Fiscal Policy and Inflow of Foreign Investment in Nigeria Financial Market

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Abstract
This study examined the effects of fiscal variables on foreign investment in Nigeria. Data were sourced from Central Bank of Nigeria Statistical Bulletin from 1990-2023. Foreign investment inflow was modeled as the function of capital expenditure, recurrent expenditure, oil revenue and nonoil revenue. The study employed the Autoregressive Distributed Lag (ARDL) to determine the relationship between the variables. The result of the ADF root test on fiscal policies and tax regulation, the result shows that were stationary at order one I (1) while FI is in 1(0). The ARDL bounds test result, it is clear that there is a long run relationship amongst the variables. The estimated ARDL model found that fiscal policy variables 76.3 per cent variation in foreign investment in Nigeria, this implies that 23.7 per cent was explained by variables not capture in the model. The result of the dynamic relationship between fiscal policy variables and foreign investment found that the government expenditure and governance have positive effect on foreign investment into the country while public debt has negative effect on foreign investment. The co-integration equation has a value of -0.528710 from Nigeria with a corresponding probability value of 0.0000 which is statistically significance at 5%. From the findings, the study concludes that fiscal policy such as government expenditure determines inflow of foreign investment in Nigeria. The study recommends that Government should ensure that revenue realized is adequately allotted to the productive sector of the economy to boost inflow of foreign investment and government should ensure that the proportion of capital expenditure to recurrent expenditure is increased to ensure an increase in the level of productive investment such that economic activities will be enhanced for greater inflow of foreign investment.

Keywords: Fiscal Policy, Foreign Investment, Nigeria, Financial Market

INTRODUCTION

The need for a more stable macro-economic environment through sound fiscal and monetary actions is still paramount in the world of research. Besides the challenges posed by globalization to the domestic economy, it has been empirically argued that instability and uncertainty in any economy impede long term growth (Akanni and Osinowo, 2013:124). Yosra, Anis and Houria, (2013) stated that countries seeking to attract foreign investment creates a more favourable climate for Multinational Enterprises through the improvement of political institutions and economic policies that stimulate foreign investment inflows. On the other hand, there are several factors such as corruption, political instability, macroeconomic instability that affect the investment climate. Ndem, Okoronkwo and Nwamuo (2014) stressed that the factors influencing foreign investment decisions are very varied, and while not an exhaustive list, fiscal

policy to Antionio, Jose and Luis (2014) believed to be one of the factors may affect foreign investment decisions and investment climate.

Eze and Ogiji, (2013) opined that fiscal policy as the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. In furtherance, the two main instruments of fiscal policy are government taxation and government expenditure. It can also be seen as government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy. Peter and Simeon, (Eze and Ogiji, 2013) believed that following the stale performance of the Nigerian economy, which was seen as a growing concern, government policies began to show more concern on the management and improvement of the economy. The government over the years has embarked on various macroeconomic policy options to grow the economy in terms of growth and development and the policy option employed is that of fiscal policy.

Mahmood and Khalid (2013) affirmed that the government in a bid to regulate the level of spending and manipulate the economy of the country has made use of fiscal instruments. Nevertheless, in order to attract foreign investment and more generally, encourage investment-developing countries and economies in transition need to enhance their locational assets, which means investing in health, education, power, transport. (United Nations, 2004), and change their tax regime. In spite of these efforts coupled with the enormous benefit, host countries stand to gain from foreign investment the flow of foreign capital in form of foreign private capital to developing countries and Nigeria especially over the years have been strongly marginalized (Akanni and Osinowo, 2013).

Idowu and Abe (2013) was of the view that foreign investment in Nigeria have not been encouraging, as a result of major domestic flaws in the country such as high inflation, poor infrastructure, corruption and insecurity that reflect on the nominal growth of the country, low interest rate, unfavourable exchange rate and unnecessary barrier to trade and inflows of capital that mainly come in the form of legal requirement, tariff barriers, duplicated tax system. Also, the fear of future burden to be born in form of higher tax and levies to redeem huge debts especially, external debts seem to deter the inflow of foreign investment the country. Ndem, Okoronkwo and Nwamuo (2014) noted that Nigeria share in foreign investment flow has steadily declined in recent times. Factors contributing to this lag in foreign investment flows to Nigeria relative to other countries of the world according to UNCTAD include; high level of corruption, poor governance, inadequate infrastructure among others, which arguably emanated from the fiscal instrument. Furthermore, they argue that despite the role that infrastructure could play as incentive to attract foreign investment evidence points to the fact that delay in infrastructure in Nigeria social, economic and finance are on the verge of collapse.

Economic theories suggest that an increase in government expenditure on socio-economic and physical infrastructures encourages economic growth. Government expenditure on health and education raises the productivity of labour and increase the growth of national output. Similarly, expenditure on infrastructure such as roads, communications, power, reduces production costs, increases private sector investment and profitability of firms, thus fostering economic growth (Osinowo, 2015). Expansion of government expenditure contributes positively to economic growth (Abdullah, 2000; Al-Yousif, 2000; Osinowo, 2015). However,

increasing government expenditure promotes economic growth, but rather agreed that higher government expenditure may slowdown overall performance of the economy (Abu and Abdullahi, 2010; Osinowo, 2015). On the other hand, the Keynesian theory regards the economy as being inherently unstable and as such requires active government intervention to achieve stability. They attach a low degree of importance to monetary policy and place a high premium on fiscal policy (Powel, 1989; Ajaude & Nkamare, 2016).

There has been a surge of foreign investment as a result of globalization. Multinational companies are increasingly looking to invest where the institutional environment is favourable and in host countries with a transparent institutional framework characterized by a coherent fiscal policy. On the other hand, countries are increasingly seeking to attract foreign investment, and have sought to create a more favourable climate for Multinational Enterprises through the improvement of political institutions and economic policies that stimulate foreign investment inflows. On the other hand, there are several factors that are being addressed such as corruption, political instability, macroeconomic instability that affect the investment climate. But, foreign investment flows have steadily declined in recent times. Arguably, this lag in foreign investment flows to Nigeria relative to other countries of the world emanated from the fiscal instrument. Furthermore, despite the role that infrastructure could play as incentive to attract foreign investment, evidence points to the fact that delay in infrastructure in Nigeria social, economic and finance are on the verge of collapse.

Akanni and Osinowo (2013) puts forward that macroeconomic dynamics in Nigeria have been dominated in the past by fiscal instability. There has been a strong deficit stemming from government revenue volatility. As a result, monetary authority has been forced to neutralize policies leading to macroeconomic instability. To lend further credence, since the drastic oil price fall of 1980s, fiscal policy in Nigeria has lost the desirable characteristics required for its effectiveness as a vehicle of economic growth and tool for stabilizing the economy; it still has a yearly contribution to the economy either positively or otherwise. Cleeve (2004) was of the view that Africa's image as a high-risk investment region has to be dispelled, as the flow of foreign investment is highly sensitive to economic and political risks. However, the fiscal incentives, the most popular instrument for attracting foreign investment in Nigeria have failed to deliver the expected increase in foreign investment inflows. Nataraj and Dash (2013) have argued that good infrastructure is necessary condition for foreign investors to operate successfully, regardless of the type of foreign investment. From the above, this study examined the effect of fiscal policy on inflow of foreign investment in Nigeria.

LITERATURE REVIEW

Fiscal Policy

Abdurrauf (2015) defines fiscal policy as the process of government management of the economy through the manipulation of its income expenditure and to achieve certain desired macroeconomic objectives. Central Bank of Nigeria (2011) defines fiscal policy as the use of government expenditure and revenue collection through tax and amount of government spending to influence the economy. Fiscal policy is the means by which the government adjusts its level of spending in order to monitor and influence the nation's economy (Agu & Idike, 2014). It is used along with the monetary policy which the central bank uses to influence money supply in a nation. In other words, fiscal policy is a major economic stabilization weapon that

involves measure taken to regulate and control the volume, cost and availability as well as direction of money in an economy to achieve some specified macroeconomic policy objective and to counteract undesirable trends in the Nigerian economy (Abdurrauf, 2015).

