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AN EVALUATION OF FISCAL POLICY IN PROMOTING SAVINGS, RESOURCE MOBILISATION AND INVESTMENT IN NIGERIA

By
Kolawole Olayiwola and
Evans S. C. Osabuohien

Abstract
The study seeks to evaluate the effectiveness of fiscal policy in enhancing savings, resource mobilisation and investment in the Nigerian capital market; this is done with the objective of identifyng the extent to which fiscal policy-related issues have contributed to the underperformance of savings mobilisation and investment in Nigeria.

A descriptive statistical approach (trend analysis) was adopted to evaluate how the economy performed under different fiscal policy regimes, and from the analysis, 'fiscal hydrocephalus' was observed. In addition, there were indications of predominant idle savings, as well as financial crowding-out.The study, therefore, recommends some policy measures to reform public enterprises and, in particular, limit cash flow problems in order to encourage release of available domestic credits to the private sector. The need for a competitive domestic economy was also recognised to be crucial for encouraging savings, because no meaningful savings and investment can take place in an uncertain environment.

Dr. Olayiwola and Mr. Osabuohien both lecture in the Department of Economics and Development Studies, Covenant University, Ogun State, Nigeria.

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1.0 INTRODUCTION

The concern that the Nigerian economy has been growing at a lower rate than her potential has informed various policy proposals on how to facilitate long-term economic growth through enhanced savings culture, investment and efficient resource mobilisation. These proposals were premised on the linkages that economic theorists postulate to exist between savings, resource mobilisation, investment and economic growth. In view of this, it would be expected that necessary policies that will promote savings, resource mobilisation and investment will be developed (and effectively implemented) in order to facilitate sustainable economic growth and development; one of such necessary policy measures is fiscal policy (Obadan, 2003; Obi, 2007).

Fiscal policy is concerned with raising revenue for government through taxation and other means, and deciding on the level and pattern of government expenditure which is necessary to influence economic activities or attain some desirable macroeconomic goals (Iyoha, 2004); thus, fiscal policy can be used for allocation, stabilisation and distribution purposes.

There are two main approaches to

fiscal policy: *counter-cyclical* and *compensatory approaches* (Musgrave and Musgrave, 1989). Under the counter-cyclical approach, government is assigned the role of varying its tax and expenditure policies with the objective of moderating fluctuations in income and employment. However, compensatory fiscal policy postulates that given future prospects of secular stagnation and/or inflation, deficit financing may become a long run imperative.

Fiscal policy techniques include the balanced budget, the unbalanced budget (tax and spending changes), and quantitative changes in the tax system (Ukwu et al, 2003).

Fiscal instruments can broadly be classified into two: *automatic* and *discretionary fiscal stabilisers*. Automatic fiscal stabilisers, or 'passive' fiscal policy instruments, are among the most interesting tools in government's anti-cyclical kit; or those devices that help the economy bounce back to an even keel without any deliberate action on the part of anyone (Shaw, 1973). Automatic fiscal stabilisers include personal income tax, company income tax and unemployment insurance programmes, among others.

A discretionary or 'active' fiscal policy measure, on the other hand, refers to a direct budgetary change that is initiated on an ad hoc basis in response to an immediately recogniseable macroeconomic problem. Discretionary measures require speed of decision and effect, and can be successful if temporary or reversible.

Fiscal changes for stabilisation purpose are distinguished from permanent and structural changes; they include deliberate changes in the tax base and in government spending (Anyanwu, 1996; Iyoha, 2004).

In relating government fiscal policy in Nigeria to savings, resource mobilisation, investment in the capital market and economic development in general, three major issues must be considered: the first is the issue of fiscal federalism; the second is concerned with conflicts that arise in the pattern and structure of government expenditure and revenue; and the third is the macroeconomic implication of fiscal incentives as contained in relevant policy documents. These policy issues are important because the nature and type of relationship that exist between the different tiers of government, especially in terms of revenue-sharing and expenditure, have to be worked out for any meaningful economic development to take place (Shaw, 1973; Akpan, 2006). Also, the fiscal structures have to be developed. Fiscal functions of allocation, distribution and stabilisation have to be monitored closely in order to ensure growth and development of the economy (Khemani and Wane, 2008). Moreover, the highest level of government must ensure that the expenditure and revenue patterns at other levels of government do not create distortions in

the larger economy (Ekpo, 1994; Akpan, 2006).

In Nigeria, fiscal measures such as taxation, interest rate, tax concessions (including tax relief for research and development), pioneer status, company income tax and tax-free dividends are among the policies usually adopted to boost savings and investment. Another notable macroeconomic policy tool available to government is monetary policy, which involves the use of interest rate and money supply to influence the level of economic activities. However monetary policy tool can be restrictive in nature and, therefore, a combination of both fiscal and monetary policies is usually recommended for proper coordination and ensuring macroeconomic stability (Musgrave and Musgrave, 1989; Obadan, 2003).

