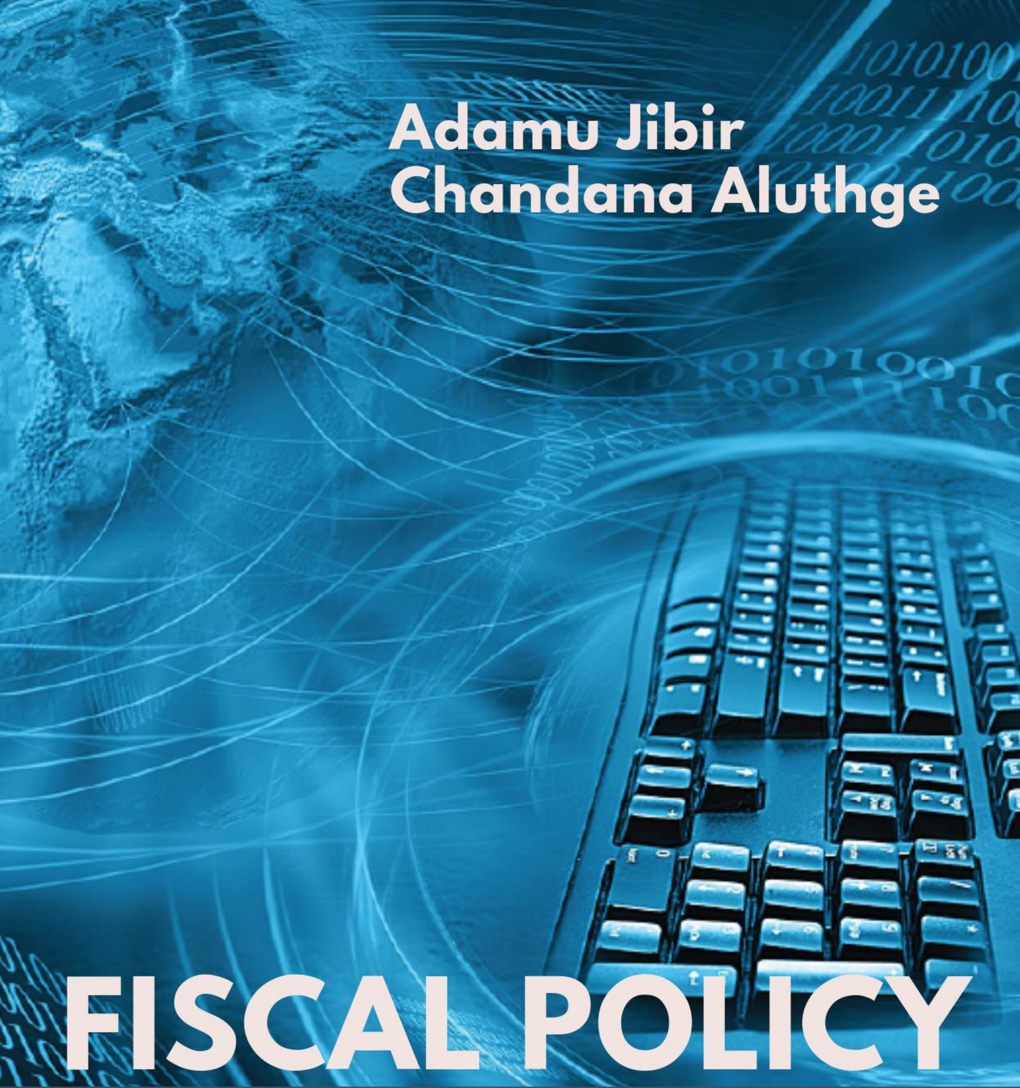

Adamu Jibir
Chandana Aluthge

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Trends, Magnitude and Challenges

KSP BOOKS

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Fiscal Policy Operation in Nigeria: Trends, Magnitude and Challenges

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Preface

The book is designed to highlight Nigeria's fiscal policy operation since the oil boom of 1970s putting into cognizance various policies and programs initiated and implemented during the period. Specifically, the trending behaviour of fiscal policy variables – including government expenditure, public debt and public revenue are analysed. Public financial management and fiscal policy reforms are also discussed. Challenges of fiscal policy in Nigeria are also explained in this book. The book shows that since the 1970s, the Nigeria's fiscal policy can be said to have lacked definite and clear objective as majority of times the objectives are too broad reflecting majorly macroeconomic goals. Fiscal policy of Nigeria is also characterized by rising government expenditure without corresponding increase in public revenue which had deteriorated the fiscal stability of the country resulting to higher inflation and fiscal deficit accompanied by large accumulation of debt. The ability of the country to implement counter-cyclical fiscal policy to address the fiscal imbalances is mostly constrained by fluctuation in oil price, administrative inefficiencies and irregularities in the budgetary process. Sadly, despite reforms and initiatives undertaken, it is observed that they are weakened by persistent political influences and unnecessary delays in formulation and implementation of policies which in turn affect their performances. Government fiscal policy needs to be re-considered by moving from broad fiscal policy to a specific fiscal policy that will consider the needs and demand of people and derive the fiscal policies from such considerations. This can be done by strengthening the existing bodies and institutions saddled with the responsibility of making fiscal policy so as to make them efficient and effective and accommodative to people's needs through pro-poor policies and programmes.

A. Jibir & C. Aluthge
June, 2019

Contents

Abbreviations/Acronyms

ADP	Agricultural Development Program
ANPP	All Nigerian Peoples Party
APP	All People Party
BLP	Better Life Program
BLRW	Better Life for Rural Women
BoI	Bank of Industry
BPP	Bureau of Public Procurement
CBN	Central Bank of Nigeria
CEAMTRA	Capital expenditure on administration and transfer
CESCECO	Capital expenditure on social, community and economic services
CPI	Corruption Perception Index
DMO	Debt Management Office
ECA	Excess Crude oil Account
ECOMOG	Economic Community of West African Monitoring Group
EFCC	Economic and Financial Crime Commission
EPS	Export Promotion Strategy
ESAF	Enhanced Structural Adjustment Facility

FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
FMF	Federal Ministry of Finance
FSP	Family Support Program
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
ICPC	Independent Corrupt Practice Commission
IDB	Industrial Development Bank
IMF	International Monetary Fund
INEC	Independent National Electoral Commission
KPP	Kainji Power Project
MBP	Ministry of Budget and Planning
MDA	Ministries, Departments and Agencies
MTEF	Medium Term Expenditure Framework
NAPEP	National Poverty Eradication Program
NBS	National Bureau of Statistics
NDP	National Development Plan
NEAC	National Economic Advisory Council
NEEDS	National Economic Empowerment Development Strategy
NNPC	Nigerian National Petroleum Corporation
PDP	People Democratic Party
PFM	Public Financial Management
PSI	Policy Support Initiative
REAMTRA	Recurrent expenditure on administration and transfer
REC	Recurrent Expenditure
RESCECO	Recurrent expenditure on social and community services
SAP	Structural Adjustment Programme
SWF	Sovereign Wealth Fund
TI	Transparency International
UN	United Nations
UNICEF	United Nations Children Emergency Fund
USD	United States Dollar
VAT	Value Added Tax

1. Introduction

The sharp increase in fiscal deficits and public debt in most developing countries like Nigeria has raised concerns about fiscal sustainability particularly in the recent decade. This study examined Nigeria's fiscal operation between 1970 and 2017. This is achieved by assessing the magnitudes, trends, reforms and challenges using descriptive and qualitative approaches. Specifically, the trending behavior of fiscal policy variables – including government expenditure, public debt, inflation and public revenue are analyzed. Public financial management and budgetary process are also discussed. The study shows that since the 1970s, the Nigeria's fiscal policy can be said to lack definite and clear objective as majority of times the objectives are too broad reflecting majorly macroeconomic goals. Fiscal policy of Nigeria is characterized by rising government expenditure without corresponding increase in public revenue which had deteriorated the fiscal stability of the country resulting to higher inflation and fiscal deficit accompanied by large accumulation of debt. The ability of the country to implement countercyclical fiscal policy to address the fiscal imbalances is mostly constrained by fluctuation in oil price, administrative inefficiencies and irregularities in the budgetary process. Sadly, despite reforms and initiatives undertaken, it is observed that they are weakened by persistent political influences and unnecessary delays in formulation and implementation of policies which in turn affect their performance. Government fiscal policy needs to be re-considered by moving from broad fiscal policy to a specific fiscal policy that will consider the needs and demand of people and derive the fiscal policies from such considerations. This can be done by strengthening the existing bodies and institutions saddled with the responsibility of making fiscal policy so as to make them efficient and effective and accommodative to people's needs through pro-poor policies and programs.

2. Historical development of fiscal policy

Introduction

Nigeria being a country practicing federal system of government consists of 36 states and a Federal Capital Territory (Abuja) has its fiscal policy anchored on political, economic, constitutional, social and cultural developments, which predispose the nature of inter-governmental fiscal relations. The states as a self-supporting entities in the federal arrangement affect the country's fiscal policy operations. This is because the nature and type of the relationship between the centre and the states have to be fine-tuned particularly in terms of revenue and expenditure. The central government must therefore ensure that expenditure and revenue patterns in the states do not create distortions in the larger economy.[1] As a country become

[1] Ekpo & Ndebbio (1996) posit that fiscal operations of any country can be described in two perspectives of public sector. On one hand there exists a highly decentralized fiscal system in which the center has no economic responsibility. The other aspect is the case of centralization where the central government undertakes complete aspect of economic activities.

more decentralized, the fiscal arrangements continue to change over time just like the case of Nigeria.[2]

Following Nigeria's independence in 1960, the country's fiscal policy [3] focused mainly on creating stable macroeconomic environment that would support growth and development in addition to building a strong and effective institutions capable of providing a foundation for the development of the country. Therefore, the country's economic plan was geared toward revenue mobilization for the development of the economic and social infrastructures for the general wellbeing of the citizens. After the discovery of oil in commercial quantities in early 1970s, fiscal policy has also changed as oil revenue continue to determine the country's direction – in particular its revenue and expenditure.[4] It is in this line that public expenditure has always risen during oil booms, creating considerable macroeconomic instabilities like inflationary pressure.

Nigeria has adopted two different regimes that influenced her fiscal policy in particular and economic performance in general. The two periods can be conveniently classified as pre-SAP era and post-SAP period. It is noted that during the pre-Sap period (which marked from independence in 1960 to 1985), government at various time pursued tight and frugal policies mostly by the military governments. Such policies include regulation of liquidity, interest rate ceiling, and

But in reality, there exists some degree of decentralization in all economies.