Agu, Idike, Okwor and Ugwunta (2014) define fiscal policy as government's program with respect to the purchase of goods and services and spending on the transfer of payments, and as well the amount and type of taxes. In finance, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are government taxation and expenditure. Changes in the level and composition of taxation and government spending can affect aggregate demand and the level of economic activity; the pattern of resource allocation; and the distribution of income (Odhiambo, Momanyi, Lucas, & Aila, 2013). This implies that fiscal policy refers to the use of the government budget to influence economic activities. Anthony and Chukwu, (2015), contends that fiscal policy involves the use of government spending, taxation and borrowing to affect the level and growth of aggregate demand, output and jobs creation. It is the government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy. Various researchers have submitted that fiscal policy goals include the following: increasing employment opportunities; attaining full employment; stabilization of domestic prices; promoting economic growth and development through industrialization; achieving equity in income redistribution; achieving stable exchange rate; and increasing the rate of investment in the country (Cynthia, & Itode, 2018). Fiscal policy has been defined as the planning of revenue and expenditure levels and pattern by government to influence the circular flow, or specifically to promote full employment production, price stability and national welfare (Fashola, 2001; Akanni and Osinowo, 2013). Governments directly and indirectly influence the way resources are used in the economy. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary or "loose." By contrast, fiscal policy is often considered contractionary or "tight" if it reduces demand via lower spending (Horton and El-Ganainy, 2009; Akanni and Osinowo, 2013). Government expenditure can provide an impulse for sector output growth, while on the other hand; it can be harmful if it results in budget deficits and leads to competition for scarce financial resources from the banking sector as the government seeks to finance the deficit (Ezeoha and Chibuike, 2005; Osinowo, 2015).

Capital Expenditure Diversification

Capital expenditure refers to the amount spent in the acquisition of fixed (productive) assets (whose useful life extends beyond the accounting or fiscal year), as well as expenditure incurred in the upgrade and improvement of existing fixed assets such as lands, building, roads, machines and equipment, etc., including intangible assets. Expenditure in research also falls within this component of government expenditure. Capital expenditure is usually seen as expenditure creating future benefits, as there could be some lags between when it is incurred and when it takes effect on the economy (Apere, 2017). One-way capital expenditure impacts on economic growth are the creation of employment. The multi-hydra problem of unemployment in the economy is reduced to the barest minimum. Another way it causes

economic growth is the re-allocation of resources to every sector of the economy. Resources are moved from the surplus areas to the deficit areas where they are needed with, thus opening up vast opportunities which will improve the citizens of the country (Onyemaechi, 2014). Traditionally Nigeria capital expenditure has been infrastructural development rather than key sectors of the economy such as agricultural sector, manufacturing and service sector. Diversification of public expenditure from infrastructure to key sector of the economy can impact positively to productive capacity of the economy.

Diversified Recurrent Expenditure

Recurrent expenditure on the other hand refers to expenditure on Purchase of goods and services, wages and salaries, operations as well as current grants and subsidies (usually classified as transfer payments). Recurrent expenditure, excluding transfer payments, is also referred to as government final consumption expenditure. Recurrent expenditures are those incurred on either day to day basis, or weekly, monthly, or even yearly basis and they include administration, internal security expenses, wages and salaries of public workers (Agu, Idike, Okwor & Ugwunta, 2014). Recurrent expenditures associated with a public investment projects are those operations and maintenance expenditures needed to run the project at a level consistent with its expected use, and to maintain the capacity of the investment during its expected lifetime. For example, recurrent expenditures in the case of a new school serving an expanded student population would include the teachers' salaries and additional textbooks and teaching materials required to operate the new facility. They would also include electricity, heating and other costs needed to operate the facility, and the regular and periodic maintenance needed to maintain the facility.

Importantly, recurrent expenditures should reflect full capacity utilization of the facility that is; the recurrent expenditures expected when the investment is being used as designed (Akpan, & Abang, 2013). Recurrent expenditures will be both direct and indirect. Clearly, increasing the number of teachers to staff additional classrooms is a direct cost of investment in improved access to education. Teacher training to supply the necessary teachers may be an indirect cost unless explicitly provided for as part of the investment project. If possible, indirect recurrent expenditures should be referenced in public investment proposals (Cynthia, & Itode, 2018). Most recurrent expenditure is based on salaries and overheads instead of investment, diversified recurrent expenditure from salaries and overheads have the capacity to increase the productivity of the economy.

Oil Revenue Diversification

A paradigm shift though diversification of the economy of both developing and developed nations have remain a hard nut to crack in the face of challenging development in the global economy, its benefits can never be overemphasized. Economic diversification is of course the bedrock of economic development; its inadequacies expose developing nations to external shocks; making them to be vulnerable to developed nations. These in long run impede the prospects for long term economic growth (Sauive, 2019; Roy, 2019; World Bank, 2019). Revenue diversification, a paradigm shift is traceable to Great Depression of 1930s when property values and property tax revenues experienced significant decline. In a panic response, the state government devised new revenue sources, such as sales and income taxes, to reduce

or replace their reliance on property tax revenues and finance of public expenditures (Ulbrich, 1991; Fisher, 1997; Howe & Reeb, 1997).

In Nigeria, before the oil boom in the late 1970s, revenue from non-oil export (cocoa, groundnut, rubber, palm kernel and palm oil) accounted for 96.4% (Ekpo & Umoh, 2014; Jide, 2017) and has dramatically dropped, altering the structure of the economy due to dependence on oil based revenue (Ojo, 1994; Obadan, 2000). Oil sector has in fact remain the mainstay of Nigeria economy accounting over 90% of the total export, 80% of the total government revenue and as well contributed to over 70% of the Nigerian GDP (Agbaeze, Udeh, & Onwuka, 2015) . This has undoubtedly turned Nigerian economy to a monolithic as well volatile economy (Obi, 2018). Close to the transition of power from Dr Goodluck Jonathan to General Mohammed Buhari (Rtd) in 2015, the revenue profile of the Federal Government of Nigeria indicated that revenue from oil sector was 80% of foreign exchange earnings, whereas non-oil-based revenue accounted about 20.1% (Onodujo et al, 2015).

Foreign Investment

Over the years, foreign direct investment has been a major incentive that peoples the Nigerian economic growth with its immense contributions to the revenue generation (Dada & Abanikanda, 2021). Despite the huge revenue realized via foreign direct investment especially in the petroleum industry, the nature of fiscal policy practiced in Nigeria for the past two decades has been in form of deficit Ogege & Boloupremo, 2020). That is, a major feature of fiscal policy in Nigeria over the years has been fiscal deficits. Proponents of fiscal deficit believe the excess of government expenditure over revue is to boost infrastructure and promote domestic production to maintain sustainable economic growth (Ogege, 2020; Arain, Qureshi, Suthar, Pirzado, Khanzada, Baloch, Memon, 2021).

However, this case has not been the situation in Nigeria where economic growth has been falling and fluctuating in recent times. Nigeria within the last five years has witnessed two economic recessions in quick successions one in 2006 and the other one in 2020 (Yeboua, 2021). The poor performance of the country's economic growth and the rate of its fluctuation calls to question the roles of both foreign direct investment and fiscal policy in Nigeria. Although recent data have shown that capital inflow into Nigeria in form of foreign investment has been falling. For instance, foreign investment in Nigeria fell from 4.45 billion USD in 2016 to 3.3 billion USD in 2019 (World Bank, 2020). Around the same period, tax revenue fell by 6.7% and it was at the same period that Nigeria witnessed two economic recessions (CBN, 2019).