The rate of response of savings, investment and economic development to fiscal incentives, however, has been abysmally low in Nigeria. For instance, in the period between 1970 and 1995, gross national savings (GNS) and investment, as a ratio of gross domestic product (GDP), moved in different directions (Soyibo, 1996). When there was an increase in the savings - GDP ratio, there was no corresponding increase in investment; rather, the country experienced a prevalence of idle savings and an investment - savings gap. On the other hand, between 1981 and 1982 investment demand outstripped the GNS, and resulted in 8.5% and 3.5% idle savings (as percentage of the GNP); while from 1983 to 1991, surplus savings that were not invested were recorded (Soyibo and Olayiwola, 2001). This low investment vividly resulted in low economic growth rate, and the trend has not been different in any significant way in recent times.

Many reasons have been advanced for these developments; among them are inadequate information about investment opportunities, political instability, unviable productive ventures, inadequate infrastructure (especially power supply and transportation system), fiscal disincentives and harsh fiscal policies (Akpan, 1998). Based on these factors, a number of questions readily come to mind: to what extent have the problems associated with fiscal policy contributed to the poor performance of the Nigerian economy in terms of savings, resource mobilisation in the capital market and investment? How can fiscal policy be instituted to enhance savings and investment? What are the factors that inhibit the design of an effective fiscal policy in Nigeria? The overall objective of this study is to identify the extent to which fiscal policy-related problems have contributed to the low performance of savings mobilisation and investment in Nigeria.

The rest of the paper is organised as follows: section two contains the methodology used, while section three

discusses some fiscal policy issues in Nigeria. Section four contains analysis of the data, while section five concludes and offers some policy recommendations for encouraging savings and investment in the country.

2.0 METHODOLOGY AND ANALYTICAL FRAMEWORK

To achieve the objectives of this study, a descriptive analysis is employed; this provides an opportunity for reinforcing the issues raised with stylised facts. Given the lessons of international experience, a comparison of the performance of the Nigerian economy over the years under different fiscal policy regimes was carried out; this is necessary in order to trace the various changes in the fiscal policy instruments and their impact on the economy. The influence of policy shifts on observable trends in savings, resource mobilisation and investment is also considered; and a descriptive statistical approach (trend analysis) to evaluate the performance of these policies is employed.

The basic policy issues considered in this study are the impact of fiscal policy incentives on: private savings; foreign savings; foreign investment; private investment, and fiscal deficits. Assuming that excess capacities do exist, and that imperfect factor substitution also exists, it can be shown that supply constraints to medium and long-term growth are very important in developing countries (Meyer and Kuh, 1957; Shaw, 1973; Soyibo and Olayiwola, 2001); this is evident in the studies of De Melo and Devarajan (1987), and N'dulu (1990). N'dulu's study in particular showed that in developing countries (citing Cote d' Ivoire as example) with important excess capacities, imported inputs are the most important single constraint to capacity utilisation, especially in the industrial sector. Thus, economic growth is partially dependent on changes in the level of available capital stock and its productivity.

The effects of change in capital stock have two major components: investment for capacity renewal and investment for capacity growth. The existence of excess capacities, measured as ratio of actual output to potential output, is the main source of domestic endogenous growth in developing countries like Cote d'Ivoire. From this we can say that endogenous growth depends mainly on investment.

Capacity output is assumed to be determined by investment and its productivity. However, investment can be either private or public investment (Musgrave and Musgrave, 1989), and the latter provides an indirect way of achieving economic growth. The alternative (to public investment) is to boost domestic savings; but since this is premised on the assumption that the average savings rate is a positive function of GDP, raising investment may lead to marked growth in GDP and subsequently to an improvement in the level of domestic savings. The question raised by this approach is how to finance the initial increase in

investment; and to answer this, three major sources of funding are generally proffered: gains from improvements in public sector management; monetary financing of productive public investment and lower interest rates (where inflation is moderate), and fresh adjustment resources to ease the foreign exchange constraint (N'dulu, 1990).

3.0 FISCAL FEDERALISM IN NIGERIA

The evolution and structure of fiscal policy management in Nigeria followed closely the evolution of its governance structure: from unitary to federal and, during the military era, to increasing decentralisation. The immediate post-independence period was characterised by significant economic, social and political changes. A number of government-sponsored commissions and committees were also empowered to play major roles in determining the shape of Nigeria's fiscal federalism (Ekpo, 1994; Obi, 2007). Mbanefoh (1993) also identified assigned functions and tax-related powers as some of the unresolved issues of Nigeria's fiscal federalism.

Nigeria is a federal entity comprising more than one level of government. Each level is empowered and saddled with the responsibility of managing its expenditure and revenue. Based on this political background, the structure of the Nigerian tax system subsequently evolved with a tripartite arrangement feature, consisting of the federal government, the state governments, and the local governments; therefore, allocation of functions and taxing powers must reflect this division of sovereignty among the different tiers of government.