[2] We cannot provide detail explanation of fiscal federalism in Nigeria because it is beyond the scope of the study.

[3] Today, it is generally assuming that macroeconomic stability cannot be adequately achieved without appropriate fiscal policy. Fiscal policy is required for ensuring economic growth and development.

[4] Oil revenue contribute to over 80 percent of Nigeria's total revenue and 95 percent of foreign earnings (CBN, 2017). This makes oil revenue the major driver of Nigeria's fiscal policy formulation over the years.

exchange rate overvaluation. It is also observed that in the same period, fiscal actions of the governments were highly unregulated. This and other factors have pushed the economy of Nigeria into economic gloom especially in the 1980s. Thus, this led the government to initiate the liberalization of the economy in 1986 through SAP which aimed at curtailing and rationalizing public expenditure among many other tasks through the privatization and commercialization of public corporations. This has made Nigerian government to sold most of her shares and substantially reduced her involvement in the country. Ogujuiba & Okafor (2013) note that the action was counterproductive due to its adverse effect on the economy. This is manifested from the poor services and exploitive tendencies of the private sector in which government had to come in from time to time for ail out and other palliative measures.[5] During the military rule, there was no clear cut fiscal policy rules that guided fiscal policy actions. That has contributed immensely in the lopsided and inefficacious fiscal policy management in Nigeria throughout the periods that military ruled the country. However, after the country returned to democracy in 1999, the Nigeria's fiscal policy focused on five interrelated objectives. This includes – reducing the over-reliance on oil and diversifying the economy, addressing the decay of infrastructural facilities, reform of public financial management, improvement in living standard of the population as well as governance issues.

Fiscal Policy Reforms in Nigeria

[5] This includes provision of social security funds for assistance and subsidies to reduce prices of essential goods and services.

Over the years, the government of Nigeria initiated numerous fiscal policy reforms aimed at creating a competitive and effective fiscal policy management that would support growth and development. This includes the establishment of Bureau of Public Procurement (BPP), Petroleum Industry Bill (PIB), Debt Management Office (DMO), oil based fiscal rule under the Medium Term Expenditure Framework (MTEF), Fiscal Strategy Paper (FSP), and more importantly the establishment of Excess Crude Account (ECA). All these initiatives are established to help in ensuring sound fiscal policy and proper stabilization of the economy.

For instance, the BPP was initiated to manage the conduct and award of contracts among various Ministries, Departments and Agencies (MDAs) of government in transparent and accountable manner. Although the body has recorded some achievements over the years by reducing corruption, bureaucratic tendencies among others but given their constitutional mandate and high level of corruption in Nigeria, the body has not been able to lift up to expectation as there are evidences of abandoned contracts and corruption cases bedevilling the process of contract awarding and project implementation in Nigeria.

Additionally, the MTEF was also designed as a fiscal policy initiative to documents the expenditure priorities of government in the medium term usually three years. It is a three years integrated broad-based budgetary framework that was adopted in 2004. It replaced the rolling plan that the country used during the military era. Although it is normally prepared on annual basis but can be rolled over the three years to accommodate three years' medium term plans of government. It is a top-down approach to resource allocation and a bottom-top evaluation of both current and medium term costs of existing policies.[6]

In an attempt also to reduce debt burden in the country, the government established an office known as the DMO vested with the task of managing the Nigeria's debt bulge. The office has also been vested with the responsibility of managing and reporting the debt profile and providing a strategic framework for managing debt level. The office has succeeded in securing a debt relief for Nigeria for about USD 18 billion from Paris and London Clubs in 2005 (DMO, 2006).

Interestingly, in 2004, the government made a giant stride in creation of Excess Crude oil Account (ECA) as an oil based fiscal rule[7] which was charged with the responsibility of setting a benchmark for oil revenue and government expenditure in line with international standard and domestic macroeconomic stability (see Ogujuiba & Okafor, 2013). One of its key role is to provide a mechanism to protect budget implementation from adverse revenue shortfall resulting from crude price volatility. The body is also expected to manage the sovereign funds for the betterment of the economy. The proceeds are also to be invested in three main areas. This includes: 1) to be used for future generation; 2) infrastructural development; 3) and the stabilization of the economy when the need arises.

More so, the government of Nigeria passed the Fiscal Responsibility Act (FRA) into law in 2007, which was made

[6] Its major role is to assist government in fordable spending by MDAs in the medium term and accountability achieving macroeconomic balance, affordability for each sector and setting a criteria for performance and monitoring of expected outcomes. MTEF is made to be one of the statutory requirements for the annual budget presentation to the National Assembly.

[7] A fiscal rule is a legal constraint imposed on the operation of government activities to ensure that government spending and deficits are maintained within a numerical benchmark.

to compel individuals and government institutions to disclose information regarding public revenues and expenditures mainly to improve the efficiency and reduce the tendency of public resources embezzlement. The major responsibility of the body is to ensure efficiency and effectiveness in the management of the economy by committing all the tiers of government to a set of fiscal rules that would help the whole economy. The Act also stands as a medium for greater synchronization of fiscal and monetary policies, economic growth and reduction in poverty. Unfortunately, the commission responsibility is planned as more of advisory rather than being a core player in discharging such mandates. This has made the commission to be less efficient over the years.

In response to poor management of oil resources in the country, Petroleum Industry Bill (PIB) was also initiated to make the oil and gas sector more transparent so as to maximize government revenue from the sector. This initiative provides the establishment of new institutions to manage both the downstream and upstream operations of the Nigerian National Petroleum Cooperation (NNPC).[8] This aimed at converting NNPC into a fully accountable and profitable world class oil company which is to be jointly owned by federal government and private sector. This implies that all existing joint venture arrangement will be turned into an incorporated and self-sufficient by generating the needed funds from loans or the capital market so as to improve the performance of the company in terms of revenue generation and efficiency.

Similarly, before Nigeria returned to democratic rule in 1999, financial management in the public sector was

[8] The NNPC is an oil cooperation through which the Nigerian government regulates and participates in the country's petroleum industry.

attributed to poor fiscal management. This is because the financial instructions[9] was long overlooked. In fact, the pre-democratic era of Nigeria's public financial management (PFM)[10] system was characterized by so many challenges including poor funding and maintenance of operational costs, inflation in payroll through fraud and over staffing and application of obsolete technologies in the management of public financial system have made it difficult for the country to have sound and accountable public financial system.

Immediately after the country adopted democratic model in 1999, the reform of the Nigeria's PFM was emphasized by individuals and institutions. Organizations like IMF, World Bank, African Development Bank, among others have pushed for institutional reform in the PFM system through various initiatives. The Enhanced Structural Adjustment Facility (ESAF) as well as Policy Support Initiatives (PSI) are some of the policy indicatives that are advanced for the country. Nigeria adopted these policy initiatives which recorded tremendous achievements particularly in terms of

[9] A set of rules and regulations governing the conduct of financial dealings.

[10] Lawson (2015) defines PFM as a set of laws, rules, system and processes used by nations and (sub-national governments) to mobilize revenue, allocate public funds, undertake public spending, account or funds and audit results. This can be seen that PFM encompasses many processes and it involves several government bodies and institutions that work together under the auspice rules and regulations that define their functions and roles for successful financial management. Therefore, the overall function of PFM system lies on collecting revenue and allocating them as expenditure to the various sectors of an economy that can affect the generality of the people.

[10] Fiscal stability explains the effort of government in the application of fiscal policies to moderate the economy.

improving efficiency in management of public funds especially when compared with the military regimes.[11]

It is clear that the main objective of the above fiscal policy reforms in Nigeria over the years has been the pursuit of macroeconomic stability through employment generation, poverty reduction, infrastructural development, and above all ensuring sustainable growth and development. However, the fiscal operations of the central government of Nigeria has been characterized by continued growth in government expenditure and fluctuation in revenue which is majorly oil revenue.[12] Nonetheless, the behaviour of the fiscal policy instruments will be discussed in the subsequent sections in order to have a better understanding of the overall working of fiscal policy operations in Nigeria.

Public budget and budgetary process in Nigeria

It is generally believed that public budget plays a critical role in management of an economy through broader fiscal and economic policies.[13] From global perspective, countries adopt public budgeting as a time horizon or budgeting calendar which does not necessary move in line with the Gregorian or Hijrah calendar but only requires a fixed start

[11] According to Ogujuiba & Okafor (2013), there are key indicators of well-functioning PFM. The idea is that if PFM system of a country is well managed and coordinated, certain outcome of fiscal policy can be seen which include; 1) manageable level of public debt; 2) positive primary and overall balance level; 3) less allocation to servicing of debt.

[12] It is believed that sustained economic growth can be achieved through appropriate spending which assist in maintaining a healthy economy.

[13] Budget is the main transmission mechanism of fiscal policy in any country and a core tool that government uses in stabilizing and ensuring a better direction for a country.

and end period for each fiscal period usually a year.[14] Nigeria is not an exception. This is because Nigeria's budgetary process is clearly specified in section 82 (1) of the Nigeria's constitution, that the budget should begin on 1st January and ends on 31st December of each year. Therefore, it is an offence to delay a budget during budgetary process since it causes restriction in execution of projects. However, since Nigeria returned to democracy in 1999, despite the constitutional provision on timely budgetary process, delays in budgetary process has continued to manifest unabated.

Budgetary Process

The budget process begins with government articulating its vision and blueprint for the economy to the Federal Ministry of Finance (FMF) and the Ministry of Budget and Planning (MBP) in order to be captured in the budget. The plans give details of government agenda on how to boost growth through infrastructural development, poverty reduction, redistribution of resources, among others.[15] The Ministry of Budget and Planning will receive the budget circular from the presidency. They are therefore expected to prepare the budget guideline that will be sent to various MDAs. From their side, on receiving the guideline, the various MDA will move ahead through their committee on budget estimate to prepare and summit their estimates to Ministry of Budget and Planning for approval. It is therefore the responsibility of the Ministry of Budget and Planning through their committee called Draft Estimate to review the

[14] The need for having budgetary calendar is to reduce uncertainties that could affect the economy and ensure a rigid and proper time frame for displace and proper coordination.

[15] This implies that government always aimed at achieving short, medium and long term growth and development through its yearly budget.

proposals submitted by various ministries. This involves consolidating it into revenues and expenditure within the framework of MTRF and MTEF. This would therefore be sent to the executive for consideration. On receiving the budget draft from the Ministry of Budget and Planning, the president presents the draft to his cabinet for further consideration. The cabinet review the proposed estimates in line with socio-economic and political priority of the government. If the cabinet reach a consensus on the budget, the president will then give it an approval and send to the National Assembly as Appropriation Bill for their approval.