The implication of this scenario is that it appears that there might be some connections among the three that is foreign investment fiscal policy and Nigeria's economic growth. For instance, the naira has undergone devaluation twice within the last five years and one of the cardinal objectives of this move is to promote foreign investment and boost domestic output that will propel economic growth (Babalola, & Onikosi-Alliyu 2020). Despite all these efforts the foreign investment in Nigeria has been dwindling thus, compounding the negative effect on government revenue and hence limiting the usage of fiscal policy to put the country on the path of sustainable economic growth. Understanding the nexus between foreign investment and fiscal policy especially government revenue and expenditure has been adjudged to be very key to evaluating the impact of the two on economic growth (Wang, Xu, Qin, & Skare, 2021).

This nexus has generated different controversies in the literature ((Basuki, Purwaningsih, Soesilo, & Mulyanto, 2020). For instance, some studies concluded that fiscal policy drives foreign investment while some studies concluded that the reverse is the case (Babalola & Onikosi-Alliyu, (2020) from their assessment found out that the proceeds from foreign investment in form of revenue is a major driver of fiscal policy in Nigeria while Anichebe & ACA, (2019) in their study viewed fiscal policy from tax revenue incentive given to foreign investors and concluded that this is a major driver of foreign investment into the country and hence they concluded that fiscal policy drives foreign investment. These debates have continued without any concrete consensus among the authors. Consequently, apart from evaluating the effect of both foreign investment and fiscal policy on the economic growth of Nigeria, the causality between fiscal policy and foreign investment will also be investigated to contribute to the existing literature on the dichotomy between the two..

Keynesian Aggregate Demand Theory

The Keynesian approach to aggregate demand management asserts that the market mechanism could not be relied upon for an economy in recession or below full employment to recover or rebound quickly. In other words, a basic premise of the Keynesian approach is that the private sector is inherently unstable and therefore recommends activist fiscal and monetary policies. An activist macroeconomic policy involves setting fiscal and monetary variables in each time period at the values which are thought necessary to achieve government objectives (Levacic & Rebmann, 1982). The Keynesian theory essentially advocates public spending, preferably involving deficit in government fiscal budget to stimulate aggregate demand. In other words, it presents a framework that could be used to calculate the effects of government spending on economic activity and imposing taxes and consequently estimating the size of the required intervention. Activist stabilisation policy can take two forms: either as a discretionary or as a feedback rule which relates policy to current and lagged output.

A discretionary policy involves the government or other authorities such as the central bank deciding in each period what the appropriate policy response should be given current circumstances. On the other hand, a feedback policy rule establishes some fixed formula for deciding what values the policy variables should take and this formula would remain unchanged over a considerable time span. In practice, a feedback policy rule has been limited to the operation of automatic stabilizers. These are changes in government spending and taxation which occur automatically as national income changes and which act in a stabilizing manner, e.g., government spending on unemployment rises in a depression while the tax revenue fall (Levacic and Rebmann, 1982). Government expenditure is a missing variable within the Solow-Swan neoclassical model. Alternative growth theories have also been developed in response to policy needs to accommodate the missing variables in the neoclassical model (Bogunjoko, 2004).

International Business Theory

International Business Theory explores the determinants and patterns of international business activities, including foreign direct investment (FDI). This theory has been studied and developed by various scholars in the field of international business and economics. Prominent among these scholars is John H. Dunning, who made significant contributions to the field, particularly with his development of the eclectic paradigm or OLI framework (Ownership,

Location, and Internalization) to explain the determinants of FDI.The OLI framework proposes that firms engage in foreign investment based on three main factors: ownership advantages (O), location advantages (L), and internalization advantages (I). Ownership advantages refer to the specific advantages and capabilities possessed by a firm that make foreign investment more beneficial than serving the foreign market through exports or licensing. Location advantages pertain to the attractiveness of a particular foreign market, influenced by factors such as market size, resource availability, and business environment. Internalization advantages arise from the firm's desire to internalize certain activities rather than relying on external markets or suppliers. Within the context of the study on the effects of macroeconomic variables on foreign investment in Nigeria and Ghana, the International Business Theory offers a robust framework to analyze the motivations behind FDI. The theory's application can be tailored to explore how macroeconomic variables influence the different types of FDI motivations observed in these countries.

Fiscal Policy in Keynesian Theory

1n 1936, Keynes published his book the general theory of employment, money and interest rate. He attacked the classical thinking regarding the neutral role of government and balanced budget. According to Keynes, monetary policy is powerless during recession because it depends on reducing the interest rate which is already very low. Also, the price adjustment mechanism is powered by income adjustment mechanism. During recessions, the individual's income falls so, they will tend to decrease their both consumption and saving and the same for businesses. They will tend to decrease investment and production. As a result, the price adjustment mechanism will take the economy to more recession rather than to full employment.

Keynes provides a solution for government to pull the economy out of recession. He believes that government can implement some policies that can positively affect the economy. In other words, Keynes believes that government should have bigger role in the economy. The economy cannot be left to the price adjustment mechanism which is powerless in his point of view. He states that waiting for eventual recovery is fruitless because in the long run we all dead. The key concept of Keynesian analysis is aggregate demand which is affected by public and economic decision in both private and public level.

The public decision includes both monetary and fiscal policy. According to Keynes, the aggregate demand has a short run effect on output, income and employment. During business cycle, active stabilization policy is the best way to cure the economy. During recession, government should run a deficit budget by increasing spending or cutting taxes. This will increase the individuals and businesses disposable income so; they will have more motivation to consumption and investment. The Keynesian model is based on the assumption of price rigidity, excess capacity and the existence of a sizeable rate of unemployment. According to Keynes, the aggregate demand, including fiscal policy can affect the output and employment. The total effect of fiscal policy depends on the magnitude of fiscal multiplier and the crowding-out effect (Mankiw, 2000).

Empirical Review

Omitogun and Ayinla (2007) examined empirically the contribution of fiscal policy in the achievement of sustainable economic growth in Nigeria. They used Solow growth model estimated with the use of ordinary least square method and found out that fiscal policy has not been effective in the area of promoting sustainable economic growth in Nigeria. They

suggested that Nigerian government should put a stop to the incessant unproductive foreign borrowing, wasteful spending and uncontrolled money supply and embark on specific policies aimed at achieving increased and sustainable productivity in all sectors of the economy. Marratin and Salotti (2010) conducted a study on the relationship between fiscal policy and private investment of 14 EU countries and found that state expenditure shocks have positive effect on private investment. The study suggested that remuneration-related public expenditure has a relatively higher stimulating effect, whereas government investment has no stimulating effect on private investment.

Abata, Kehinde and Bolarinwa (2012) assessed how fiscal and monetary policies influence economic growth and development in Nigeria. From the result there exist a mild long-run equilibrium relationship between economic growth and fiscal policy variables in Nigeria. The study suggests that for any meaningful progress towards fiscal prudence on the part of Government to occur, some powerful pro-stability stakeholders strong enough to challenge government fiscal recklessness will need to emerge. Niti (2014) carried out a study in India with the aim of investigating the influence of fiscal policy on the inflows of FDI. The work considers the FDI inflows' determinants with reference to the components of fiscal policy (capital expenditure and tax treaties). A regression model was employed to estimate the panel equation and fixed effects model approach was adopted. With respect to the data analysis, openness to FDI and infrastructure were indicated as significant determinants of FDI while the variables of the fiscal policy adopted were not significant. It was concluded that while a competitive fiscal policy enhances business operations, it may not be considered as a prime factor in investment decisions. Wanjala (2016) ascertained the influence of fiscal policy factors on the inflows of FDI to Kenya for the period of 2000 to 2014. The factors of fiscal policy considered in this work include government expenditure on infrastructure, BOP (current account deficit) and total external government debt. The secondary data employed were analyzed using the Bivariate Linear Regression technique. The outcomes of the analysis revealed that government expenditure on infrastructure significantly and positively influences the inflows of FDI. The current account deficit on BOP was revealed to have adverse and insignificant association with the inflows of FDI and finally, it was indicated that total external government is adversely and insignificantly associated with the inflows of FDI to Kenya.

