PROMOTING SAVINGS AND INVESTMENT CULTURE FOR NATIONAL DEVELOPMENT

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Abstract

The paper examined the performance of Nigeria's savings and investment profile relative to some selected economies of the world. It noted that the fundamental issues militating against an effective savings and investment culture in Nigeria has remained financial sector distress, high inflationary expectation, low yield on investments and inappropriate institutional structures. Amongst the various efforts being made to enhance savings and investment culture in Nigeria, the paper identified the recently introduced National Savings certificate (NSC) as a key investment window for the low income group with attractive yield and thus, a strong alternative to bank deposits, the proposed pension scheme was expected to enhance savings for increased investment, if well implemented.

INTRODUCTION

It is a well recognised fact that boosting the level of savings is of great importance if a country is to achieve and sustain high investment and output growth rate. Generally, growth in output depends on capital accumulation, which in turn depends on the marginal propensity to save. Indeed, two of the most important issues in development economics, and for developing countries, are how to stimulate investment, and how to bring about an increase in the level of savings to fund increased investment.

Parsimony is a cultural phenomenon –which is generally acquired by economic agents. A saving and investment culture, can therefore, be influenced by institutions and regulatory agents that direct the decisions of households, firms and governments. The savings-investment nexus in the capital formation process require some forms of intermediation and allocative mechanism in order to release resources from the surplus to deficit units in the economy. Financial intermediation, particularly, savings mobilisation is a critical function of the financial system. Empirical evidence indicates that the quantum of gross domestic savings provides a useful tool when predicting a country's ability to achieve high levels of growth. In other words, high growth rates

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require high level of investment, which are financed by high rates of savings. Thus, the growing disparity between poor and rich countries, to a large extent, reflects the varying degrees of savings accumulation and levels of capital formation utilized to jump-start the economy.

This paper attempts to examine the fundamental issues of savings and investment behaviour in the context of the developmental aspirations of Nigeria. In doing this, we would highlight the efforts made so far and the challenges facing the economy in promoting savings and investment culture. Accordingly, the paper is structured into six parts. Following this introduction, part II deals with some theoretical issues, part III reviews the savings and investment culture in Nigeria, while country experiences at promoting saving and investment is discussed in part IV. Part V outlines some initiatives embarked upon towards enhancing savings and investment culture in Nigeria. Part VI highlights some lingering challenges in promoting saving and investment culture in Nigeria and concludes the paper.

II Some Theoretical Issues

Generally, the marginal propensity to save is said to be predicated on three key variables – namely, income, the rate of interest and the rate of inflation. International evidence shows that per capita income strongly influences the capacity to save, such that, the savings–GDP ratio is lower in poor countries than in rich countries. The income thesis is typically rooted in the life–cycle hypothesis, which posits that individuals and household naturally endeavour to spread out consumption pattern evenly over their lifetime. Another important factor determining the capacity to save is the distribution of income. If the propensity to save by the rich is higher than that of the poor, then the aggregate savings ratio, should be positively related to the degree of inequality both in the personal distribution of income, and also, in the functional distribution between wages and profits.

The role of real interest rate as a determinant of savings is ambiguous in the literature, especially, in developing countries. This situation arises from the fact that when interest rates rise, agents may simply switch between assets, leaving total savings unchanged. Similarly, the substitution and income effects have opposing effects, with the latter having negative effect on savings. A more important determinant of the willingness to save is the existence of efficient financial institutions, and the array and availability of financial assets to meet the need of potential savers. Typically, the rate of inflation can also influence the willingness to save, but the effect is mixed, On the one hand, inflation acts as a tax on real money balances. On the other hand, it is natural to expect individuals to avoid the tax if it becomes burdensome in relation to the convenience of holding money. Overall, the literature indicates that the key drivers to the development of a positive investment culture are; price stability, positive interest rate regime, high per capita income, efficient financial institutions, availability of financial assets, socio-political and macroeconomic stability.

III. Savings and Investment Culture in Nigeria

Available data shows that savings and investment culture in Nigeria is very poor relative to most economies of the world. For instance, during the period 1986 – 1989, domestic savings averaged 15.7 per cent of GDP. However, with the emergence of financial sector distress in the 1990s the rate of aggregate savings declined significantly. The distress syndrome resulted in a significant fall in domestic savings in the period 1990 – 1994 as the savings–GDP ratio dropped to 6.0 per cent. The distress in the banking system weakened aggregate financial savings as the share of bank deposits in aggregate financial savings fell from 36.6 per cent in the 1980s to 28.0 per cent in the period 1990 – 1994. The gross domestic savings averaged 11.3 per cent of GDP over the period 1993 – 1999 (the post financial reforms period). Specifically, Nigeria's savings–GDP ratio stood at 13.2 per cent in 1996, which was relatively lower than the 25.4, 26.8 and 35.9 per cent recorded by Mexico, Taiwan and Thailand, respectively in the same year. Similarly, Nigeria's savings rate, which stood at 14.5 per cent in 1999, was lower than the average of 20.3, 26.1 and 22.7 per cent recorded by low, middle and high-income countries, respectively. By regional grouping, Nigeria's savings rate was also lower than the average for Sub-Saharan Africa, East Asia and Pacific countries, Europe and Central Asia countries, and Middle East and North African countries during the year (see Table 1).