Further, the president or his representative is expected to present the draft estimate in form of Appropriation Bill to the joint session of the lower and upper chamber of the National Assembly. The draft will be reviewed by the appropriation committee in line with ensuring even distribution of projects across the country and transparency.[16] After their amendments, the president is expected to assent the appropriation bill into law which is followed by disbursing funds to various ministries for implementation. They spend the funds based on the share of the budget from the consolidated revenue of the federal government. The last stage involves monitoring and evaluation from time to time to ensure prudence and transparency. In fact, in 2006, the FMF started preparing an annual budget implementation report which reviews the level of execution of projects from various locations in the country.[17]

[16] The National Assembly play a significant role as they represent their various constituencies in the budgetary process. The Legislators ensure that some projects are proposed to their constituencies for even development of the country.

[17] They also assess the quality of each year budget for references and further improvements.

A recent improvement in the budgetary process is the introduction of stakeholders to participate in the process. Different stakeholders including civil society organizations, the national economic council, and organized public sector, among others are allowed to contribute during the interactive sessions.[18] But despite this development, there exists so many problems especially delays in the process. CBN (2015) notes that the greatest problem of budgetary process in Nigeria is over bloated nature of the budget which occurs due to partial funding across projects in the country and high risk of abandoning these projects cannot allow government to overlooked them. This happens as a result of poor funding of existing projects and creation of new ones mostly for political reasons. Weak reporting culture and high level of corruption among MDAs have also crippled the efforts of government in promoting smooth budgetary process in the country.[19]

Budget Delay

It is believed that efficient, sound and accountable budgetary process plays a crucial role in supporting proper resource allocation.[20] In the last decade, some African

[18] According to Aremu, Babalola, Aninkan & Salako (2015), the budgetary process in Nigeria is rigorous cutting across a lot of procedures. Hence, nothing unproductive should be expected. But the reverse has been the case over the years. The Nigerian budgetary process like other countries is bedeviled with series of problems.

[19] More disturbing is that the participation of the society in the budgetary process remained poor over the years despite constitutional arrangement that gives such provision.

[20] Besides, it provides the foundation upon which to build effective, vibrant and responsive state by enabling government to fulfil its responsibility and deliver basic services for societal development. Therefore, when the process become inefficient and bureaucratic, it

countries have shown greater concern on the importance of sound budgetary process and have made notable progress. In particular, Rwanda, South Africa, Malawi, among others, have made the budget practice more transparent and effective – which involves strengthening their supervisory and regulatory framework toward internationally accepted standard of good fiscal practice.[21]

Nigeria has not shown strong effort to meet up with such internationally accepted practice in the budget process. During the military eras, they subjugated the budgetary process by combining both the executive and the legislative functions through making laws with decrees without fair hearing and public access. In fact, since it was anything that the military want that became a law – allocation of funds for projects were made at the discretion of the highest military body known as the Supreme Military Council. Therefore, no one questions budgetary allocations freely during the military.[22] Regrettably, even after the country returned to democratic rule, where there is expected public representation and participation of stakeholders, civil societies, private sector among many others, a new problem emerged in the budgetary process. The acrimony and intense political war between ruling party and opposition and also between executive and legislature has created a budget delay syndrome with devastating effect on government expenditure role. The budget for a particular year were not

undermine the ability of a country to achieve viable policies that can pave way for growth and development.

[21] The international standard for budget transparency requires that legislatures have sufficient time to the draft of the budget. Notably, the OECD best practice for budget transparency recommends the tabling of the budget at least three months to the start of the fiscal year and approval before the fiscal year commences.

[22] This has affected even development and equality in projects allocation during the military era in Nigeria.

passed in most cases until the middle of the year despite constitutional provision that states that Nigeria's fiscal year should commence by 1st January and ends on 31st December of each year. Despite that, budget delay has become a norm in Nigeria and has consistently affected budget as a tool for promoting societal welfare.

These delays have tended to undermine the transparency and accountability of the budgetary process. In order to accommodate funds that are untimely released, the budget year has in most cases been operationally extended from 12 to 15 months – a move which signal the collapse of the budgetary process with profuse effect on the efficacy of the budget as a tool for promoting growth and development.

Since 1999, it takes Nigeria an average of 4-5 months to pass the Appropriation Bill into law. In most cases, the budget is usually presented to the National Assembly within the last two months of proceeding the budget year. In fact from 1999, only 3 budgets were presented in October. Therefore majority of the situations, the budget is passed 4-6 months into the budget year – which cuts the time frame for project implementation.

This practice is in contrast with what is obtainable in many countries that have recorded development with their budgetary implementation. For example, in South Africa, the law mandates that the appropriation bill must be passed into law two months to the budget year. Further, in U.S., there is also a law that mandates the president to submit the budget to congresses before 8 months of the budget year. Similarly, Singapore also has a binding law that orders and insists that budget must be passed into law 3 months before the budget year. In the case of Nigeria, while the Fiscal Responsibility Act (FRA) directs government MDAs to submit their budget proposal before the end of June of each year ahead of the preparation of MTEF, sadly it does not stipulate when the budget is to be presented to the National Assembly.

It is in this manner that sometimes various ministries return unspent money to the treasury office. Regrettably, leaving funds unspent only translate into abandonment of projects or component of the projects which shows failure in terms of implementation of projects and programs of government which have negative consequences on the performance of the economy. This new trend remains strange and disturbing for such funds to be returned unspent despite the poor state of infrastructural development in the country. For instance, in 2016, the Ministry of Works returned ₦187 billion to the treasury. This shows the gross display of bad governance for a country to borrow huge funds in the name of capital expenditure with high interest rate, only for the government to keep the money unspent while the country operate under the condition of parlous infrastructure.[23]

From the recurrent expenditure side, the delay has been causing untimely payment of wages and salaries and problems in running the affairs of government functionaries.[24]

IMF – World Bank Dialog in Making Fiscal Policy

Furthermore, The IMF and World Bank dialog with Nigeria on budgetary and fiscal policy in general has some influenced on the outcome of the policies. For instance,

[23] More again, it has made capital spending to have less capacity in reducing infrastructural deficit in the country.

[24] There are cases in recent years of government unable to pay wages and salaries sometimes for about two to three months partly because of delays in passing Appropriation Bill into law.

Siebitz & Calitz (2006) stress that the shift in emphasis in the IMF policy prescription for some African countries including Nigeria from an almost exclusive focus on the macroeconomic aspects of fiscal policy (embodied in adjustment-program ceilings for the levels of budget balances and public spending) to a broader perspective that includes microeconomic issues such as the details of tax reform and public spending priorities has resulted to many changes which further complicated matters. The Fund initially regarded involvement in such microeconomic issues as unnecessarily resource-intensive activities and – more importantly – as interference in the domestic affairs of borrowing countries. However, in the 1980s, it became clear that the so-called macroeconomic and microeconomic dimensions of fiscal policy are too closely intertwined to be viewed in isolation. The prescriptions and local policy goals continue to have a continued conflict of direction.

More again, countries typically needed microeconomic (structural) reforms to complement the growth-promoting effect of fiscal stabilisation, and the various tax and expenditure options for reducing budget deficits can have very different effects on growth, the efficiency of resource allocation, and the distribution of income (Tanzi, Blejer & Teijeiro, 1987).

Further, the underlying shift in emphasis paved the way, within and outside the IMF, for greater appreciation of the need to shift the burden of expenditure cutbacks to less productive items (such as defence spending and subsidies to public enterprises) while protecting social spending and public investment. It also highlighted the common tendency among African and other developing countries like Nigeria to maintain their often bloated public payrolls during adjustment while allowing inflation to erode real pay levels – a tactic that contributed greatly to low productivity, poor service delivery and corruption in the public sector, as well as losses of skills to the private sector (Lindauer, Meesook & Suebsaeng, 1988).

Another issue of utmost importance is the increasing emphasis on governance. This has contributed to the review of the role of government referred to earlier – in particular by highlighting that the government should contribute not only to allocative efficiency (by ensuring that the public sector does the right things), but also to technical or X-efficiency (by ensuring that these "right things" are done as well as possible). Governance-enhancing efforts in the area of civil service reform focus on the improvement of systems and operations and the creation of incentives for attracting quality human resources to the public sector; accordingly, they are known as second-generation reforms to distinguish them from the initial efforts to reduce government employment and to reverse pay erosion (Siebitz & Calitz, 2006; UlHaque & Aziz, 1999).

3. Public expenditure policies and programmes in Nigeria

Introduction

Every government is expected to design plans and programs for national development. This cuts across all countries irrespective of their political system and or level of development. Nigeria is not an exception. This is because since independence in 1960, the country has adopted systematic development planning as a means of improving the growth and development of the country and promoting the living standard of its citizens. In Nigeria, government expenditure policies and programs can be divided into three phases according to the time they took place and the manner of development in each. This includes; 1) the era of fixed medium term planning (1962-1985); 2) the era of rolling plans (1990-1998) and 3); the era of new democratic dispensation (1999-date). Therefore, the review of previous development plans will provide an insight and a background of the direction taken by government in an attempt to develop the country through various public expenditure plans and programs as well as the outcome of such plans and programs.

The first National Development Plan (NDP) (1962-1968) was proposed immediately after the country got her independence and was targeted to achieve a growth rate of 4 percent per annum, accelerate industrial activities through establishment of Kainji Power Project (KPP) and Nigerian Industrial Development Bank (NIDB), encouraging nationalization and creation of employment opportunities, improving the availability and quality of health, education and other social services, among others. These are clear indications of successful infrastructural development from the plan. The planned capital expenditure was ₦2, 132 million. The public sector spending was put at N1, 352 million and the remaining ₦780 million was expected to be financed by private sector and foreign sources. Part of the efforts made to actualize the plan was through cooperation between regional and federal government [25] and also between public and private sectors in the country.

However, it is important to note that the plan has not been successful in many areas especially agriculture and industrialization. During the plan period, agriculture was the mainstay of the economy contributing over 70 percent of the GDP and employing about 80 percent of labour force yet only 9.8 percent was allocated to the sector. This shows that the sector was not given priority despite its significance as seen from contributing large share to GDP and employment generation. The steel company that was proposed was not also implemented. It is clear that the plan has not been properly prioritized. In respect of rural urban sectors, the plan seems to be urban oriented as majority of the projects were directed to urban centres which can be blamed on

[25] Despite the fact that there was regional autonomy, the regionals and the central government realized the need to have a common goal and economic targets for the betterment of the whole country.

colonial development strategy that significantly influenced the plan. NBS (1970) notes that about 90 percent of the infrastructural projects are allocated to urban sector while only 10 was allocated to rural areas. Even in the area of industrialization, the first plan focused on large enterprises neglecting small scale enterprises in the rural areas. The NIDB was introduced with so much bureaucracies that hinders small businesses from accessing their facilities especially funds which are critical for industrial development.