Norlin and Nurul (2018) examined the association of fiscal and monetary policies with foreign direct investment for the periods 1977 – 2016. The co-integration test was employed to ascertain the existent long run association of fiscal and monetary variables with FDI and a vector error correction model was employed to estimate the existent causal association amidst the observed variables. The study also employed the multiple regressions model to further assess how the fiscal and monetary variables significantly impact on FDI. Findings from the study indicated the existence of a long run link of fiscal and monetary policies with FDI. The study also suggested the existence of a causal association amidst the variables at least in one direction. Magdalena and Elena (2018) appraised the influence of fiscal and monetary policies on the FDI attraction in Romania using time series data spanning from 2000–2010. In response to empirical literatures and analysis, some dimensions of macroeconomic policy that are short-term in nature were investigated within the context of crisis, because economic recovery and growth facilitated by the FDI inflows. The outcomes of the empirical analysis revealed that FDI inflows are attracted by monetary factors such as inflation and rates of interest while the

fiscal factors especially direct taxes appear to be less significant in the short-term, but play an important role in the long-term.

Norashida, Zulkornain, Gul, and Mohammed, (2019) conducted a study in seven countries which include Indonesia, Malaysia, Thailand, Singapore, Philippine, China and India to ascertain the influence of government expenditures on the inflows of FDI in the host economy employing a set of panel data obtained from the study countries between 1982 until 2016. The estimation of Pooled Mean Group was carried out to examine the association between the observed variables adopting capital, market size, infrastructure and macroeconomic stability as control variables. The outcomes of this work revealed that the government expenditure significantly and positively contributes to the inflows of FDI in the long run. Isaac and Samuel (2012) investigated the effects of fiscal policy on investment and economic growth in Kenya, the study used a time series data from 1973 to 2009. They adopted two stage instrumental variable estimation methods to perform the regression analysis because of its adaptability. The results indicate that fiscal policy impacts on investment and investment plays a major role in the determination of the economic growth in Kenya. They recommend that the following three measures can be adopted accordingly: re-examination of government spending to eventually make it complementary to investment, channeling more credit to the private sector and finally designing appropriate policies that deal with the current high domestic public debt and budget deficit.

Alfaro and Kanczuk (2021) focused on the impact of fiscal rules on foreign direct investment (FDI) and capital flight. By analyzing a broad dataset encompassing multiple countries, the authors explore how the presence of fiscal rules within a country's policy framework affects the decisions of multinational corporations to invest and the potential for capital flight. Employing rigorous econometric techniques, the study provides valuable insights into the relationship between fiscal rules and FDI inflows, shedding light on their role in attracting foreign investment and mitigating the risk of capital flight.Dhingra and Meerza (2021) focus on the interplay between fiscal policy, foreign direct investment (FDI), and economic growth in emerging economies. Through an examination of various fiscal policy measures, such as government spending and taxation, the study investigates their influence on FDI inflows and subsequent effects on economic growth. Drawing on a diverse set of emerging economies, the authors employ empirical analysis to provide evidence regarding the linkages between fiscal policy, FDI inflows, and sustainable economic development. The findings contribute to understanding the role of fiscal policy in attracting foreign investment and fostering economic growth in emerging economies.

Kim and Lin (2021) explored the intricate relationship between fiscal policy, government debt, and foreign direct investment (FDI). Their study investigates how fiscal policy measures and government debt levels impact the inflows of FDI into a country. Through empirical analysis utilizing a comprehensive sample of countries, the authors examine the dynamic interactions between fiscal policy variables and FDI inflows. The findings shed light on the effects of fiscal policy and government debt on foreign investment decisions, contributing to our understanding of the factors that attract or deter FDI under varying economic conditions. Tang, Li, and Wang (2020) analyzed the relationship between fiscal policies, government efficiency, and foreign direct investment (FDI). Their study investigates how fiscal policy measures, in conjunction with government efficiency, influence the inflows of FDI. Utilizing a panel dataset comprising

multiple countries, the authors employ econometric techniques to examine the impact of fiscal policies and government efficiency on FDI inflows. The findings emphasize the importance of effective fiscal policy implementation in attracting foreign investment, highlighting the role of good governance and efficient public administration in creating an enabling environment for FDI. Bajo-Rubio, Berke & Esteve (2020) investigate the relationship between fiscal policy and foreign direct investment (FDI) in OECD countries. The study explores how fiscal policy measures, including government spending, taxation, and public debt, influence the inflows of FDI. Through empirical analysis, the authors provide evidence regarding the impact of fiscal policies on FDI inflows, shedding light on their role in attracting foreign investment. The findings contribute to our understanding of the factors influencing FDI in OECD countries, and they provide insights into the importance of fiscal policy in fostering a favorable investment climate.

Chen and Lai (2020) examined the relationship between fiscal policy and FDI in East Asia and Pacific economies. By analyzing a comprehensive dataset of countries in the region, the study investigates how fiscal policy measures, including government spending, taxation, and public debt, impact FDI inflows. Employing econometric analysis, the authors provide empirical evidence on the role of fiscal policy in attracting FDI in this specific geographical context. The findings contribute to our understanding of the factors influencing FDI in East Asia and the Pacific, and they offer insights into the policy implications for attracting foreign investment in the region. Nistor and Diaconescu (2020) explored the relationship between fiscal policy, institutional quality, and FDI in emerging European countries. Their study investigates how fiscal policy measures, such as government spending and taxation, interact with institutional factors to influence FDI inflows. Through empirical analysis, the authors provide evidence on the importance of institutional quality in shaping the effectiveness of fiscal policy in attracting foreign investment. The findings contribute to our understanding of the role of institutions and fiscal policy in promoting FDI in emerging European economies.

Tesfaye (2019) examined the relationship between fiscal policy and foreign direct investment (FDI) in developing countries using panel threshold analysis. The study investigates whether the impact of fiscal policy on FDI varies at different levels of economic development. By analyzing a panel dataset of developing countries, the author explores the nonlinear relationship between fiscal policy variables, such as government expenditure and taxation, and FDI inflows. The findings provide insights into the threshold effects of fiscal policy on FDI and highlight the importance of considering the developmental context when formulating fiscal policies to attract foreign investment in developing countries. Donou-Adonsou & Sylwester (2019) investigated the relationship between fiscal policy and FDI in sub-Saharan Africa. The study examines how fiscal policy measures, including government spending, taxation, and public debt, influence FDI inflows in the region. Through empirical analysis, the authors provide evidence on the role of fiscal policy in attracting FDI and its potential implications for economic development in sub-Saharan Africa. The findings contribute to our understanding of the factors influencing FDI in the region and offer insights into the policy considerations for promoting foreign investment in sub-Saharan African economies.