A major characteristic of the Nigerian fiscal federalism is that, like in other federal systems, the separation of powers among the different tiers of government must be backed by law. Based on this, and recalling the reports of various commissions and revisions to previous constitutions, Section 4 of the 1979 Constitution of the Federal Republic of Nigeria[1] specified three categories of legislative functions. These are: the exclusive legislative list (on which only the Federal Government can act); the concurrent legislative list (on which both the Federal Government and the state governments can act); and the residual list (which comprises any matter not included in the first two).

In Nigeria, two major factors influence assignment of tax powers (or tax jurisdiction) among the three tiers of government. These are administrative efficiency and fiscal independence. The efficiency factor requires that a tax function must be assigned to the level of government that is most capable of administering it as efficiently as

[1]This is also evident in the 1999 constitution when the country finally embraced democracy in May 1999.

possible. On the other hand, fiscal independence requires that each level of government should be able to raise adequate fund from revenue sources assigned to it to meet its needs and responsibilities. However, the two factors do conflict; hence the unresolved issue of non-correspondence problem in the Nigerian fiscal federalism (Mbanefoh, 1993; Ukwu et al, 2003).

Over the years, the scale has always been tilted in favour of the efficiency criterion. Few revenue sources (taxes) could be adjudged regional and, therefore, assignable to either the state or local government units. Furthermore, a distinction exists between the ability to legislate for and the ability to collect a particular tax. In Nigeria, available evidence (drawn from the current jurisdictional arrangement) shows that both types coexist. However, all major sources of tax revenue are vested in the Federal Government, with respect to legislation and collection. These sources include import duties, excise duties, export duties, mining rents and royalties, petroleum profit tax and company income tax, etc.

This tax structure is simply attributable to the bias for the efficiency criterion in Nigeria. However, the principal tax with shared jurisdiction is the personal income tax (PIT); the Federal Government legislates on this but collects only those of the armed forces personnel and the judiciary (Development Policy Centre, DPC, 1998), while the local governments administer and collect PIT from other categories of residents within their various domains. For capital gains tax, which is under shared jurisdiction, the Federal Government legislates while the various state governments administer and collect the taxes.

Given the bias of the Nigerian tax structure for the efficiency criterion, the various states and local governments have jurisdiction over minor low-yielding revenue sources. State governments have jurisdiction over pools and other betting taxes, motor vehicle and driver's licence fees, personal income tax (excluding the judiciary and the military) and sales tax; while the local governments administer entertainment tax, radio and television licensing, motor park fees and property tax.

Table 3.1: The Nigerian Tax System

Tier of Government	Jurisdiction	
	Legislation	Administration and Collection
Federal Government	15	8
State Government	6	11
Local Government	0	2
Total	21	21

Sources: Development Policy Centre, 1998; FIRS, 2008

Table 3.1 shows that the Federal Government exercises legislative control over 15 tax types, which represents about 71.42%. It is noteworthy that the local government has no legislative power over any revenue source; however, they initiate bye-laws subject to their respective state government's approval. In contrast, state governments are responsible for the administration and collection of 11 taxes (about 52.40%), while local governments are responsible for administering and collecting only 2 taxes (9.52%).

This structure can be described as 'fiscal hydrocephalus', characterised by an overloaded head (Federal Government) and thin body (states and local governments). This arrangement shows a great difference from what obtains in some other economies; for example, in Japan local governments have great relevance in the development of infrastructures, where about 80% of investment in social overhead capital is made by local governments (Obadan, 2003).

Another salient feature of the Nigerian tax system is its heavy dependence on a single commodity, petroleum, and the subsequent dominance of the petroleum profit tax (PPT). During the period 1980 to 1995, PPT varied between a lowest value of 63.1% (in 1981) and a highest value of 86.2% (in 1992). Tax revenues from traditional income-based sources like company income tax (CIT) and personal income tax are still very low, accounting for less than 15% during the period 1980 to 1996. Besides, the collection process for these tax sources was still rudimentary. For instance, company income tax, which is the most viable revenue source of all the income-related taxes, constituted only about 10% of total government revenue.

However, with reforms in 1991 and 2004/2005 in the Nigerian tax system, particularly in the areas of tax policy formulation and administration, there has been some notable improvement. For example, in 2004 the collected tax revenue surpassed the one trillion naira (N1.19 trillion) mark for the first time, and the figure for 2005 was N1.74 trillion; but the bulk of these revenue figures was from petroleum profit tax (FIRS, 2008).

Tax revenue constituted more than 70% of total federal revenue in 1980 and 1981: tax revenues contributed 72.0% of total federal revenue in 1980, and increased to 79.3% in 1981. Thereafter there were slight decreases: between 1982 and 1989 tax revenue share of total federal revenue was more than 60%. Moreover, available data have shown that petroleum profit tax averaged almost 88% of direct tax revenue during the period. There has also been a rise in the share of tax revenue in GDP; this share, which averaged less than 10% before 1971, rose to 18.8% in 1974, and by 1980 it had increased to 21.6%, but declined to about 18.4% in 2004 (CBN, 2004).