Albeit, the first plan was relatively successful in terms of implementation especially with the establishment of some key projects like KPP, the country first refinery industry and the NIDB. More so, as noted above, there is serious misplacement of priority especially agricultural and industrial sectors that had only 9.8 and 8.9 percent respectively of capital allocation. Besides financial shortage, there was also civil war during the plan period that lasted for about 30 months.[26] The civil war has resulted to diversions of funds from infrastructural development to provision of security to ensure continued existence of the country as one.

Recognizing the wanton damages done during the civil riots that lasted for 30 month (167-69), the second NDP (1970-74) focus more on reconstruction, rehabilitation and

[26] The Nigerian Civil War, commonly known as the Biafran War (6 July 1967 – 15 January 1970), was a war fought between the government of Nigeria and theBiafra represented nationalist aspirations of the Igbo people whose leadership felt they could no longer coexist with the Northern-dominated federal government. The conflict resulted from political, economic, ethnic, cultural and religious tensions which preceded Britain's formal decolonization of Nigeria from 1960 to 1963 (FGN, 1965).

reconciliation and also laid emphasis on foreign dominance of private sector. Also, the plan made efforts to improve the national economy especially the war affected areas and to provide enabling environment through improvement in social services. The plan is anchored to improve real development by building a united, strong and self-reliant nation. There was an enormous effort in mobilizing funds during the plan period to meet up with government financial requirements. The capital outlay during the plan period was ₦30 billion which was later revised and increased to ₦43.3 billion there by giving the plan an over-sized structure. Interestingly, the government corrected the over-reliant of the first plan on foreign sources of financing. The discovery of oil in commercial quantities in the early 1970s and subsequent exploration had made it possible for government to realized huge revenue for financing projects freely. During the period, government allocated 23.7 percent to agriculture. Emphasis was made on industrial development through establishment of import substituting industries. The second NDP witnessed the establishment of ventures such as Peugeot Car Assembly in the north, and Volkswagen plan in the southern part of the country.

The third NDP (1980-84) was the most successful planning strategy in the history of Nigeria. This may not be unconnected with the fact that there was so much money in the economy due to oil boom during the period. The objectives of the plan were to increase the per capita income of the country, even distribution of income, balanced development, and indigenization (FGN, 1975). The plan also emphasized on resource shift paradigm from urban to rural sectors to promote rural development. More so, the small farmer and small business are targeted with input facilities to improve industrial and agricultural activities. The economic plan was made to be ten times more than the second NDP and it was prepared by the National Economic and Advisory Council (NEAC). In fact, ₦975.8 million was spent on capital projects contrary to ₦667.8 million that was planned as a result of increase in revenue base due to oil boom during the period (FRN, 1980). The plan recorded significant success through establishment of Ajakuta Steel Industry, two refineries in Kaduna and Warri, introduction of free education among others were implemented. Agricultural and industrial sectors were allocated 7.8 and 17.2 percent respectively of the capital allocation which assisted in improvement of the sectors' performance.

Many projects commenced during the Second Plan were completed in the third plan period and reasonable progresses towards implementation of new ones were made. Example of such projects include the cement works at Calabar, Ukpilla, Nkalagu, Shagamu, Yandev and Ashaka; the pulp and paper projects at Jebba, Calabar and Iwopin - four commercial vehicle assembly plants, two passenger car assembly plants; two petroleum refineries at Warri and Kaduna; two Iron and Steel plants at Ajaokuta and Aladja; and three steel rolling mills at Katsina, Jos and Oshogbo. Impressive achievements were also seen in the transport sector. Over 10,000 kilometers of roads were built or rehabilitated, and among these were expressways (see Vanguard, 2016).

Furthermore, the fourth NDP (1981-1985) differs significantly with the previous plans in terms of scope as it was widening to incorporate development of science and technology in the country, improve living standard and achieve other previous objectives of NDPs. The plan has also not been successful which was attributed to low allocation for capital projects due high debt servicing that the country faced during the period. Generally, the plan has faced lack of strong executive capacity and low political will to makes it realize its objectives.

The plan had a capital budget of ₦70.5 billion for the public sector and ₦11.7 billion for the private sector. However, the fall in oil price in the international market during the period from $40 to $30 per barrel and at the same time the oil production in Nigeria which was plan to be 2 million barrel per day reduced to 1.2 million barrel per day (FGN, 1985). Consequently, the external debt liability rose from ₦3.7 billion in 1981 to ₦17.3 billion in 1985 and a rise in debt interest from 4.7 percent in 1981 to 31.7 percent in 1985. The domestic debt outstanding also rose from ₦11.4 billion in 1981 to ₦28.0 billion in 1985 (CBN, 1986). This shows how the plan was over-sized in anticipation of revenue from oil. Like other plans, agriculture, industry and education received the highest shares among other sectors by 12.6, 13.8 and 11.0 percent respectively. Other achievements include the establishment of Newsprint project, Egbin power plan, Akure Airport, telephone exchange line all over Nigeria, increase in educational enrollment, improvement in the health care delivery, construction of high way roads and establishment of Agricultural Development Project (ADP). Despite all the recorded achievements, the fourth national development plan was characterized by abandoned and uncompleted projects due to inadequate financial resources and inconsistencies.

Instead of having the fifth NDP between 1986 and 1990, the country adopted a structural policy known as Structural Adjustment Program, which was designed to cover for 1986 to 1988 but later extended to 1990. After the deregulation of the Nigerian economy in July, 1986, it is realized that the financial resources for public spending for the rest of 1980s was likely to be less than as expected. This is because of the uncertainty in the oil revenue due to fluctuation in the oil price in the international market. Thus, in line with IMF and World Bank direction/measures for developing countries, government expenditure was made to be reduced to curbed high debt profile and maintain a reasonable level that can enhance growth and development. This involved reduction in wage bill, reduction in government subsidies especially petroleum and fertilizer subsidies. More so, commercialization and privatization was also undertaken on some major government owned corporations aimed at improving efficiency and reducing government involvement. The review of the SAP reveals that it has succeeded in eliminating the corrupt import license that bedevilled Nigeria during the period and crippled industrial activities and improvement in agricultural export from 8 percent to 12 percent (CBN, 1990). Rolling Plans were initiated between (1990-1998) after SAP policies failed to achieve the targeted objectives, the federal government of Nigeria resorted to rolling plans[27] which replaces the traditional medium term development plans that were used between 1962 and 1985.

It can be observed that since independence in 1960, five NDP were initiated between 1962 and 1985 which recorded little successes and are all characterized by poor implementation, lack of priority, poor funding, lack of continuity, among others. Further, the country also initiated rolling plans in 1990 after liberalization of the economy in 1986. Dismally, all the aforementioned plans have not yielded up to expectation as earlier stated. Hence, poverty, unemployment and other macroeconomic problems continue to bedevil the economy of Nigeria through 1999 when the country returned to democratic rule. It was on this

[27] A rolling plan is another development strategy that is made flexible and easily to be rolled over the following year in a situation of not completely achieving the targeted objective.

basis that government in 2004 initiated another government expenditure plan known as Nigerian Economic Empowerment Development Strategy (NEEDS). It is a central government strategy but was also complemented by states and local government in order to have a balanced development. Like other economic plans, the strategy has not been effective, though has made significant progress in poverty reduction and public and private sector reforms including public-private based investments, pension reform and reform of the public financial management system.

The Umaru Musa Yaradua administration had also initiated a public expenditure plan known as Seven Point Agenda in 2007; which include food security and agriculture, power and energy, wealth creation, transport sector reform, land reform, security and educational reform which were expected to work in line with the international standard of Millennium Development Goals (MDGs). Albeit, the plan has not been sustained after the president died in 2010. This makes the plan largely unpronounced in Nigeria's planning discourse.

Generally, it can be seen that Nigeria has made several efforts in terms of planning its expenditure to transform the economy of the country to the path of growth and development. However, those beautiful plans and projections are only good on paper but were most at time unrealistic and when the plan fail the general refrain perception is that the country is good in making good plans but woefully failing at level of implementation.[28]

An important issue to note from the plans discussed above is there operational magnitude which cannot be

[28] The plans did not produce the needed outcomes which are partly link over-ambition and revenue constraints coupled with misplacement of priority and intense regional, tribal and religious conflict in resource allocation in the country.

clearly understood. This makes it difficult to define clearly most of the objectives of the plans. For the realization of the objectives, appropriate policies and institutions are expected to be set up by government. However, such attempt can only be possible if the objectives are clear and precise. More importantly, there exist no specific provision from government for people to ascertain the progress and failures of the plans over time. Another paramount issue observed is overloading of the plans with political objectives; which cannot be achieved in compatible with the country's intense political instability and regional differences. In addition, the continued appearance of the objective of even or equitable distribution of income or wealth also needs a better clarification to make it achievable. In all the plans, there is no place where the planners clearly specified the level of inequality in income distribution in the country and the level that is deem acceptable and tolerated by all sundries amidst of different religions and tribes. The questions are: what exactly is over the years the government is aiming at – is it reduction in absolute or relative poverty between the rich and the poor or both at the same time? This makes one to question the objectivity of government on one hand and on the other the reliability of achieving such objective. Although the government through its NEEDs policy had claimed to have succeeded in achieving this objective by reducing the relative gab but the absolute gab has considerably widened in recent past.

Another objective which appeared to be in almost all the plans and which calls for more articulation is the objective of balance development in the country - that practice federal system – which comprises of central, state and local levels. In this basis, emphasis is made between regions and states neglecting the development disparities between rural and urban within the states and regions in the country.

There are many countries that kick started their development through rural transformation which pave way for their overall development. In fact, even among the states, there are serious questions that remain unanswered. For example, is it that all the states in the country should grow at the same rate? Or is it that the poorer states should grow at a faster rate than the richer states? Any of the above interpretation of balance development has significant implication on the overall allocation of resources in the country.