Khadaroo and Seetanah (2019) examined the relationship between fiscal policy and foreign direct investment (FDI) in small island developing states (SIDS). The study investigates how fiscal policy measures, such as government expenditure and taxation, influence FDI inflows in

these specific contexts. Through empirical analysis, the authors provide evidence on the role of fiscal policy in attracting FDI and its potential implications for economic development in small island economies. The findings contribute to our understanding of the factors influencing FDI in SIDS and offer insights into the policy considerations for promoting foreign investment in these unique economic environments. The reviewed studies shed light on the complex relationship between fiscal policies and foreign investment. The findings provide valuable insights into how fiscal policy measures influence foreign direct investment (FDI) inflows in different regions and contexts. The studies highlight the importance of fiscal rules, government debt, taxation, government spending, and institutional quality as key factors affecting FDI. They demonstrate that well-designed fiscal policies can attract FDI, stimulate economic growth, and enhance financial development. Furthermore, the studies emphasize the significance of considering the specific characteristics and challenges faced by different regions and economies. They provide evidence on the varying effects of fiscal policies on FDI based on factors such as economic development levels, geographical locations, and institutional environments. The findings contribute to policy discussions by providing policymakers with valuable insights into the potential impacts and implications of fiscal policies on foreign investment. The studies underscore the need for countries to adopt sound fiscal frameworks, maintain fiscal discipline, improve institutional quality, and create an enabling environment for foreign investors.

Gupta, Ji and Molefe (2020) focused specifically on the relationship between political uncertainty and foreign direct investment (FDI) inflows in South Africa. The study investigates how political uncertainty, measured through elections and policy changes, impacts FDI inflows into the country. The findings reveal a negative correlation between political uncertainty and FDI, indicating that higher levels of uncertainty reduce foreign investment. The research underscores the significance of political stability in attracting FDI and emphasizes the context-specific nature of South Africa. The study offers valuable insights for policymakers seeking to enhance FDI inflows by addressing political uncertainty. These studies contribute significantly to our understanding of the link between policy uncertainty and foreign investment. They highlight the adverse effects of policy uncertainty on investment decisions, both at the firm level and in the broader macroeconomic context. The research emphasizes the importance of stable policy environments, transparent fiscal frameworks, and political stability in promoting investment, economic growth, and attracting foreign direct investment. Policymakers, investors, and researchers can benefit from the insights provided by these studies when formulating strategies and policies to address the challenges posed by policy uncertainty.

Malik (2013) examined linear as well as non-linear impact of fiscal policy variables on private investment in Pakistan from 1972 to 2009 using time series data. The results imply that it's better to examine different aspects of fiscal policy instead of fiscal policy variables in aggregate form as the impact of fiscal policy variables in aggregate and disaggregate form do not comply with each other. Different categories of expenditures and revenues have different impact on private investment. Secondly, in most of the cases there exists a non-linear relationship, which implies the significance of certain threshold level for the different fiscal policy instruments to encourage private investment.

Okoro (2013) investigated the impact of government spending on the Nigerian economic growth from 1980 to 2011. Employing the ordinary least square multiple regression analysis

to estimate the model specified. Real Gross Domestic Product (RGDP) was adopted as the dependent variable while government capital expenditure (GCEXP) and government recurrent expenditure (GREXP) represents the independent variables. With the application of Granger Causality test, Johansen Co-integration Test and Error Correction Mechanism, the result shows that there exists a long-run equilibrium relationship between government spending and economic growth in Nigeria. Oyeleke and Ajilore (2014) investigated the sustainability of fiscal policy in Nigeria over the period of 1980-2010 to determine whether or not the government has violated intertemporal government budget constraint. Using error correction method of analysis, the study revealed that fiscal policy was weakly sustainable in the economy of Nigeria. This study therefore recommends that government should improve on her tax revenue generation and other source of income but limit her expenditure to growth enhancing projects.

Mgbemena, Nwogwugwu and Chris (2015) investigated the determinants of private investment in Nigeria's manufacturing sub-sector between the periods 1975 to 2013 using annual time series data sourced from Central Bank of Nigeria Statistical Bulletin of various issues. In carrying out the study, econometric techniques were employed to analyze the data collected. However, stationary and co-integration tests of the variables were examined using Augmented Dickey – Fuller and Johansen co-integration tests respectively. Also, an endogenous growth model was specified and estimated using error correction mechanism (ECM) technique in order to test for the dynamic characteristics of the variables in the model. The results show that the main determinant of private investment in the manufacturing sub- sector of the Nigerian economy is interest rate, exchange rate and public sector investment. The study concludes that the empirically identified factors influencing private sector investment should be well – managed by the government to boost private investment in the manufacturing sub- sector and to ensure to the complete diversification of the Nigerian economy.

Agu (2015) discussed the determinants of private investment in Nigeria from 1970 – 2012. The study employs the Error-Correction modeling procedure which minimizes the likelihood of estimating spurious relations, while at the same time retaining long-run information. The results of the analysis show that the investment rate is positively correlated with both the growth rate of disposable income and the real interest rate on bank deposits. The study discovered that investment has been slowed down in Nigeria as a result of increased lending rate, reduced public expenditure, reduced savings, political instability and inadequate infrastructure. The study recommends among others things that the focus of development policy in Nigeria should be to increase the productive base of the economy in order to promote real income growth and reduce unemployment. For this to be achieved, a diversification of the country's resource base is indispensable.

Babalola (2015) examined the short and long run impact of fiscal policy on economic development in Nigeria between a period of 1981 and 2013 using annual time series data and VAR model. The study used government recurrent expenditure, government capital expenditure, government investment and tax revenue to indicate fiscal policy. Economic development was proxy by real per capita income. The model was estimated using Pairwise Correlation to ascertain the relationship and then Co-integration and Error Correction Mechanism for impact after confirming the data's stationarity using Unit Root. The result showed that government recurrent expenditure and government investment have significant

positive impact on economic development in both the short and long run within the period under consideration. Capital expenditure appeared to have a short run positive impact but not in the long run. Tax revenue had an inverse significant impact in both short and long run. The speed of adjustment to equilibrium was found to be high. The results are all in line with theories and previous studies.

Evans, et. al (2022) assessed the impact of fiscal policy on foreign direct investment in Kenya. Using a time series secondary data from the period of 1987 to 2017, the study employed Descriptive Statistics methodology. FDI is the dependent variable while fiscal policy with external public debt, domestic debt, infrastructure and tax were the explanatory variables. The result shows that government expenditure on infrastructure, tax and FDI are positively and significantly related, external debt and FDI are negatively and significantly related while Domestic debt and FDI are negatively and significantly related. The study recommended that to attract more FDI investment, Kenyan Government should implementtrade-balanced actions, limiting corruption, implementing income-collection tax policies and promoting international trade in order to ensure competitiveness in Kenyan products.

Wanjala (2016) examined the influence of fiscal policy factors on the inflows of FDI in Kenya for the period of 2000 to 2014. The variables used in this work include government expenditure on infrastructure, BOP (current account deficit) and total external government debt. The secondary data employed were analyzed using the Bivariate Linear Regression technique. The finding shows that government expenditure on infrastructure significantly and positively influences the inflows of FDI. The current account deficit on BOP was revealed to have adverse and insignificant association with the inflows of FDI and finally, it was indicated that external government debt is adversely and insignificantly associated with the inflows of FDI to Kenya.

Norashida, et. al (2019) analyzed the impact of government fiscal policy on Foreign direct investment in seven countries which include Indonesia, Malaysia, Thailand, Singapore, Philippine, China and India using a panal data spanning from 1982 to 2016. Pooled Mean Group was employed to examine the association between variables adopting capital, market size, infrastructure and macroeconomic stability as control variables. Result showed that government expenditure significantly and positively contributes to the inflows of FDI in the long run. Abille et al. (2020) explored the function of fiscal incentives in attracting foreign direct investment inflows into Ghana by using data from 1975 to 2017. This was done by applying the distributed lag (ARDL) bounds test technique, which showed that corporate tax rates have a significant negative impact on FDI inflows into the Ghanaian economy in the long run. They recommended that the Ghana Revenue Service redesign the corporate tax administration in the country to control policy lapses Magdalena and Elena (2018) appraised the influence of fiscal and monetary policies on the FDI attraction in Romania using time series data spanning from 2000–2010. In response to empirical literature and analysis, some dimensions of macroeconomic policy that are shortterm in nature were investigated within the context of crisis, because economic recovery and growth facilitated by the FDI inflows. The outcomes of the empirical analysis revealed that FDI inflows are attracted by monetary factors such as inflation and rates of interest while the fiscal factors especially direct taxes appear to be less significant in the short-term, but play an important role in the long-term.