Conflicts usually arise among the three

tiers of government over tax-related issues. According to Garba (1999), the three constitutional tiers of government (local, states and federal) are constantly in conflict because Nigeria operates a centralised oil-driven fiscal federalism. The revenue allocation formula specifies how total revenue should be shared among the three tiers, but some 'revolutionary' innovations to federal budgeting emerged in the 1980s: they include 'dedication and special account', 'extra-budgetary expenditure', 'stabilisation funds', and so on. All these (innovations) led to increase in the proportion of total revenue retained by the Federal Government, thereby reducing allocations to the other tiers of government.

Between 1980 and 1989, there were many instances where federally retained revenue was more than 60% of the total federally collected revenue. However, the situation changed between 1990 and 1993 when the percentage fell below 50%; but in 1994 it rose again to 54.2%. Thus, with the state and local governments being crowded-out of federally collected revenue, while experiencing shrinking tax authority base, the sensitivity of their revenue drives to federal budget directives became obvious, and the consequences obvious; indeed, the situation resulted in only the Federal Government being able to embark on any meaningful savings (for investment) or implement any policy or programme effectively.

Economics of interdependence shows that in a global economy, in which preservation of self-interest is the underlying factor, the policies, goals, and structures of countries are sources of both conflict and volatility. In the business of macroeconomic management within the global economy, however, budgeting is a serious business that requires careful planning, effective implementation and, perhaps most importantly, discipline (Garba, 1999; Ukwu et al, 2003). The budget constraint function, therefore, is supposed to discipline the government, and this is one of the basic arguments against budget deficit. Budget deficit permits the (federal) government to vary its revenue by reducing allocations to other tiers of government, while creating expenditures at will and subordinating monetary policy to fiscal policy; this clearly illustrates how the Federal Government has been financing its deficits.

Domination of the economy by the public sector in terms of control of domestic credit is visible. In the period under consideration, the public sector accounted for as much as 33.3% of domestic credit in 1980, and at the highest value of 76% in 1988. Especially in the 1990s, on average 60% of total domestic credit ended in the government's purse. Thus, it is obvious that Federal Government's deficit is financed through its control over the nation's financial resources; this eclipses the relatively small contribution of GNS to financing private investment in the

country. Similarly, funds from external sources do not help the situation as all external debts (borrowings) and proceeds from foreign assistance accrue to the public sector. The proportion of funds from foreign sources which are made available to the private sector almost declined to zero during this period (Ariyo, 1997). All these demonstrate how the private sector is crowded-out in investment financing; this is a serious threat to savings and investment in the country.

4.0 ANALYSIS OF DATA

4.1 Classification of Policy Regimes and Fiscal Policy Instruments

Fiscal policy instruments are used in different combination under different regimes. In Nigeria, these regimes can be categorised broadly into four: the pre-SAP era (1980 - 1985); the era of SAP (1986 - 1993); the post-SAP era (1994 - 1999); and the democratic era (2000 - date), as presented in Table 4.1.

The period prior to the country's structural adjustment programme (SAP) was characterised by preponderant government control of the economy. In 1980, fiscal policy was focused on encouraging domestic production, raising additional revenue and checking inflationary pressures. However, its stance was a disincentive to the growth of the economy. During this period tax exemptions were stopped, and tax usage was increased for two main reasons: first, there was a need for the government to raise revenue because of the economic downturn the country was experiencing as a result of declining crude oil revenue. Second, government's participation in the economy, via direct ownership of economic resources, was also a major policy pursuit of the government. Therefore, government used both quantitative (regimental) and tariff controls freely and almost interchangeably (for instance, to guide its trade policies). Withholding tax was also charged on dividend incomes to corporate and individual investors in both quoted and unquoted companies; the dividend tax rate was raised from 12.5% (in 1980 - 1984) to 15% (in 1985).

Under the structural adjustment programme (SAP), which flagged off in July 1986, fiscal policy was focused on domestic price stability, revenue diversification and restrained (controlled) public investment. The objectives of the fiscal policy measures introduced during this period include attaining fiscal and balance of payments viability, as well as restructuring and diversifying the country's economic base so as to reduce overdependence on the oil sector for export, and on imported consumer goods. Tariff rates were, therefore, lowered on the whole, while their coverage was increased. Applicable rate for company income tax was also lowered, while the number of levies (and incidence of double taxation) was reduced

Table 4.1: Fiscal Policy Instruments during different Policy Regimes, and Their Effects on Investment, Savings and Money/Capital Market Development*

Period	Investment		Savings		Money and Capital Market Development		Government Revenue
	Enhancing Instruments	Inhibiting Instruments	Enhancing Instruments	Inhibiting Instruments	Enhancing Instruments	Inhibiting Instruments	
1980 - 1985 (Pre-SAP era)	6	8	2	1	0	5	15
1986 - 1993 (SAP era)	11	2	1	2	3	3	6
1994 - 1999 (post-SAP era)	4	5	0	4	3	3	12

*The trend during the recent democratic era (2000 to date) is similar to that of the post-SAP era.