The government at different time also attempted to achieve multiple objectives simultaneously. But in reality, it is practically impossible in a developing country like Nigeria to simultaneously achieve development objectives partly because of shortage of resources and inconsistencies in government policies especially when there is change in government – which characterized Nigeria in the post-independence era due to military coups. For example, achieving balance development has made government over the years to cite development projects particularly industries in backward regions but investment in areas with deficient physical infrastructures has proven to be inefficacious because those programs need areas where there are basic amenities that can support their operations.

More so, the objective of giving free primary education which kept appearing in almost all the national plans remain good. However, primary education is not enough without the opportunities for furthering higher education. Primary school graduate can only do menial jobs but cannot be well equipped to have the needed skills and knowledge that will lead to innovations, discoveries and technological advancement in the country. Therefore, if much benefits are to be expected, then, efforts have to made beyond primary education so as to have more people with post primary education especially technical and science education which remain essential in country's development.

It is also observed that the policy measures in the plans with respect to agriculture are based on insufficient appreciation of the problems confronting the agricultural sector. Majorly, the government policies on agriculture has failed in many respects. Agricultural sector cannot be revitalized until effective policies are made to reduce the rural urban drift. In many rural areas, there is large migration of labour to urban centres in search for better life, in effect, there is scarcity of young people in the rural societies that can partake in agricultural activities. Government policies have failed to make development of agriculture sector simultaneously with rural development[29] – that can induce young people to get back to rural areas and take agriculture as their occupation. Regulating prices of farm products and enhancing income of rural farmers through incentives and subsidies directly to them without barriers and bureaucracy will go a long way in improving the sector and creating jobs to teeming unemployed youths. Similarly, the industrial policies anchored in the plans appear to be good but the objective of making the country among 20 most industrialized countries remained a mirage partly because no amount of industrial policies can work in a society where there is no power and some other essential services. This is the tragedy in Nigeria.

Most of the plans are also made without appropriate commitment in revenue generation. They made much emphasis on spending rather than generating revenue to finance the projects that will help in actualizing the

[29] The development of the agricultural sector has to be seen as part of the overall rural development, in the course of which basic services need to be provided in the rural areas like roads, electricity, schools, and hospitals, among others.

objectives of the plans. In most cases – especially after the discovery of oil in early 1970s, the government relied largely on oil revenue to finance its activities. Since oil revenue is determined by oil price, therefore – government cannot plan effectively what it does not control. This has caused a lots of failure and frustration in the Nigeria's planning efforts over the years. Generally, in Nigeria, rather than articulating the policy measures which can be applied to efficiently control and regulate the use of resources in actualizing the country's plans, the government in most cases seems to be in hurry to dismantle the control that has been used in the past and start searching for new approaches.

Public Expenditure Profiles

In Nigeria, through the above discussed national plans, different civilian and military governments have played significant roles in channelling of resources for the provision of public goods (utilities) such as schools, roads, pipe-born water, communication, power supply and health facilities. The trend of public expenditure over the years, however, has been characterized by steady and continuous increase and can be divided into two phases: pre-deregulation (before 1986) and post-deregulation period (after 1986). The former was characterized by democratic regimes and the latter is made up partly of military regimes which gave way to democratic government from 1999 to date.[30] The present study specifically looks at the behaviour of government expenditure in Nigeria after the oil boom of 1970. Nonetheless, the pre-oil boom era is briefussed for a better

[30] It should be noted that 1986 marked the introduction and implementation of the Structural Adjustment Program (SAP) in Nigeria. One of the objectives of SAP is to strengthen and reduce the ever increasing public expenditure in Nigeria.

understanding as well as contextualization of the analysis of the trending behavior of government expenditure in Nigeria. Like every nation especially in developing economies, public expenditure is considered as an important component of economic growth.

Government expenditure was ₦314.41 billion on average between 1960 and 1970 but rose to ₦5972.90 billion between 1971 and 1980 representing 1799.7 percent growth in government expenditure during the decade of 1970s (CBN, 2017). The expansion can be associated with the discovery of oil in the early 70s that led to unprecedented increase in Nigeria's revenue. Additionally, government budgeted large monies for reconstruction after the 1960s civil war that lasted for about 30 months. The country also embarked on increase spending on priority sectors to provide an enabling environment needed to accelerate sustainable growth and development.

Besides, government expenditure was ₦11,188.42 billion on average between 1981 and 1985 representing the growth rate of 87.3 percent (CBN, 2017). This shows that government expenditure continued to maintain a rising trend over the years. Furthermore, Public expenditure exhibited upward trend despite countless efforts by government to reduce its expenditure particularly through the Structural Adjustment Program (SAP) in 1986 which focused on short-term and medium term policy reforms to structurally adjust the economy. Public expenditure continued to maintain steady and upward trend from 1986 to 1991. Total government expenditure was ₦11, 413.7 billion in 1986 but by 1990 it slightly increased to ₦66, 584.4 billion representing only 10 percent increase (CBN, 2017). This development could be attributed to the volatile revenue base of government and large fiscal deficits which resulted to decrease in government expenditure. Aregbeyen & Akpan (2013) posit that after the implementation of SAP, which marked the post-liberalization era in 1986, strict measures were put in place to curb government spending. This includes reduction in wage bills, reduction in government subsidies, limiting or delaying investment projects, and privatization/ commercialization. That has indeed reflected in the expenditure pattern as government expenditure growth rate was on average only 31.1 percent between 1986 and 1991 compared with the growth rate of 87 percent between 1981 and 1985.

However, in the period 1991-1995, government made effort to reduce inflation rate by avoiding large budgetary deficits, which made government expenditure more cost-effective and consistent with the nation resources. In fact, public expenditure reduced from ₦191, 228.90 billion in 1993 to ₦160, 893.20 billion in 1994 representing -15.9 percent growth rate in government expenditure (CBN, 2017). However, the highest inflation rates so far in the country's history were recorded during this period.[31]

Government expenditure was ₦947, 690.00 billion in 1999 representing a growth rate of 94.6 percent but slightly reduced to ₦701, 050.90 billion in 2000 representing a negative growth of -26 percent (CBN, 2017). The reduction in government expenditure was aimed at addressing inflationary pressure during the period and the huge debt service obligations as actual debt service ratio peak at 37.06 percent in 1998.

Lastly, from 2000 to 2017, government expenditure continued to increase unabated. Throughout the period, government expenditure maintained a rising trend. Public expenditure was ₦701, 059.40 billion and rose immensely to

[31] Detail explanation on inflation and growth of government expenditure are given in the subsequent section.

₦4, 813,380.00 billion from 2000 to 2016 respectively. Average growth rate of government expenditure was 19.2 percent between 2001 and 2010 (CBN, 2017). Public expenditure has been continuously increasing in this period because of the increased demand for the provision of socio-economic services due to the population growth, increase in the flow of revenue from the production and sales of crude oil as a result of high price of crude oil in the international market, expenditure on election and the desire of policy makers and political leaders to meet the aspiration of citizens as well as to fulfil election promises.

The increase in budgetary allocation for security sector in recent years to fight the activities of terrorist organizations and militancy has also contributed to huge government expenditure. In addition, expenditure in respect of transition programs and other extra budgetary expenditures including the financing of Economic Community of West African Monitoring Group (ECOMOG) in Liberia, donations to states, Better Life Program/Family Support Program and welfare scheme packages justifies the upward trend of government expenditures over the years. The graphical representation of the trend of public expenditure in Nigeria can be seen in figure 1.

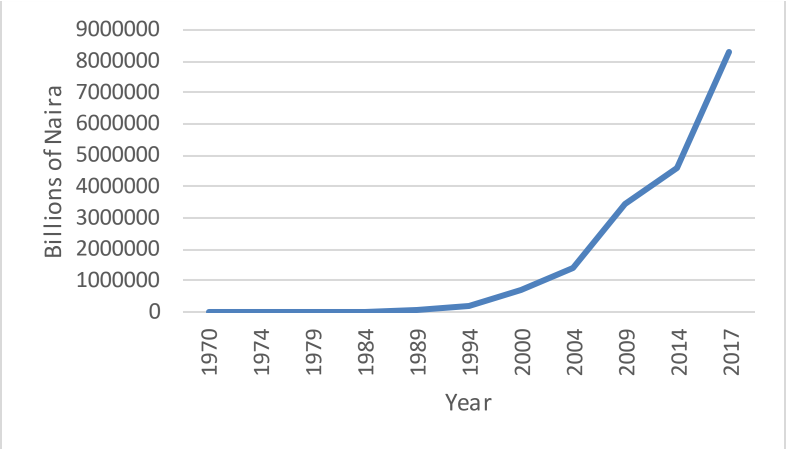

Figure 1. *Nigeria's Total Government Expenditure (1970-2017)*
Notes: Trend of Nigeria's central government expenditure where the horizontal axis shows years in in 6 years averages.
Source: Computed from Statistical Bulletin of the CBN, 2017.

In order to have better understanding of the trend of government expenditure in Nigeria, it is paramount to highlight the share of government expenditure in GDP of Nigeria over the years. Figure 2 depicts the graphical presentation of the share of government expenditure to GDP of Nigeria between 1970 and 2017. It can be seen that the decade of 1970 recoded the highest share of expenditure in GDP accounting for the lowest share of 14 percent in 1971 and highest share of 29 percent in 1976. This can be attributed to the oil boom witnessed during the period which significantly influenced government decision regarding spending and the efforts made by government in re-building the economy after the civil war that lasted for about 30 months. Furthermore, there was steady decline from 1985 in which the value stood at 19 percent and continue to decline in a fluctuating form until 1996 where it rose from 12 percent to 29 percent in 1999 when the country returned to democratic rule. In 2000, it declined to 15.3

percent and rose to 21 percent in 2001. Since then, government maintained an average share to GDP of about 15 percent during the period between 2002 and 2017. In general, the trend has fluctuated over the years showing the effect of various policy programs of government.

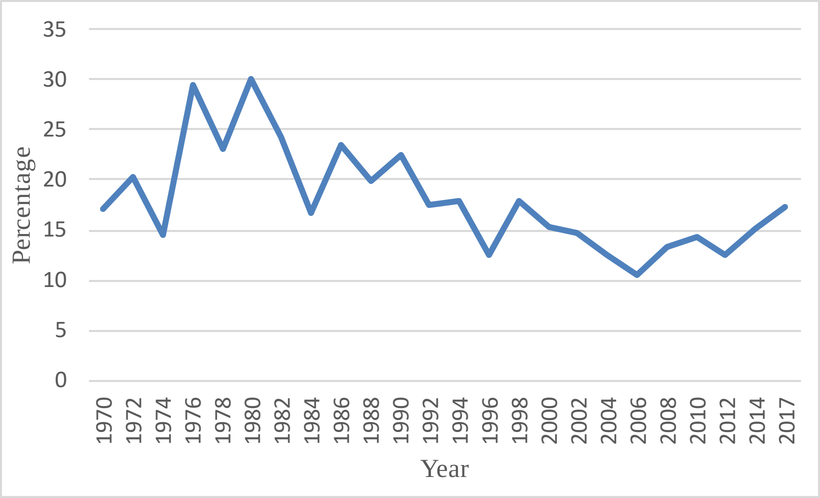

Figure 2. *Share of Total Government Expenditure in GDP (1970-2017)*
Notes: Trend of Nigeria's central government expenditure share to GDP where the horizontal axis shows years in 2 years averages.
Source: Computed from Statistical Bulletin of the CBN, 2017.