IV. Country Experiences at Promoting Savings and Investment

The experiences of some emerging economies of the world provide insights into how to promote savings and investment. Recognising the role of savings and investment in national development, many governments have adopted compulsory savings schemes as well as persuasive approaches to raise the savings rate of their economies in order to attain high levels of investment and output growth rates.

In Singapore, the Central Provident Fund (CPF) is the institution through which savings take place. The account belongs to the individuals, with monthly deposits paid by both employees and their employers. The rate of contribution is approximately 40 percent of the wage rate and is tax-free. From the funds, a wide range of projects are financed, including purchase of homes, investing in stocks and bonds and non-residential property as well as payments for health care. Other options include purchase of life and disability insurance, financing a college education and saving for retirement. As a result of this system, about 85 per cent of the population live in their own houses - the highest home ownership rate in the world. The high rate of contribution, along with rising wages, have meant that the CPF system has been an important contributor to Singapore's savings rate which stood at about 52 per cent of GDP in 1999 –the highest in the world. One lesson from this scheme is the fact that a system to attract savings should be tied to the social-political environment of a country in addition to being competitive economically (Asher, 1995).

In Japan, a culture of savings has been developed based on a virtue of thrift. The Japanese government had in the 19th Century used the promotion of savings as a means of achieving national goals. Savings were viewed as an important funding source of new industries and the power to support the government to catch-up with the growth rates of the most advanced economies of the world. Savings were encouraged as means of rehabilitating the economy and eliminating high inflationary levels. The establishment of the Central Council for Savings Promotion (CCSP) in 1952 intensified promotional activities, which centred on lectures and the distribution of housekeeping account books to housewives throughout the nation. The current promotion programme focuses on group activities as well as dissemination of information of understanding financial health by households. The scheme has been very successful to the extent that the people are now being urged to enhance their marginal propensity to consume in order to boost aggregate demand to free the Japanese economy from recession.

In Chile, under the privatised savings plan, workers are required to deposit 10 per cent of their earnings in any one of a number of highly regulated intermediaries. At retirement, they could choose between a series of phased withdrawals and an annuity. Thus, a surge has been witnessed in private savings. This was largely attributed to the increase in the retirement age and the fiscal consolidation that accompanied the reforms. The steady flow of contributions into investment funds created a market for indexed annuities, and improved the functioning of the capital markets.

In Malaysia, as in Singapore, the fully funded provident fund contribution schemes are used to engender compulsory savings. The savings were maintained in a central fund with separate accounts for individual contributors. On retirement, benefits consist of accumulated contributions plus interest, which take the form of a lump-sum payment. However, the compulsory scheme is limited to the wage earners.

V. Towards Enhancing Savings and Investment Culture in Nigeria

The monetary authorities have made efforts in the promotion of savings and investment culture in Nigeria over the years. The recent efforts include the introduction of savings and investment instruments and schemes; stimulation of financial intermediation and promotion and sustenance of macroeconomic stability. Specific efforts include the introduction of the National Savings Certificate, which is expected to be issued during the course of the year; floatation of the Federal Government bond and the proposed pension scheme currently before the National Assembly.

National Savings Certificate

In recognition of the need to encourage savings and investment growth in Nigeria as well as provide a more competitive environment in the financial system, the Federal Government approved the issuance of the National Savings Certificate (NSC), which was recommended by the Central Bank of Nigeria (CBN). The NSC is a medium-to-long term financial instrument of 3-12 years. It is designed to fill the existing gap in the maturity structure of the various debt instruments i.e. between the short-term Treasury Bills and the long-term Development Stocks. The Federal Ministry of Finance is the primary issuer. It is a national savings mobilisation scheme, which serves both as liquidity control instrument and an investment window for the low income group.

Funds mobilized through the NSC, shall be on lent to the productive sectors of the economy through selected number of official credit institutions, and participating deposit money banks. As a direct obligation of the FGN, it is backed by the full faith and credit of the Federal Government. The coupon rate of the certificate is envisaged to be attractive and higher than the rates that banks pay on savings deposits. The NSC will be issued in 4 tranches of 3, 6, 9 and 12 years and in units of ₦1,000.00 and multiple thereof, and thus, should encourage investment by low-income savers. As a registered security, the NSC shall be listed and traded in the stock market to give it the required flexibility and liquidity. It can also be used as collateral for bank loans. In other words, the NSC shall be marketable, and subsequent to original issuance, it may be bought or sold in the secondary market at prevailing market prices. This will unarguably induce savers to postpone their present consumption to the future, thus, releasing funds for immediate investment.