Source: Compiled by the authors

Tariff assessment (and recess) became a consistent part of fiscal policy. The government used a combined strategy of lowering customs duty rates for imported inputs, while raising duty rates for imported finished products (or substitutes). Domestic products were also protected with lower excise duty rates. Sales tax was abolished, and a modified value added tax (VAT) was introduced in 1993 (but was implemented in 1994; FIRS, 2008).

Increasing deregulation of the economy necessitated greater reliance on tax incentives (than regimental qualitative trade controls) as a means of enhancing and protecting domestic investments. Quantitative controls or incentive measures for protecting investment and enhancing savings were used less frequently. On 10th July, 1992, at the Annual Merit Award Ceremony of the Nigerian Stock Exchange, government announced a reduction of the dividend tax rate from 15% to 5%; but since no law was enacted to give legal backing to this pronouncement, dividend income continued to be taxed at 15%, at least up to the end of 1992.

In the post-SAP era, tariff rates and coverage increased again compared to the SAP era. There was an increase in the VAT coverage to include government agencies and activities. There were also amendments to the Enterprises Promotion Decree and the Foreign Exchange Control Act to attract inflow of foreign investments. However, the number of levies and incidence of multiple taxations again exacerbated on all the tax bases. There was resumption of the use of tax holidays and depreciation allowances. Dividend and capital income incentives witnessed 100% tax rebate on investment earnings from abroad, and tax exemption for dividends from petrochemical investments.

The trend during the democratic era (2000 - 2007) is similar to that of the post-SAP era. Moreover, dividend tax was reduced to 10% from its previous 15%. Another basic difference is the VAT rate which was increased from 5% to 10% in April 2007; however, this was reversed in May 2007.

4.2 Impact of Fiscal Incentives on Investment, Savings and Resource Mobilisation during the various Policy Regimes

The trend that developed in terms of the number of fiscal instruments promoting or inhibiting investments, savings and capital market development appears to be mixed; however, the general picture that emerged is that the various policy regimes appear to play an important role in this regard. Thus, in respect of investment, analysis shows that the number of fiscal policy instruments inducing savings increased from six (in the pre-SAP period) to eleven (during the SAP period), an increase of 83% over less than a decade (see Table 4.1); this seems to suggest that the SAP fiscal policies appear more favourable to inducing investment. There was a reduction in the turnover tax, and a 75% capital tax allowance for manufacturing companies. A maximum of 4 years was allowed for firms to roll forward their losses, while there was an abolition of tax on interest on external loans.

The trade instruments also witnessed 20% duty-free import, and between 10% and 75% duty reduction on both machineries and raw materials respectively. However, this trend was reversed in the post-SAP period with the number of such instruments dropping by 63.64% to four. This may not be unconnected with the rampant practice of policy reversals and inconsistencies which came to pose grave problems of credibility for the government. Correspondingly, the number of fiscal policy instruments inhibiting investment dropped by 75% from eight (during the pre-SAP era) to two (during the SAP era), while it increased again by 150% to five (after the SAP era). The issue of policy 'mortality' and inconsistency (especially whenever there is a change in government) has remained a serious problem to development efforts in Nigeria.

Fiscal policy instruments adopted in Nigeria do not seem favourable to promoting savings when one considers their number, unlike in the case of investment; thus, only two of these instruments existed in the pre-SAP era, dropping to one during the SAP era, and subsequently disappearing totally after the SAP era. On the other hand, the number of instruments inhibiting savings continued to increase during the three policy regimes. The instruments increased by 100% from one (in the pre-SAP era) to two (during the SAP era), and increased further by 100% to four (after the SAP era). There is, therefore, a need to minimise conflicts in the fiscal policy objectives between raising government revenue and promoting other developmental

objectives such as savings; the last column in Table 4.1 attests to this conflict as fiscal policy instruments promoting government revenue generation increased from six (during the SAP era) to twelve (after the SAP era).

In terms of promoting capital market development, the values are still mixed, though better than that of savings - promotion. There appears to be a kind of balance in the number of fiscal instruments promoting and inhibiting capital market development during and after the SAP era; thus, the number of fiscal instruments inducing capital market development increased from zero (i.e. none) in the pre-SAP era, to three both during and after the SAP era. Correspondingly, the number of instruments inhibiting the development of the capital market declined by 40% from a pre-SAP level of five to three during the SAP era, and thereafter maintained this level.

With respect to the number of policy instruments adopted, performance has not been encouraging either in the promotion of savings, or in the mobilisation of resources in the capital market, nor in the translation of the savings and resources mobilised into investments. Where some positive results were noted, however, the incidence of frequent policy reversals posed serious problems for potential investors.

4.3 Fiscal Incentives and Investment

The various policy regimes appear to have significant effects on investment by type in Nigeria. Average private investment, as a percentage of the GDP, increased from 4.2% during the pre-SAP era to 10.9% during the SAP era, and subsequently to 15.3% after the SAP era, and an impressive 53.60% in the democratic era (period of 1999 to 2007) as shown in Table 4.2. Similar trends can be observed in average foreign investment as well as average public investment, with both expressed as percentages of the GDP. The same, however, cannot be said about gross investment (which is also expressed as a percentage of GDP in the table).