Ogege and Boloupremo (2020) examined the Influence of Government Fiscal Policy on Foreign Direct Investment in Nigerian Economy, pre and post military rule. The study used time series data spanning from 1981-1999 (military era) and 2000-2018 (post-military era) and employed Augmented Dickey Fuller test (ADF) to assess the stationarity and sequence of integration of the variables. The Ordinary Least Square technique and correlation analysis were deployed to test the long-run association that exists among the variables. The result found that inflation has a significant positive influence on FDI in the military era in Nigeria; government expenditure is positively and significantly associated with FDI for both military and post military era; government domestic debt is adversely and insignificantly associated with FDI for both military and the post military era while foreign exchange rate is positively and significantly associated with FDI in the military and adversely associated with FDI in post-military era.

Sadibo and Adedeji (2020) examined the effect of fiscal policy on foreign direct investment as well as the impact of Foreign Direct Investment on economic growth in Nigeria over the period of 1981-2017. Secondary data were sourced from Central Bank of Nigeria Statistical Bulletin and Annual Reports. The study employed VECM estimation technique and the findings showed that corporate income tax as an indicator to fiscal policy has a positive effect on foreign direct investment and government expenditure has a negative effect on foreign direct investment. Also, foreign direct investment has a significant impact on economic growth and corporate income tax and interest rate and exchange rate have a negative and significant relationship on economic growth. The paper recommended that the government should ensure a strict fiscal policy discipline and also government need to demonstrate high level of commitment to selectively choosing investors so as to favor the economy and not investor's selfish interest as this will promote economic growth. Dornean and Oanea (2014) analyzed the impact of fiscal policy on FDI on the context of crisis in Central and Eastern European Countries. Government revenue and government expenditure were used as proxies to fiscal policy and the study employed a regression model and panel data methodology. The result showed that financial crisis affect the magnitude of FDI response to financial policy, while in normal times, FDI responds to only at government expenditure changes.

Research Gap

Based on the reviewed empirical literature, which mostly focused on cross-sections of several countries using panel data, there is a research gap in understanding the effects of fiscal policy variables on foreign investment specifically in Nigeria. The existing literature has provided valuable insights into the relationship between fiscal policy and foreign investment, but there is a need for more country-specific research that takes into accounts the unique characteristics and dynamics of these two economies. Furthermore, while the reviewed studies commonly utilized panel data analysis, the study differs in its use of annual time series data. This distinction is significant as it allows for a more detailed examination of the annual trends, dynamics, and variations within Ghana and Nigeria. By employing Autoregressive Distributed Lag (ARDL) models, the research aims to analyze the long-term relationship and short-term dynamics between macroeconomic variables and foreign investment in these two countries.

METHODOLOGY

The study used ex-post facto research design to study the effect of fiscal policy on foreign investment inflow in Nigeria. Data were collected from the national statistical agencies of Nigeria, specifically from their central banks, ministries of finance, and other relevant government institutions. The data collection process involved thorough desk research to access and retrieve the necessary data from these secondary sources. The collected data covered the period from 1990-2023, providing a comprehensive time series for analysis. The model specification provides an overview of the econometric models and specifications that was employed to analyze the data and address the research objectives. This section outlines the specific equations, variables, and assumptions used in the models, as well as the rationale behind their selection. By defining the model specifications, this study ensures a systematic and rigorous analysis of the relationships between fiscal policy and foreign investment in Nigeria. The model specification for analyzing the implications of fiscal policies on foreign investment in Nigeria can be represented as follows:

$$FI = \alpha 0 + \beta_1 CEXP + \beta_2 REXP + \beta_3 OILR + \beta_4 NOILR + \varepsilon_i \quad (1)$$

Where:

FI: represents the dependent variable, capturing the level of Foreign Investment in Nigeria and

CEXP: is Capital expenditure as percentage of gross domestic product

REEX= is Recurrent expenditure as percentage of gross domestic product

OILR= is oil revenue as percentage of gross domestic product

NOILR= is non-oil revenue as percentage of gross domestic product

β0, β1, β2, β3, and β4: are the coefficients to be estimated, representing the relationships between the variables.

ε: is the error term, capturing unobserved factors and random disturbances.

A Priori Expectation

β1 (Capital Expenditure): The expectation is that an increase in government expenditure as a percentage of GDP have a positive impact on foreign investment, denoted by β1**>0**

B2 (Recurrent Expenditure): The expectation is that an increase in recurrent expenditure as a percentage of GDP will have a negative impact on foreign investment, denoted by $\beta 2 < 0$.

B3 (Oil Revenue): The expectation is that an increase in oil revenue as a percentage of GDP will have a mixed impact on foreign investment, denoted by $\beta 3 > 0$.

B4 (Non-Oil Revenue): The expectation is that higher Non-Oil Revenue will have a positive impact on FI, denoted by $\beta 4 > 0$.

Model Justification

The theoretical justification for the variables included in the model. These variables have been selected based on their relevance and potential impact on foreign investment in Nigeria. By examining the existing literature, we can establish the theoretical foundations and expected relationships between these variables and foreign investment. This theoretical justification helps to contextualize the empirical analysis and enhances the understanding of the factors influencing foreign investment in Nigeria. The variables in the model are theoretically justified as follows:

The use of the ARDL approach in this study aligns with the objectives of examining the effect of macroeconomic variables on foreign investment in Nigeria and Ghana. It allows for robust statistical inference and facilitates the identification of causal relationships between the variables of interest. The ARDL approach is appropriate when the variables in the model are integrated of different orders, that is, they may be stationary or non-stationary. The key condition for employing the ARDL approach is that at least one variable should be integrated of order one (I (1), while all other variables can be either stationary I (0) or integrated of order one I (1). This condition ensures the presence of a long-run equilibrium relationship among the variables.

Regression Statistics Tests

The Regression Statistics Tests section examines the statistical properties and goodness-of-fit measures of the estimated regression models. These tests provide important insights into the reliability and robustness of the estimated relationships between the dependent variable and the independent variables. By conducting various statistical tests, we evaluated the significance of the estimated coefficients; assess the overall fit of the model. These tests provide valuable information about the validity of the model assumptions and the accuracy of the estimated results. The Regression Statistics Tests section plays a crucial role in evaluating the quality of the econometric models and their suitability for addressing the research objectives. It allows us to assess the reliability of the estimated relationships and make informed interpretations about the impact of the independent variables on the dependent variable. In this section, we will present the criteria for the interpretation of important statistical tests such as the t-test, F-test, R-squared and adjusted R-squared.

Augmented Dickey-Fuller (ADF) Test

The ADF test is a commonly used test to assess the presence of a unit root in a time series. A unit root indicates that the series is non-stationary and exhibits a random walk pattern. The null hypothesis of the ADF test is that the series has a unit root, while the alternative hypothesis is that the series is stationary. The ADF test is conducted by regressing the differenced series on its lagged values. The general mathematical form of the ADF test equation is as follows:

$$\Delta y\_t = \alpha + \beta y\_\{t-1\} + \gamma\_1 \Delta y\_\{t-1\} + \gamma\_2 \Delta y\_\{t-2\} + \ldots + \gamma\_p \Delta y\_\{t-p\} + \varepsilon\_t \quad (2)$$

Where

Δ: denotes the first difference operator,

y_t: represents the time series variable

ε_t: is the error term.

The coefficient β is estimated and tested to determine if it is significantly different from zero.