Capital and Recurrent Expenditure Profile

Public expenditure is mostly classified into capital and recurrent expenditures which provide adequate information for policy formulation and implementation.[32] In Nigeria over the years, government has allocated huge amount of monies

[32] As previously defined, capital expenditure refers to all expenses incurred in providing capital and developmental projects for the overall development of a country while recurrent expenditure refers to all running costs of government for maintenance of existing institutions and services such as payment of salaries, maintenance of government buildings, vehicles, overheads, among others.

via capital and recurrent expenditures for the growth and development of the country. Although the scope of the study as it has been stated earlier spans from 1970 to 2017, the trend of analysis goes beyond that as it captures from independence partly to have a knowledge of the trends before the oil boom of 1970. This provides a clear picture of spending pattern of Nigeria based on compositional classification since independence.

Between 1960 and 1970, the average capital expenditure was ₦93.50 billion but rose to ₦3,425.1 billion between 1970 and 1980 representing 3,562 percent growth. On the other hand, recurrent expenditure was ₦220.90 billion between 1960 and 1970 but also rose to ₦2,547.84 billion, showing 1,053.37 percent growth rate (CBN, 2017). Capital expenditure was higher than recurrent expenditure by more than 2,000 percent growth rate between 1960 and 1970. During the same period, the share of capital expenditure in total expenditure was 29.74 percent but sharply increased to 57.34, while the share of recurrent expenditure reduced from 70.26 percent in the 1960s to 42.66 in the 1970s. This can be attributed to the efforts made by government during the period to address development challenges by executing various capital projects such as roads, schools, hospitals power projects, among many others after independence. Besides that, the increase in the share of capital expenditure was also part of the effort made by government in reconstruction of areas affected by civil war that lasted for about 30 months in the late 1960s. More so, medium and short term development plans were introduced and implemented during the period. This has also engulfed capital expenditure during the period.

Furthermore, capital and recurrent expenditures between 1981 and 1985 on average stood at ₦5,486.90 and ₦5,701.48 and representing 49.04 percent and 5.96 percent share in the total expenditure respectively. The share of recurrent expenditure in total expenditure remained high in the late 1980s, but there was a slight shift in line with SAP's objective of achieving macroeconomic stability and economic growth through expenditure reducing and expenditure switching policy. According to CBN (2013), the policy of expenditure restructuring adopted under SAP was reflected in capital expenditure during the 1990s. The share of capital expenditure in total expenditure increased from an average of 43.33 percent in the 1980s to 48.29 percent in the 1990s as depicted in figure 3. During the same period, recurrent expenditure reduced on average from 56.67 percent to 51.71 percent (CBN, 2017). In addition, there was also rolling plans initiated in the 1990s which also fuelled the expansion of capital expenditure.

Recurrent expenditure between 2000 and 2010 was on average stood at 67.8 percent while capital expenditure was 32.2 percent as a share in total expenditure. The increase in recurrent expenditure was driven principally by the increase in transfers (particularly debt servicing), which accounted for an average of 60 percent of the total recurrent outlay. Recurrent expenditure continues to increase unabated. Similarly, the share of recurrent and capital expenditures in total expenditure on average stood at 80.41 percent and 19.39 between 2011 and 2016. During the same period, the growth rate of recurrent and capital expenditure on average was 83.73 percent and -0.63 percent respectively. This is so because recurrent expenditure accounted for over 80 percent of the total expenditure with only about 20 percent allocated for capital expenditures during the period (see CBN, 2017). The implication is that the expenditure is moved towards consumption rather than investment in the economy.

It is observed that from 1996 up to 2017 periods, recurrent expenditure was larger than capital expenditure. In fact, the margin between capital and recurrent expenditure became higher beginning from 2000 after Nigeria returned to democratic rule on May 29, 1999. This shows that the democratic system in Nigeria favours recurrent spending than capital projects. This can be attributed to many factors including increase in number of public employees, expansion in salaries and wages, high level of allowances to politicians, elections expenditures, among many other factors. On the other hand, increase in capital expenditure between 1996 and 1999 can be attributed to various projects undertaken by the military government led by General Sani Abacha. As stated, there was rolling plans initiated to provide infrastructural development in the country during the period.

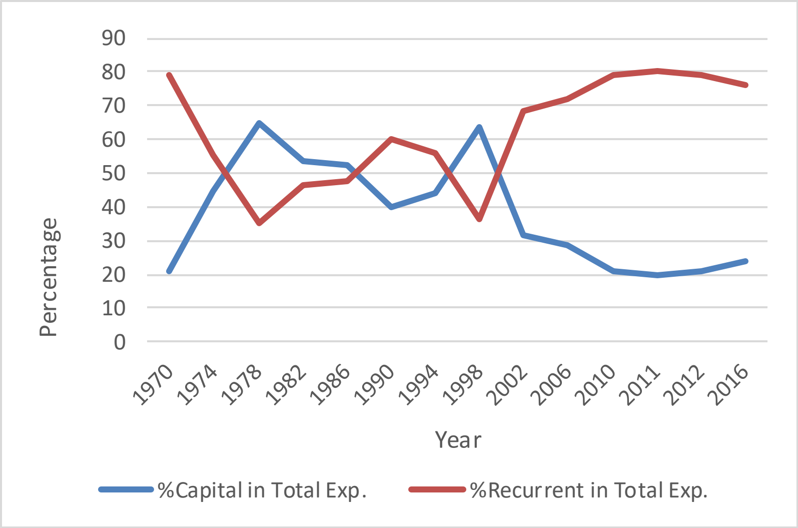

Figure 3. *Percentage Share of Capital and Recurrent Expenditure in Total Expenditure*

Source: Computed from Statistical Bulletin of the CBN, 2017.

Recurrent Expenditure Components

The study moves further to disaggregate recurrent expenditure into community, social and economic services, administration and transfers. The essence of sub-diving the expenditures is to have the true picture of the pattern and distribution of recurrent expenditure during the study period.

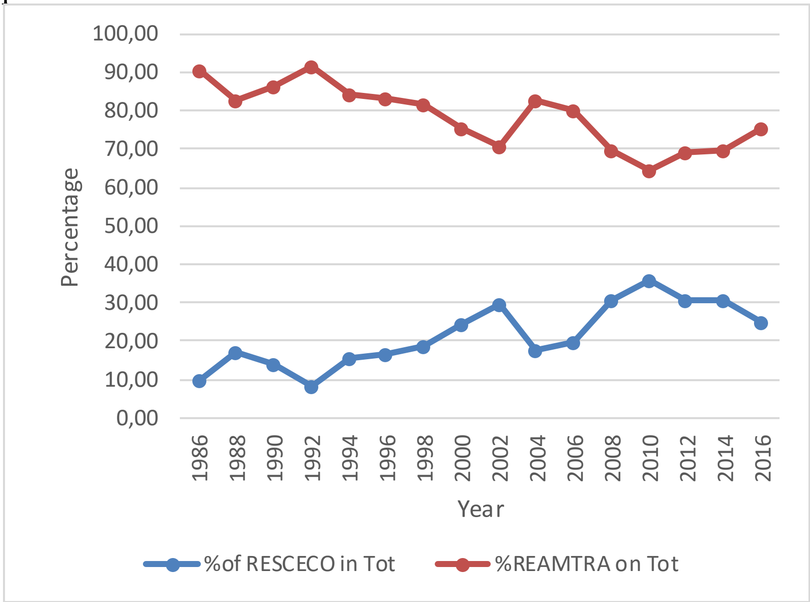

Figure 4. *Percentage of RESCECO and REAMTRA in Total Recurrent Expenditure*

Notes: RESCECO stands for recurrent expenditure on social, community and economic services while REAMTRA stands for recurrent expenditure on administration and transfers.

Source: Computed from Statistical Bulletin of the CBN, 2017.

Figure 4 depicts the trend of recurrent expenditure on administration and transfers and recurrent expenditure on community, social and economic services from 1986 to 2016. It can be seen that recurrent expenditure on administration and transfers has the highest share to total recurrent expenditure in 1987 representing 93.66 percent of the total and the lowest share was recorded in 2009 representing 63.45 percent of the total recurrent expenditure. On the other hand, also, recurrent expenditure on community, social and economic services recorded its highest share in 2009 and the lowest share in 1987 representing 36.55 percent and 6.34 percent of the total recurrent expenditure respectively.

Generally, it is observed that recurrent expenditure on administration and transfers have expectedly dominated Nigeria's total recurrent expenditure accounting for about 70 percent of the total recurrent expenditure on average during the period 1986-2016.[33] This is not surprising because they are pre-requisite and government cannot function effectively and efficiently without providing sufficient funds for the maintenance of the economy particularly in countries like Nigeria with growing population and urbanization. Moreover, the activities of terrorists, militancy and communal clashes bedevilling Nigeria in the recent times has also contributed in the expansion of security expenditure which is one of the components of administrative expenditure.

It can also be observed from figure that from 1999, there was 4.3 significant improvement in the share of recurrent expenditure on community, social and economic services. In 1998, recurrent expenditure on community, social and economic services was ₦33.02 billion representing 18.54 percent but sharply rose to ₦158.45 billion representing 35.24 percent of the total recurrent expenditure. Since then, the share of recurrent expenditure on community, social and economic services continued to increase while that of

[33] As explained earlier, recurrent expenditure on administration and transfer comprises of payments of wages and salaries, maintenance of internal security, overheads and running costs, scholarships, allowances and pension which are all essential in running the affairs of an economy.

administration and transfer was slightly declining. This can be linked to the efforts of various democratic governments aimed at maintaining the existing capital structures in the country in addition to provision of health and educational facilities to meet the growing population. There are also efforts in providing subsidized agricultural facilities like fertilizer to farmers. Besides that, government has succeeded in reducing its outstanding debt in addition to debt relief which substantially reduced debt servicing that constituted significant share of the recurrent expenditure during the 1980s

Capital Expenditure Components

The study conveniently decomposes capital expenditure into administration and transfer and community, social and economic services. Figure 5 depicts the trend of the share of disaggregated components of capital expenditure in total capital expenditure of Nigeria spanning between 1986 and 2016.