Table 4.2:Policy Regimes and Investment in Nigeria (in percentages), 1980 - 2007

Year	Era	API/GDP (%)	AFI/GDP (%)	AGI/GDP (%)
1980 - 1985	Pre-SAP	4.20	0.10	9.40
1986 - 1993	SAP	10.90	2.70	23.60
1994 - 1999	Post-SAP	15.30	3.10	35.90
1999 - 2007	Democratic	53.60	0.16	3.90

Note: API = Average Private Investment; AFI = Average Foreign Investment; AGI = Average Government (Public) Investment.

Source: Computed by the authors from various editions of Central Bank of Nigeria Statistical Bulletins and Annual Reports

Despite the various changes in fiscal policy, public investment is still dominant in the Nigerian economy; thus, it increased from 9.4% in the pre-SAP period to 23.6% during the SAP period, and further increased to 35.9% in the post-SAP era. In view of the limited achievement of private investment over the years, the effects of the fiscal measures adopted in the periods before, during and after the structural adjustment programme can be regarded as dismal; indeed, policy reversals in the post-SAP era (after 1995) revealed that public investment as a ratio of GDP was 35.9%. This indicates that the self-generating capacity of private investment in Nigeria was appreciably weak, and, therefore, not sustainable. However, in the recent democratic era, substantial improvement was recorded in private investment contribution to GDP, even as the level of government investment reduced considerably; this phenomenon may be attributed to the privatisation of some publicly-owned enterprises that was embarked on by the government[2].

The structural adjustment programme propelled an increase in foreign direct investment in the country, which rose appreciably from 0.1% in the pre-SAP period (1980 - 1985), to 2.7% during the structural adjustment programme (1986 - 1993). However, in spite of the reversal of fiscal policy, in the post-SAP period foreign direct investment - GDP ratio increased from 2.7% to 3.1%. This is an indication that fiscal incentives during the liberalisation (SAP) era performed better in stimulating both private and foreign investments. Nonetheless, the growth rate of gross fixed capital accumulation in the economy (as reflected by the rate at which investment is taking place) has been far from impressive. On the other hand, the value of average foreign investment declined drastically. This may not be unconnected with the emergence of some sociopolitical upsurge in some parts of the country like the Niger Delta (crude-oil producing) region, which has made the country's investment climate challenging.

4.4 Fiscal Incentives and Savings

Private savings witnessed a decline from 17.1% to 8.7%, 7.5% and subsequently to 6.65% over the four periods under review. The persistent decline in private savings could be attributed to government's incessant fiscal deficits during these years, which had the effect of crowding-out private sector contribution to the country's investment efforts. Moreover, government's savings increased from 4.6% (in the pre-SAP era) to 30.9% (during the SAP era), and subsequently to 32.7% (in the post-SAP era). Though the structural adjustment programme was aimed at reducing fiscal deficits, the reverse happened in the Nigerian case; the result (of SAP) is a fall in private and institutionalised

[2]There has been some arguments with respect to the issue of corruption and inefficiency in the privatisation exercise; however, the normative ambience of the exercise is outside the scope of this study.

savings in the economy.

However, the GNS/GDP ratio shows an increase from 12.1% (in the pre-SAP era) to 20.3% (in the SAP era), and subsequently a fall to 10.7% (in the post-SAP era), until it reached 9.6% (in the democratic era). This trend in the gross national savings; clearly shows that the liberalisation policies adopted during the SAP era led to increased gross national savings; but this increase in savings was recorded in the public sector while the private sector recorded declining savings, particularly in the period between 1986 and 1993.

Table 4.3: Policy Regimes and Savings in Nigeria (in percentages), 1980 - 2005

Year	Era	APS/GDP (%)	AGS/GDP (%)	GNS/GDP (%)
1980 - 1985	Pre-SAP	17.10	4.60	12.10
1986 - 1993	SAP	8.70	30.90	20.30
1994 - 1999	Post-SAP	7.50	32.70	10.70
1999 - 2007	Democratic	6.65	28.25	9.60

Note: APS = Average Private Savings; AGS = Average Government Savings; GNS = Gross National Savings.
Source: Computed by the authors from various editions of Central Bank of Nigeria Statistical Bulletins and Annual Reports

4.5 Fiscal Incentives and Capital Market Development

Table 4.4 shows some capital market development indicators over the period, including the capitalisation ratio (expressed as average capitalisation divided by the GDP). The average ratio of capitalisation to GDP stood at 9.34% in the pre-SAP era, while the SAP era witnessed a shortfall from 9.34% to 7.34%, and thereafter to 7.30% in the post-SAP era. These figures show a declining trend in the capitalisation ratio - an indication that the stock market capitalisation was not at par with the GDP during the period. This is a manifestation of declining ability to mobilise capital and, therefore, to diversify risk within the period. However, there was significant improvement in the recent democratic era: the figure moved from 7.30% to about 17.7%. The major reason for this can be adduced to various reform programmes carried out in some sectors of the economy (particularly in the banking industry), during which many companies were listed on the Nigerian Stock Exchange (Osabuohien, 2008).