To interpret the results of the ADF test, the calculated test statistic (ADF statistic) is compared to critical values. These critical values depend on the sample size, level of significance, and the specific version of the test used (e.g., ADF-GLS, ADF-Fisher, etc.). The criteria for decision in the ADF test are as follows:

If the calculated test statistic is less negative than the critical value, we fail to reject the null hypothesis of a unit root, indicating non-stationarity.

i. If the calculated test statistic is more negative than the critical value, we reject the null hypothesis and conclude that the series is stationary.
ii. Hypothesis and conclude that the series is stationary.

ARDL Bounds Cointegration Test

ARDL (Autoregressive Distributed Lag) Bounds Cointegration is a method used to test for the existence of a long-run relationship or cointegration between variables in a time series setting. The ARDL bounds test allows for the analysis of cointegration even when the variables may be integrated at different orders (i.e., some variables may be stationary, while others may be integrated of order 1 or higher). The ARDL bounds co-integration model can be represented as:

$$Y_t = \alpha + \beta\_1X\_t + \beta\_2Z\_t + \varepsilon\_t \quad (3)$$

Where

Y_t: represents the dependent variable,

X_t:

Z_t: are the independent variables,

α: is the intercept,

β_1 and β_2: are the coefficients,

ε_t: is the error term.

To conduct the ARDL bounds test, the following steps are typically followed:

Determine the lag length: Choose an appropriate lag length for the model, usually based on information criteria such as the Akaike Information Criterion (AIC) or the Schwarz Information Criterion (SIC).

i. Estimate the ARDL model: Use ordinary least squares (OLS) regression to estimate the coefficients of the ARDL model.
ii. Conduct the bounds test: Calculate the F-statistic for the joint significance of the lagged variables in the model. Compare the calculated F-statistic with the critical values from the bound tables provided by Pesaran, Shin, and Smith (2001) or Narayan (2005).

iii. At a significance level of 0.05, the decision criteria for the ARDL bounds co-integration test are as follows:
iv. If the calculated F-statistic is greater than the upper critical value, the null hypothesis of no co-integration is rejected, indicating the presence of a long-run relationship between the variables.
v. If the calculated F-statistic is lower than the lower critical value, the null hypothesis of no co-integration cannot be rejected, suggesting the absence of a long-run relationship.
vi. If the calculated F-statistic falls between the upper and lower critical values, no conclusive decision can be made, and further investigation is needed.

The critical values for the ARDL bounds test are available in the works of Pesaran, Shin, and Smith (2001) and Narayan (2005) and depend on factors such as the lag length, sample size, and the type of test (e.g., level or first-difference).

RESULTS AND DISCUSSION

Table 1: Unit Root test

Variable	ADF Stat	MacKinnon @ 1%	MacKinnon @ 5%	MacKinnon @ 10%	Order of integration	Remark
FI	-1.998388	-3.615588	-2.941145	-2.609066	1(0)	Stationary
CEXP	-5.510928	-3.632900	-2.948404	-2.612874	1(I)	Stationary
RCEXP	-8.447632	-3.615588	-2.941145	-2.609066	1(I)	Stationary
OILR	-9.044967	-3.610453	-2.938987	-2.607932	1(I)	Stationary
NOILR	-6.348395	-3.621023	-2.943427	-2.610263	1(I)	Stationary

Source: Source: E-View Output

The result of the ADF root test on fiscal policies and tax regulation is presented in table 1. The result shows that were stationary at order one I (1) while FI is in 1(0). The implication is that the variables are integrated at mixed order and none was integrated at order two, which informed the use of Autoregressive Distributed Lag (ARDL) to estimate the parameters of the model.

Table 2: Summary of the bound test

F-Bounds Test			Null Hypothesis: No levels relationship	
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	4.216814	10%	2.2	3.09
k	4	5%	2.56	3.49
		2.5%	2.88	3.87
		1%	3.29	4.37
Actual Sample Size	39		Finite Sample: n=40	
		10%	2.427	3.395
		5%	2.893	4
		1%	3.967	5.455
			Finite Sample: n=35	
		10%	2.46	3.46
		5%	2.947	4.088
		1%	4.093	5.532

Source: Source: E-View Output

The ARDL bounds test result, it is clear that there is a long run relationship amongst the variables. This is because the computed F-statistic of about 4.3. This provided evidence to reject the null hypothesis of no cointegration at 5% and 10% significance level for the growth model. It can therefore be concluded from the ARDL bounds test that there is a long-run relationship among the variables. Therefore, this study illustrate that fiscal policy variables have a long run relationship with foreign investment in Nigeria.

Table 3: ARDL Short Run Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
FI(-1)	0.471290	0.143668	3.280405	0.0026
CEXP	312.2922	165.5507	1.886383	0.0690
RCEXP	456.8890	150.5277	3.035249	0.0049
OILR	-40.73260	15.82788	-2.573472	0.0153
NOILR	-464.3242	782.5368	-0.593358	0.5574
C	-6069.037	2748.163	-2.208398	0.0350
R-squared	0.763671	Mean dependent var		2693.077
Adjusted R-squared	0.527317	S.D. dependent var		2531.189
S.E. of regression	1051.840	Akaike info criterion		16.95364
Sum squared resid	33190990	Schwarz criterion		17.33754
Log likelihood	-321.5960	Hannan-Quinn criter.		17.09138
F-statistic	23.75703	Durbin-Watson stat		2.454300
Prob(F-statistic)	0.000000			

Source: E-View Output

The estimated ARDL model found that fiscal policy variables 76.3 per cent variation in foreign investment in Nigeria, this implies that 23.7 per cent was explained by variables not capture in the model. The model is statistically significant with the value of f-statistics and probability. The Durbin Watson statistic proved the absence of serial autocorrelation. The coefficients of fiscal policy variables define the effect of fiscal policy variables as foreign investment into Nigeria. The above results enable us to present the lag selection criteria

Table 4: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-427.9687	NA	5423.522	22.78783	23.00330	22.86449
		204.8932			18.99353	18.16068
1	-306.3133	*	33.94148*	17.70070*	*	*
2	-287.9441	26.10368	51.70133	18.04969	20.41988	18.89298
3	-261.6140	30.48749	58.52649	17.97968	21.42723	19.20630
4	-235.5857	23.28843	84.05609	17.92556	22.45047	19.53549

Source: E-View Output

The result of the lag selection criteria is presented in table 4. The information Akaike Information Criterion helps suggest the best model will give adequate empirical result. The result according to Akaike Information Criterion shows that the optimum lag for the estimation of the ARDL model is lag 1.

Table 5: ARDL Long Run Form and Bounds Test

Conditional Error Correction Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.069037	0.748163	-2.208398	0.0350
FI(-1)*	-0.528710	0.143668	-3.680071	0.0009
CEXP **	3.122922	0.655507	1.886383	0.0690
RCEXP **	4.568890	0.505277	3.035249	0.0049
OILR **	-4.073260	0.582788	-2.573472	0.0153
NOILR (-1)	-2.559812	0.205205	-2.123964	0.0420
D(CEXP)	-4.643242	0.825368	-0.593358	0.5574
D(RCEXP (-1))	8.526858	0.886403	1.238217	0.2252
D(OILR (-2))	1.171629	0.686708	1.752176	0.0900

Source: E-View Output

The result of the dynamic relationship between fiscal policy variables and foreign investment in Nigeria is presented in table 5. Evidence from Nigeria was that the government expenditure and governance have positive effect on foreign investment into the country while public debt has negative effect on foreign investment.