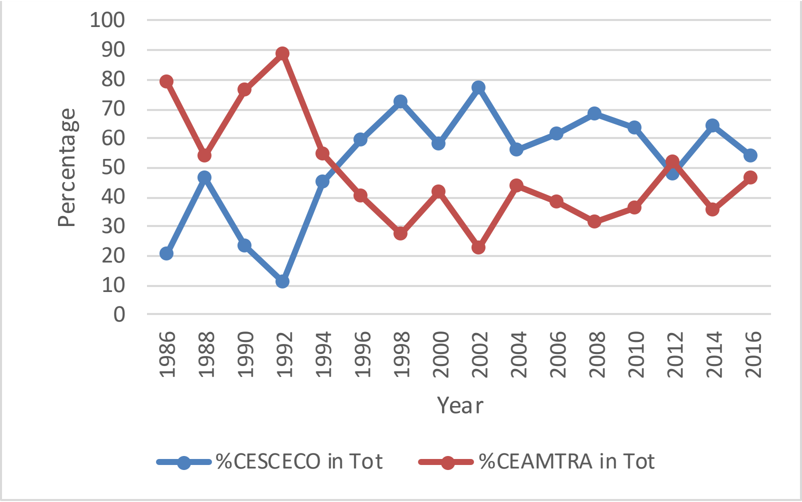

Figure 5. *Percentage of CESCECO and CEAMTRA in Total Recurrent Expenditure*

Notes: CESCECO stands for capital expenditure on social, community and economic services while CEAMTRA stands for capital expenditure on administration and transfers.

Source: Computed from Statistical Bulletin of the CBN, 2017.

It can be seen that capital expenditure on community social and economic services which comprises of expenditure on health, education, agriculture, transport and communication, among others has its highest share in total capital expenditure in 2002 and lowest share in 1992 representing 77.11 percent and 11.23 percent respectively. On the other hand, capital expenditure on administration and transfer which involves provision of equipment and projects for internal security, administration and transfers has its highest share in 1992 and lowest share in 2002 representing 88.76 percent and 22.89 percent of the total capital expenditure respectively.

It also be seen that between 1986 and 1995, capital expenditure on administration and transfers have been larger than capital expenditure on community, social and economic services. This is as a result large debt servicing during the 1980s. Government has spent large amount of money in servicing the debts. Interestingly, since 1996, capital expenditure on community, social and economic services have sharply risen accounting on average over 60 percent of the total capital expenditure.

The trend analysis of capital and recurrent expenditures in Nigeria have reveal interesting facts about the pattern, structure and composition of Nigeria's government expenditure over the years under review. The analyses show that recurrent expenditure has dominated Nigeria's expenditure accounting to on average over 70 percent of the total expenditure. As stated earlier, the expansion of recurrent expenditure is linked to increase in number of public employees, increase in salaries and wages, duplication of ministries and agencies, expansion in transfer and administration expenditure as a result of debt servicing and expenditure on internal security. Other factors include democracy through conduction of elections, salaries and allowances to politicians, political aids, among others. This is not suitable for a developing country like Nigeria. The current economic challenges bedevilling Nigeria's economy could be partly associated with the lopsided pattern of her expenditure. Expectedly, in a developing economy like Nigeria, capital expenditure, especially capital projects and infrastructural development like power, roads, schools, and health-care facilities, should have constituted significant proportion of her total expenditure in order to lay a solid foundation and pave way for sustainable growth and development of the country.[34]

Economic progress requires higher proportion of capital

[34] It is part of the conventional wisdom in growth models that rapid capital accumulation is one of the necessary conditions for growth and development (see Barro, 1990, Solow, 1956).

expenditure to be channeled to productive investments which can provide a solid foundation for economic growth and development. The trending analysis has shown that with the exception of 1996, 1997, 1998 and 1999, recurrent expenditure is found to be greater than capital expenditure throughout the period under study.

Demographic Structure and Government Expenditure Size

Nigeria is the most populous country in Africa and the most populous black nation in the world today. It has an estimated population of 185 million inhabitants in 2016 (UN, 2016b). Nigeria accounts for 5 percent birth globally and 20 percent in Africa but by 2050, it is projected that one in every ten children will be born in Nigeria (UNICEF, 2015). The population of Nigeria has increased from 53 million in 1963 to 96 million 1994. It further rose from 110 million in 1999 to 160 million in 2006, representing about 27 percent increase. Population of Nigeria has kept increasing over time reaching a level of 185 million in 2016 (UN, 2016b).

Rising population in Nigeria has been seen as one of the major factors influencing the expansion of public expenditure. The perceived relationship between population growth and public expenditure has been theorized as far back as 19th century by Wagner (1883) which is popularly referred to as Wagner's law.[35] This is because increase in population is mostly accompanied by increase in the demand for public goods which in turn stimulates public expenditure expansion in both relative and absolute terms.

In fact, the potential problem of demographic pattern in Nigeria is more significant and pronounced than elsewhere

[35] According to the law, economic development, expansion in population and urbanization have significant influence on expenditure pattern.

in Africa and indeed across most developing countries. This has caused expansion in social security spending with about 7 percent increase in 2015 and the problem has further worsened due to fall in oil price and poor tax base in the country to finance ever increasing demand for public goods. This implies that much are needed to be done to ensure sustainable level of public utilities to meet the growing population.[36]

Also, the scale of various public utilities has to be increased in harmony with population growth. More schools, hospitals, roads, bridges and transportation services such as railways have to be provided to meet the increasing demand. The implication is enormous as larger portion of the country's resources has to be consumed rather than accumulated as capital for development projects.[37] As noted earlier, the reasons behind rapid increase in Nigeria's population are high birth rate, early marriage, cultural and religious belief among others. This has caused so much pressure on government particularly in its effort to provide social services to the growing population.

Urbanization is also seen as another demographic factor causing growth of public expenditure especially in Nigeria. It is usually measured by growth of urban population. It is also worthy of note that the world has increasingly become urban and the 21st century has witnessed rapid and unprecedented urbanization of the world's population (Aliyu & Amadu, 2017). The global urban population has

[36] Furthermore, Nigeria is a high fertility country and evidences have shown that its ever increasing population has contributed immensely in the expansion of government expenditure (UN, 2016b).

[37] In recent years, recurrent expenditure has dominated the total government spending accounting to about 70 percent of total government expenditure (CBN, 2016). This shows that the government has been spending significant proportion on consumption expenditure.

risen from 13 percent in 1900 to 29 percent in 1950, and to about 45 percent in 2010 (UN, 2016a). This situation is not an exception to Nigeria. The pattern and trend of urbanization in Nigeria is alarming.

The towns and cities have grown extraordinarily with pace of urbanization showing high rate of 5-10 percent per annum in recent decades (NBS, 2016).

The population of major cities/towns in Nigeria like Kano, Lagos, Port-Harcourt, Enugu, Ilorin, Kaduna, Sokoto, Ibadan, among others have experienced over 1000 percent increase in population over the decades. In 1950, only 10 percent of Nigeria's population was living in urban cities, this increased to 20 percent in 1970, 43 percent in 2000 and it is expected to reach 58 percent in 2020 (UN, 2016a). In this regard, the governments over the years have allocated huge amount of resources to urban cities for the provision of essential services like water, medical facilities, schools, security, roads, among others. This has resulted to expansion of government expenditure.

Political Structure and Government Expenditure Size

In Nigeria, the democratic system supports and encourages too many political offices and responsibilities and this puts so much pressure on government in terms of financing their activities through salaries, wages and allowances. For instance, there are President and Vice President with many special aids, Governors and their Deputies, Federal House of Representatives, the Senate, headed by the Senate President and composed of 109 Senators based on equal representation of three senators from each of the 36 states and one representing the FCT. The lower house is made up of 360 constituencies into which the country is divided. The number of representatives per state is based on proportional representation of the population of each of the 36 states, including the FCT. There are 774 local government chairmen, over 2500 Members of the State House of Assemblies and 10 councillors in each local government and each of these officers, with the exception of councillors, has a number of Special Assistants and Personal Assistants (Olorunmola, 2016).[38]

Generally, politicians in Nigeria, at all levels, constitute less than 5 percent of the entire population of the country (Momoh, 2014). Yet, the political office holders in the country receive the sum of ₦1.13 trillion ($7 billion) every fiscal year with about 90 percent or N900 billion received as allowances (Wenibowei, John & Oladokun, 2016). Furthermore, El-rufai (2011) posits that the entire oil earnings of the country for the year cannot pay salaries and allowances of politicians and public sector workers and their overheads, their teas, coffee, travels and estacode.

Another important area to the cost of governance in Nigeria was in the adoption of a tailored Presidential system of government to suit the selfish and insatiable nature of Nigerian political public office holders, which has become almost a curse. This is true when we look at the salaries and allowances of Nigerian Federal Legislators. In the last eight (8) years members of the National Assembly in Nigerian, made up of one hundred and nine (109). Senators and three hundred and sixty (360) members of the House of Representative spent one trillion naira (₦1 trillion) (Sunday Sun, Aug. 25th, 2013).

Another report by CBN (2011) shows that the cost of running government has increased remarkably since the

[38] It is not surprising that the government spent about 40 percent of its budget on public servants.

inception of democracy in 1999 such that an only consistently reduced portion of the public funds is available to support developmental projects. As noted earlier, in the last decade, the share of recurrent expenditure has been higher than capital expenditure (see CBN, 2017). This shows that more resources are allocated for the maintenance of political structures and institutions than for capital and infrastructural development.

Plus, directors, heads, and managing directors of various agencies and parastatals enjoy a number of benefits in form of allowances including transportation, furniture, domestic servants, meal, sitting and hardship, medical, newspaper allowances and large number of personal aids. Thus, over the years, this has engulfed so much money causing expansion in public spending. The democratic system Nigeria is practicing is indeed very expensive. Additionally, in Nigeria, over the years, the government has spent huge resources in conducting elections and resulting litigation in tribunals and courts at central, state and local levels. The elections are conducted after every four years for president, governors, state and federal house of assemblies. The costs are extremely high especially in recent years. According to Independent National Electoral Commission (INEC)[39] (2015) the cost of logistics, personnel costs, electoral disputes, wages and allowances to staff and ad-hoc staff and acquisition of sensitive material from abroad are among the factors contributing to expansion of government spending on elections in Nigeria.