Liquidity of the stock market relates to the ease with which shares are traded in the market. Liquidity here is measured by the ratio of the securities traded to the total national output (GDP); thus, stock market liquidity can be computed as the ratio of total value of securities traded to GDP, while turnover ratio is computed as the ratio of the value of securities traded to market capitalisation. The figures in Table 4.4 show a decreasing turnover ratio from 7.25% in the pre-SAP era, to 2.76% during the SAP era, and thereafter 1.50% in the post-SAP era; but there was a change in the trend

during the democratic era when the turnover ratio increased from 1.50% to 9.20%. The decreasing turnover ratio during the pre-democratic period indicates that growth in trading activities lagged behind growth in the stock market; in other words, despite the fiscal incentives introduced, there was increasing illiquidity in the stock market in the pre-democratic era.

The liquidity of the stock market relative to overall economic activities is measured by the total value of securities traded divided by the GDP. Like the turnover ratio, the value traded/GDP ratio declined from 0.61% in the pre-SAP era to 0.23% in the SAP era, and declined further to 0.11% in the post-SAP era, but thereafter increased to 1.70% in the recent democratic era. Relative to the economy, the stock market showed low and decreasing trading activities; this low performance in securities trading emanated from inactivity in gilt-edged securities. However, the performance of the stock market seems to be improving in the recent democratic era as a result of recent government reform measures.

4.6 Policy Implications

From the analyses presented in the previous sub-sections, it appears that fiscal policy incentives implemented in Nigeria were characterised by inappropriate supportive measures, such as variations in the rates of various taxes. This is in addition to wider-ranging infrastructural inadequacies and hostility of the general environment for investment purposes.

Of fiscal incentives themselves, their workability has been drastically constrained by frequent changes in government and ministerial positions, which resulted in frequent changes and inconsistencies in public policies (in order to enhance the new administration's legitimacy). To minimise the negative impact of these frequent changes, therefore, precautionary measures must be taken into consideration within the policy framework to ensure that investors are protected. For instance, the 1984

Table 4.4: Some Indicators of Stock Market Performance (in percentages), 1980 - 2005

Year	Era	AC/GDP (%)	AVT/GDP (%)	ATR (%)
1980 - 1985	Pre-SAP	9.34	0.61	7.25
1986 - 1993	SAP	7.34	0.23	2.76
1994 - 1999	Post-SAP	7.30	0.11	1.50
1999 - 2007	Democratic	17.70	1.70	9.20

Note: AC = Average Capitalisation; AVT = Average Value Traded; ATR = Average Turnover Ratio.

Source: Computed by the authors from various issues of Central Bank of Nigeria Statistical Bulletins and Annual Reports

changes in tariffs and the tariff reforms of 1988 were billed to last at least three and seven years respectively before any other changes could be made to them; these clearly show that government acknowledged the undesirable effects of incessant public policy interruptions on businesses; but how effectively these (tariff) reforms were carried out is another matter altogether.

By far the most devastating problem in the management of investment incentives is the initiation of conflicting, inconsistent and non-supportive policies. For example, previous studies have shown that preferential credit allocation incentives went hand-in-hand with drastic deregulation of interest rates which was intended to accord appropriate pricing to, and promote efficient allocation of scarce financial resources (capital) in the economy (Soyibo and Olayiwola, 2001).

However, this appropriate interest rate setting brought about extremely high rate of interest for any significant long-term investment in the real sector (e.g. manufacturing); it led to a high level of credit diversion from the sector. Thus, even if the ratio of credit that was intended for the sector was exhausted, a very limited amount of the credit was indeed invested in it (the real sector), while a very significant proportion was diverted to the importation and sale of finished goods in order to cope with the obligation of servicing the loan obtained.

Aside from the element of risk and the high cost of doing business in the Nigerian economy, another deterrent to investment in the country is the narrow domain allowed the private sector to operate (though there has been some measure of improvement in the recent democratic era); and consequently, the domain of private sector activities was severely limited. The analyses above suggest that foreign investment in Nigeria shows a great deal of sensitivity to changes in domestic investment, domestic output and fiscal policy; this makes it imperative for the country to aim for higher domestic investment, better fiscal and complementary (or alternatively) monetary policies that will encourage domestic investments. This is in line with the submission of Osabuohien (2007) that domestic capital is more influential in economic growth in Nigeria than foreign capital, unlike the case in South Africa where both play key roles in the country's economic growth.

The above implies that policy reforms that are not growth-oriented may retard savings and investment growth in Nigeria. Moreover, within the credit rationing framework, it was discovered that with limited external resource flows, government resorts to domestic credit and thereby reduces the credit available to the private sector. It is suggested here that policies that constrain the flow of external financial resources should be avoided, especially where such policies relate to the burden of servicing debts. The financial crowding-out effect was established as

public investment enhances government's demand for domestic credit (except in the recent democratic era). It should, therefore, be noted that any government policy that would reform public enterprises and, in particular, limit cash flow problems will also encourage release of available domestic credit to the private sector.