Table 6: ARDL Error Correction Regression

ECM Regression

Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
		Nigeria		
D(CEXP)	-4.643242	0.952854	-0.780003	0.4415
D(RCEXP (-1))	8.526858	0.225909	1.631651	0.1132
D(OILR (-2))	1.171629	0.551766	2.110371	0.0433
CointEq(-1)*	-0.528710	0.111418	-4.745282	0.0000
R-squared	0.397494	Mean dependent var		59.23077
Adjusted R-squared	0.345851	S.D. dependent var		1204.031
S.E. of regression	973.8142	Akaike info criterion		16.69723
Sum squared resid	33190990	Schwarz criterion		16.86785
Log likelihood	-321.5960	Hannan-Quinn criter.		16.75845
Durbin-Watson stat	2.454300			
Included observations: 39				

Source: E-View Output

The result of the dynamic relationship between fiscal policy variables and foreign investment in Nigeria is presented in table 6. The co-integration equation has a value of -0.528710 from Nigeria with a corresponding probability value of 0.0000 which is statistically significance at 5%. This implies that there may be a distortion in short runs which will be corrected in the long run via adjustment mechanism. This indicates that short term distortions in the variables are of enormous importance in their long term relationship and 52.8% of this disequilibrium is corrected in the current period.

Table 7: Case 2: Restricted Constant and No Trend

Levels Equation
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CEXP	0.669386	312.5478	1.889851	0.0385
RCEXP	0.159386	247.8472	3.486659	0.0015
OILR	-0.046153	25.43648	-3.028781	0.0050
NOILR	-0.606421	1758.530	-2.753221	0.0099
C	-11478.96	4547.604	-2.524178	0.0171

Source: E-View Output

Table 7 presents the restricted coefficient of the variables without trend, from Nigeria; fiscal policy variables as formulated in the model have significant effect on foreign investment into the country.

Discussion of Findings

The goals of macroeconomic to achieve price stability, full employment level, the sustainability of economic growth, as well as the external balance payment. This is the policy goal of every advanced and underdeveloped economy given that the macroeconomic components are susceptible to volatility in the economy. With no doubt, these goals cannot be achieved automatically; however, policy guidance is required to foster the accomplishment of these goals and this policy guidance denotes the economic policy's objective. The instruments of fiscal policy are the major tools of attaining the goals of macroeconomic and these instruments are tax and public expenditure. Yosra, Anis and Houria, (2013) acclaimed that a more conducive business environment should be created for multinational companies by any country that seeks to attract the inflows of foreign investment via the enhancement of economic policies as well as political institutions that encourage foreign investment .

Fiscal policy has to do with the deliberate attempt of the government to spend more money as well as levy taxes with the intention to influence the variables of macroeconomic in a particular direction. Hence, the aims of fiscal policy are to stabilize the economy; increases in public expenditures and/or a decrease in taxes is likely to rescue the economy from recession, However, a decrease in public spending and/or a rise in taxation is likely to retard a boom. It was also indicated by Gul and Naseem (2015) that foreign investment and domestic capital are also shedding light on favourable dimensions of variables to accelerate economic growth.

However, Ajudua and Devis (2015) asserted that the growth objectives of every economy across the globe are supported by the fiscal policy of the government and foreign direct investment. Ajudua and Devis (2015) posited that fiscal policy is part of the many intervening strategies employed by the government to secure the distribution of equity and compensate for the failed competitive market. Based on this fact, it becomes paramount to investigate fiscal policy and foreign investment in order to determine the degree to which fiscal policy influences the inflow of foreign investment in the economy. Notwithstanding as foreign investment is viewed as a factor that stimulates capital formation, productivity growth, export promotion, technology transfer, and employment generation.

The result of the study showed that in the short run government expenditure exert a positive insignificant effect on GDP growth rate with a coefficient of 0.178132 (p=0.7629 > 0.05) indicating that one percent increase in the government expenditure will lead to about 0.17 percent increase in GDP growth rate in the short run. The increase in GDP growth rate is a reflection of a growing economy while a decrease in GDP growth rate indicates a decline in economic growth. The implication of the result is that increase in the level of expenditure incurred by the government in the short run has potential for improving; however, such potential in Nigeria is yet to culminate into significant economic growth. Meanwhile in the long-run government expenditure showed an insignificant negative effect on the level of economic growth in the country. This result empirically validates the notion that government expenditure in Nigeria does not have long-run growth potential, given the relative fraction of government expenditure on recurrent relative to capital expenditure, that can culminate in improved productivity and economic output in the country.

Result also showed that government capital expenditure and recurrent expenditure affect positive and significant effect on foreign investment both on the short run and long run with coefficient of 0.669386 (p=0.0385< 0.05) and 0.159386 (p=0.0015< 0.05) respectively. This implies that a one percent increase in expenditure will lead to about a 0.66 and 0.1 percent increase in foreign investment in the short run. The positive effect of the variables confirms our expectations and in line with fiscal reforms such fiscal responsibility Act of 2007. Secondly, an increase in government revenue especially in terms of oil and non-oil tends to drain some level of foreign investment potential out of both the formal and informal sector of the country, without the commensurate institutional and infrastructural quality in place for boosting output at the national level. Result in addition showed that foreign investment decline by with the negative coefficient of -0.046153 (p=0.0050< 0.05) and -0.606421 (p=0.0099< 0.05) respectively. In the short run inflow of revenues in the country has a negative and significant incremental effect on the level of foreign investment. However, in the long run, such an effect is not statistically significant though still positive. This reflects that the impact of revenues on the level of foreign investment is more substantial in the short run. The findings of the study is in line with the findings of Norashida, et. al., (2019), and Wanjala (2016) used combined variables without tax revenue. This study differs from these previous studies by incorporating tax revenue for fiscal policy as an important incentive to attract and promote foreign investment in the country. Again, most of the studies like (Ogege & Boloupremo (2020) and Adeyemi & Odetayo (2017) , made use of OLS estimation techniques which is not adequate in generating consistent and robust coefficient estimates about the study variables, thereby providing a gap in the methodology used. This paper adopted Vector Autoregressive (VAR) model, which allows for a more robust co-integration that plays well with small sample sizes. Our results will add to existing knowledge on the effectiveness of fiscal policies for attracting inflow of foreign investment in Nigeria, which remain scanty.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined the effect of fiscal policy on the inflow of foreign investment in Nigeria. The result of the ADF root test on fiscal policies and tax regulation, the result shows that were stationary at order one I (1) while FI is in 1(0). The ARDL bounds test result, it is clear that there is a long run relationship amongst the variables. The estimated ARDL model found that

fiscal policy variables 76.3 per cent variation in foreign investment in Nigeria, this implies that 23.7 per cent was explained by variables not capture in the model. The result of the dynamic relationship between fiscal policy variables and foreign investment found that the government expenditure and governance have positive effect on foreign investment into the country while public debt has negative effect on foreign investment. The co-integration equation has a value of -0.528710 from Nigeria with a corresponding probability value of 0.0000 which is statistically significance at 5%. This implies that there may be a distortion in short runs which were corrected in the long run via adjustment mechanism. Findings from the study suggest that increase in government spending resulted to a rise in the rate of foreign investment, increase in government tax revenue did not deter but increased foreign direct investment. In summary, findings from the research indicates strong support that fiscal policies tools of government are determinants in attracting foreign investment in Nigeria.

Recommendations

i. Government should ensure that revenue realized is adequately allotted to the productive sector of the economy to boost foreign investment in Nigeria.
ii. Corruption needs to be controlled effectively as this will reduce the negative impact of government revenue on economic growth since funds will be used as planned on the productive economy thereby enhancing foreign investment in Nigeria..
iii. The government needs to restructure the institutional characteristics that will attract foreign investors into the country to increase foreign direct investment as this will improve the economic activities and foreign investment in Nigeria..
iv. Government should ensure that the proportion of capital expenditure to recurrent expenditure is increased to ensure an increase in the level of productive investment such that economic activities will be enhanced for greater foreign investment in Nigeria.

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