The introduction of the NSC would also broaden the financial market, and hence, establish the appropriate environment that will facilitate the effectiveness of open market operations (OMO) as a monetary and financial policy tool. Specifically, the objectives of the NSC are to:

- Facilitate savings and investment growth;
- Help to stem the growth of excess liquidity in the banking system by trapping part of the liquidity to financial assets; and
- Promote a more competitive banking environment as it provides a strong alternative to bank deposits.

Floatation of Federal Government Bonds

The floatation of Federal Government long-term bonds, which was introduced in 2003, would encourage long-term savings, and the release of funds for long-term financing needs of the government. The bonds will also moderate monetary growth and hence, engender macroeconomic stability for enhanced savings and investment.

Proposed Pension Scheme

The passing into law of the new pension bill now before the National Assembly, like in Singapore and Chile would open a new window for savings and investment. Such compulsory savings would likely reduce poverty, bring about very high savings rate and strengthen the securities market, if well implemented.

Stimulation of Financial Intermediation and Investment

The ability of the financial system to mobilize savings and hence contribute to investment depends on the effectiveness and efficiency of the system. In the course of mobilising resources, financial intermediaries perform various types of functions: such as operating payments mechanisms, providing loans and advances, insurance, pension funds management, among others. In this regard among others, the CBN has continued to promote the necessary environment for competitive efficiency, financial soundness and sustainable growth through the implementation of Basle Core Standards and strengthening the regulatory and supervisory frameworks.

Promotion and the Sustenance of Macroeconomic Stability

Macroeconomic stability enhances the predictability of business risks. This encourages a more efficient allocation of resources and factor inputs in consonance with the resource potentials of the country and national development objectives. The macroeconomic environment should seek to contain inflation, stabilise the exchange rate as well as keep interest rates positive in real terms to encourage savers and investors. It is in recognition of this that the CBN focussed on the need to strengthen competitive efficiency in the financial sector through prudent monetary policy measures and the proactive adjustment of its policy instruments. Furthermore, the introduction of the medium-term perspective to monetary management has assisted in achieving monetary stability with minimum operational lag.

VI. Challenges

In spite of the significant efforts made by the authorities to enhance the savings culture of Nigerians, quite a number of issues have continued to undermine the achievement of this objective. These include:

Financial Sector Distress

Though efforts have been made by the authorities to substantially address the issue, there are still a few financial institutions in the economy with symptoms of distress. This has remained a challenge towards promoting savings, as public confidence in the banking sector need to be restored in order to attract savings from the citizenry.

Inflationary Expectation?

High bouts of inflationary pressures, induced by fiscal dominance, have encouraged high levels of current consumption with attendant negative effect on capital formation. It has also affected the interest rate structure and the achievement of the desired level of exchange rate stability. This has constrained financial resource mobilization and its efficient allocation in the promotion of growth and development.

Low Yield on Investments

Yield on investments, particularly manufacturing, in the economy appeared low compared to the yield on other assets. A high yield could be achieved through efficient incentive packages including attractive corporate tax exemption, tax rebates and tax holidays, a more efficient and effective tax collection system and depreciation allowance system that help cut operational and capital costs.

Inappropriate Institutional Structures

The emerging challenge is for policy makers to focus on strengthening and evolving institutional mechanisms that will enhance the performance of the financial system. Micro Credit Institutions (MCIs) needs to be encouraged to concentrate on key issues in the provision of financial services to the poor. There is the need to embrace indigenous self-help rotating and credit societies, which have their own strategy of mobilising savings and promoting investments. In addition, efforts could be intensified towards fighting corruption and financial crimes in order to elicit confidence in the economy and thus, enhance the savings and investment culture in Nigeria.

In concluding, it is important to stress that in order to achieve an enduring savings and investment culture, efforts should be intensified in the area of taming distress in the financial system, controlling inflationary expectations, enhancing aggregate income, and introducing incentives to boost the yield on investments in Nigeria.

Table 1: Comparative Gross Domestic Savings for some Selected Countries, Income and Regional Classifications, 1996 & 1999.

Selected Countries	Gross Domestic Savings as % of GDP	
	1996	1999
Mexico	25.4	22
Peru	19	20
Taiwan	26.8	-
Thailand	35.9	35
Singapore	50	52
Japan	30	28
Nigeria	13.2	14.5
By Income		
Low Income	29	20.3
Middle Income	22	26.1
Low & Middle Income	24	25.2
High Income	21	22.7
By Region		
East Asia & Pacific	38	36.1
Europe and Central Asia	21	243.6
Latin America & the Caribbean	20	19.2
Middle East & North Africa	28	24.2
South Asia	22	18.3
Sub-Saharan Africa	18	15.3

Source:
1) World Bank Development Report (2003)
2) World Bank Development Indicators (2001, 1998)
3) Annual World Bank Conference on Development Economics (2000)
4) Federal Office of Statistics (FOS)

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