The findings of this study suggest that one of the major causes of fiscal deficits in Nigeria is the rapid growth in public spending; this means that measures to curtail deficits should consist mainly of policies to reduce government spending. However, policies that are designed to enhance revenue collection for government through broadening the tax base may be useful. The basic policy implication is that if government wants to reduce its deficit, it should not determine its desired level of spending on political grounds, but should always adjust its tax revenue accordingly. The amount of fund available should determine the level of government spending; and this may be achieved by adopting a budgetary process that overcomes existing problems.

Measures to curtail spending must consist of policies designed to reduce deficits. Government can reduce its deficit by enhancing tax collections and cutting back on unproductive expenditures. The latter suggestion calls for budget restructuring. Improved tax collection will reduce government borrowing, which is a low-cost model of financing public spending.

Another major factor that has constrained inflow of additional resources has been the various crises and civil unrests in the country, for instance the Niger Delta protests over resource control. The crisis and unrests really affect the inflow of foreign investment to the economy, especially because of the negative image problems they create for the country to potential foreign investors. They also deter indigenous investors from undertaking long-term investment particularly in some perceived high-risk sectors of the economy.

The unpredictability of the political terrain, arguments about the national constitution and the frequent policy changes of government, all serve to underscore the absence of a congenial environment which is necessary to attract private domestic and foreign investment for economic growth in Nigeria.

5.0 CONCLUSION AND RECOMMENDATIONS

The study evaluated the effectiveness of fiscal policies in enhancing savings, promoting investment and encouraging greater resource mobilisation in Nigeria. Though many fiscal incentives have been initiated in order to achieve these objectives in the past, they have not adequately induced sufficient savings in the country nor ensured that the little mobilised savings translate into

investment. The basic problems that were identified as responsible for this dismal performance are non-adherence to the principles of fiscal federalism, non-correspondence, conflict of interest and inconsistency, and non-credibility of government's policies. The study suggests that policies that can overcome the identified problems are desirable and conducive for promoting savings, investment and resource mobilisation in the economy.

The fundamental challenge, however, is how to make the domestic economy competitive for enterprises to flourish, because it will be difficult for domestic firms to be globally competitive if the economic environment is not conducive. To address this challenge requires fundamental changes not only in attitudes, but in innovative government intervention strategies and policies. The first order of business in this regard is to address the issue of personal security and safety; no meaningful savings and investment can take place in an environment that is characterised by violent crimes, civil strife, political instability, institutionalised corruption, or absence of effective institutions (and processes) for securing property rights and enforcing contractual obligations. This is because nothing can stall savings and investment more than an uncertain and highly volatile macroeconomic environment.

The competitiveness of the macroeconomic environment is also an issue of considerable importance. Private enterprises should be promoted as the driver of the new business environment; the public sector needs to appreciate the private sector as a veritable partner in the quest for economic growth. This new partnership entails that government takes seriously its critical role of encouraging, stimulating, regulating and complementing the private sector. Thus, the recent privatisation programme of the government can be said to be a welcome development; however, it should be pursued with transparency and adherence to due process.

In addition, regular dialogue between the public sector (government) and the private sector through intermediate organisations such as the various chambers of commerce, business councils, non-governmental organisations (NGOs) and professional associations should be promoted. Similar to this is the correction of fiscal 'hydrocephalus' in the current fiscal federalism by ensuring that the local and state governments have higher tax jurisdictions, because they are closer to the people.

Perhaps, of greater importance for the profitability of investments is the issue of efficient physical infrastructures. A zero tax rate without a functional infrastructure will neither promote investments nor encourage efficiency in the market. These are the basic issues involved in the mobilisation of savings and investments. But the effects of

investment incentives to real sector (manufacturing) activities can be improved by increasing the efficiency of publicly-supplied infrastructures like transportation, electricity and other sources of energy supply, telecommunication, postal services, water supply and health facilities. Though the provision of these infrastructures is the responsibility of some designated government agencies, their performance are far from satisfactory, and their inefficiency has reflected in the high cost of doing business generally in Nigeria.

Another recommendation is the need for government to avoid high and unsustainable fiscal deficits. In general, high fiscal deficit increases interest rate and reduces credit to the private sector, thus crowding-out private investment. When reducing deficit, therefore, it is necessary to engineer drastic reductions in unproductive government spending and safeguard public expenditure on economic and social services.

In general, sustaining and increasing public expenditure on infrastructure will encourage savings and investment. The practice of financing budget deficit through the Central Bank of Nigeria or external borrowings should be discontinued; this is necessary because such practice encouraged a situation where the public sector crowded out the private sector from accessing productive resources. In view of this, government expenditure should be devoted largely to improving social services and promoting the productive sectors of the economy.

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