (*dpi*) in the Gambia. This implies that the impact of *infl* on domestic private investment in the Gambia is mixed. It also implies that, the previous significant impacts of inflation on *dpi* are currently insignificant.

5. CONCLUSION AND RECOMMENDATIONS

The study critically investigated the performance of domestic private investment in the Gambia using time series data from 1986 to 2022. The study underscored the need for the Gambia, a country grouped as LDC to emphasize domestic private

investment in order to reposition her economy from public and foreign investment-dependency.

Furthermore, although there are a number of studies conducted on the determinants of domestic private investment for countries and economies like Ghana, Ethiopia, Argentina, etc., very few have concentrated and investigated the driving factors of domestic private investment in the Gambia. Given the unique nature of the data from the Gambia, the study adopted and applied the ARDL Bounds test accompanied with other preliminary diagnostic tests.

The results indicated that interest rate, exchange rate, and money supply were not statistically significant in explaining the trends, nature and behaviour of domestic private investment in the Gambia. But the coefficients of the lagged value of domestic private investment, the first and second lagged values of GDP, the lagged value of money supply, credit to the private sector and the lagged values of inflation were statistically significant in explaining the behaviour of domestic private investment for the period 1986 to 2022.

The study can conclude that interest rate, exchange rate, inflation and money supply are not among the potent factors and determinants of domestic private investment in the Gambia. Also, we conclude that GDP and credit to the private sector of the Gambia economy are the two active determinants of domestic private investment in the Gambia.

From the findings, the study recommends that, since inflation has a negative relationship with domestic private investment, policymakers should focus primarily on inflation and curtail its volatility. Inflation should be regulated and kept at acceptable threshold to avoid the unpleasant effects of its uncertainties on domestic private investment.

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