More so, the activities of political parties are also responsible for the expansion of government spending in Nigeria. Since citizens may differ in their most preferred

[17]INEC is a body charged with the responsibility of conducting elections in Nigeria.

levels of public goods and services, political parties and politicians interested in maximizing their electoral chances will offer different combinations of public expenditure to different people purposely to attract their votes and political supports. This in most cases creates an extremely complicated system of public provision especially in countries like Nigeria with as many separate vectors of public provision as voters-consumers. However, the costs of administering such a complicated system of provision and the resulting opportunity for abusing it (the issue of the self-selection constraint) limit the ability to set-up such a discriminatory system of provision. In practice therefore, governments sort similar (but not identical) consumers to different groups, where each member of a group is offered the same level of the public service (Tridimas, 2001).

More again, in most cases, political parties are uncertain about the choices of voters (since they may never know all factors that affect how voters decide to cast their ballots) and voters are uncertain about the positions of parties (since voters may perceive only imperfectly the policies that parties pursue if elected). Under those circumstances, voting behavior is assumed to be probabilistic, in the sense that from the standpoint of the political parties, voters vote randomly according to probability functions based on their preferences. It then follows that a small change in a party's policy will only lead to a small change in the probability of support for that party, rather than the total loss of support assumed by the deterministic voting theory. The latter implies that the electoral support for a party is a continuous function of its policy platform, which in turn opens up the possibility that in the multidimensional framework of deciding the structure of public expenditures, an equilibrium exists (Tridimas, 2001).

Money is crucial for political parties to engage in political activities during elections. That also compels government to be given political parties stipends in form of subvention purposely to support competitiveness and ensure survival of small political parties. Regrettably, it is difficult to obtain statistics on funds spent on electioneering activities in Nigeria. This is because the monies are released and spent mostly in cash and informally. This becomes difficult to trace or scientifically establish the income or trends of expenses. There is therefore no data on major donors to parties, authority's reports on campaigns spending and categories of spending which researchers can rely upon (Adeyi, 2014).

There were three political parties in the first republic[40] and they were created based on regional division. But in recent time, the number has increased to about 150. It is not very easy to trace the exact number of political parties due to series of activities and changes over time including merger, withdrawal, new registration and change of name. On the basis of this, it is difficult to empirically assess the role of political parties in public expenditure expansion. Unlike the civilian regime, the military era in Nigeria, devoted a lot of attention to reducing the number of political parties to minimize unnecessary spending and control political process (Liebowitz & Ibrahim, 2013).[41] In 1999, after returning to democracy, only three political parties were duly registered.[42] Subsequently, Nigeria's political space witnessed an unprecedented increase in the number of political parties to about 63 in 2011. The number has

[40] They include Northern People Congress (NPC), Action Group (AG), National Council of Nigeria and Cameroun (NCNC).

[41] But the move was at different time rejected by political class and civil society organizations.

[42] They include People Democratic Party (PDP), All People Party (APP) and Alliance for Democracy (AD).

continued to increase over the years. According to Liebowitz & Ibrahim (2013) majority of the political parties are purposely registered to enjoy stipends from government but they are neither viable nor relevant in the political process. Some of the political parties have never contested elections for any political seat (INEC, 2015). This development has propelled government to modify the Electoral Act in 2010 and provide new guidelines and conditions for political parties operation in Nigeria. Section 78(6) of the 2010 Electoral Act has given INEC the power to de-register political parties that failed to win or contest any political seat in the country. That led to de-registering of over 20 political parties and consequently reducing their expenditure by 17 percent (INEC, 2015). As earlier stated, it is problematic to ascertain the amount government is spending on funding political parties in Nigeria since the subvention is not clearly specified. The financial spending depends on so many factors including party's strength, number of seats contested and membership, and this has given room for manipulation and corruption over the years, costing government huge amount of resources.

Nigerian first democratic experience after independence in 1960 was aborted by military dictatorship in 1966 and the second republic of 1979 was also truncated by military coup in 1983. The political regimes presented in Table 1 shows that the share of public spending in GDP is reducing by each successive regime with an average of 35 percent share of the GDP. In case of public debt, it can be seen that the military regime incurred higher debt than their preceding democratic regime. For instance, public debt in Nigeria rose on the average from 36 percent share in GDP in the second republic to 98 percent between 1984 and 1998. The pattern of GDP growth does not follow a consistent form as the lowest (-1.65) percent and highest 6.2 percent growth are recorded during democratic regimes.

Table 1. *Stylized fact on Average Public Spending, Public Debt and GDP growth in different regimes in Nigeria since independence*

Year	Regime – Democratic / Military 1960-2017	Average Public Expenditure as a % GDP	Average Public Debt as a % GDP	Average GDP Growth (%)
1960-1965	Democratic Regime	69	62	3.80
1966-1978	Military Regime	50	63	5.1
1979-1983	Democratic Regime	22	36	-1.7
1984-1998	Military Regime	19	98	1.8
1999-2017	Democratic Regime	27	38	6.2

Source: Computed from CBN Statistical Bulletin for Various Issues.

Political Corruption and Size of Government Expenditure

Nigeria is one of the potentially richest nations on earth, endowed with enormous human and natural resources making it possible for her to benefit much from diversity of resources and revenues base over the years. The country has equally allocated the resources through yearly budgetary allocations and other development plans to the various sectors of the economy. Despite all these allocations and development plans, however, the country is still categorized as developing nation with high poverty, unemployment and poor infrastructural facilities (Ovat & Bassey, 2014). This sorry state of Nigeria has been blamed on many factors particularly corruption and bribery resulting from mismanagement, embezzlement, nepotism, among others. In Africa, Nigeria is one of the developing nations severely hit by corruption, losing about $5 billion each year (Transparency International (IT), 2017).

This has attracted the attention of researchers and policy makers. The degree of attention raises a number of questions. A particularly important question to this study is how does corruption affect the growth of Nigeria's government expenditure over the years? How can the study establish the link between corruption and public sector expansion in Nigeria? This is not an easy task because of the paucity of data.[43] But what is clear is that corruption has caused gross underdevelopment of infrastructural facilities especially power supply, schools, roads and hospitals. According to Ovat & Bassey (2014), public spending, if correctly carried out, would provide modest infrastructure and induced economic development. Dismally, in Nigeria, evidences have shown that in most cases public projects are diverted from societal development projects to personal projects for self-enrichment. For instance, in 2016, the Speaker of House of Representative of Nigeria was accused of diverting community borehole to his personal farm.

Public spending in Nigeria is a breeding ground for corruption and mismanagement as it creates room for inflation of contract fees and other avenues of siphoning funds from the budgetary allocations (Ovat & Bassey, 2014). This has caused duplication of contracts due to non-completion and abandonment. For example, the Kano-

[43] The present study used data developed by Transparency International (IT) as applied by previous studies such as Delavallade, 2006; OvatandBassey, 2014. IT is the world known body for the measurement of level of corruption among countries. The body uses the corruption perceptions index that ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0-10, where 0 means that the country is perceived as highly corrupt and 10 means it is perceived as very clean.

Maiduguri highway, Gombe Yola highway, Lagos-Ibadan highway, to mention but few, have been appearing in yearly budget for about six years.

Corruption to a large extent directly influences the decision regarding the amount and allocation of public expenditure into various sectors of the economy. This has a direct bearing on the yearly budgetary allocation. According to Ovat & Bassey (2014), public expenditure is usually channelled to sectors and areas where the value and costs of the projects cannot be easily monitored and ascertained. This stimulates inflation of contract fees. Mauro (1998) opine that politicians and bureaucrats mostly favour large government expenditure because it is easier to collect bribe on large infrastructural facilities and highly sophisticated projects. This is common in Nigeria as over the years the government has allocated and approved so many capital projects but the infrastructural base remains poor due to non-completion of projects, inflation of contract fees and other forms of corruption.

Public Revenue Profile

The sources of financing public expenditure in Nigeria are solely collected federal revenue which comprises of oil and non-oil revenue. Other sources are loans which can be collected externally as foreign debt or locally as domestic debt. Oil revenue has been the major source of government revenue in Nigeria particularly after the discovery of oil in the early 1970s.

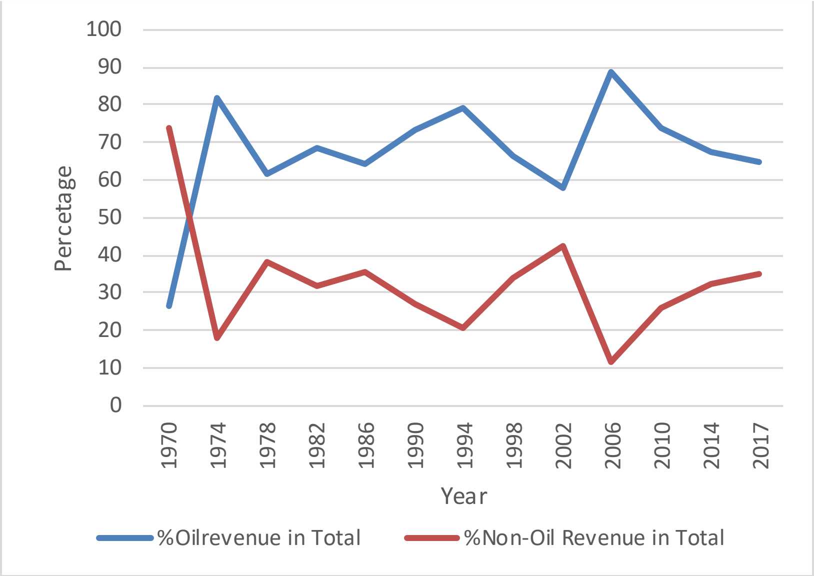

Figure 6. *Percentage of Oil and Non-Oil Revenue in Total Revenue of Nigeria*

Source: Computed from Statistical Bulletin of the CBN, 2017.

Figure 6 depicts the percentage share of oil and non-oil revenue in total public revenue of Nigeria. It can be noted that since the discovery of oil in 1970s, the oil revenue has dominated the Nigeria's revenue space contributing on average about 75 percent of the total revenue. This scenario has caused a lot of shocks during fall in oil price in the international market. Total revenue was ₦634.00 million in 1970 representing 12 percent of the GDP with non-oil revenue accounting for 74 percent and oil revenue only 26 percent. However, the total revenue increased sharply to ₦15, 233.20 in 1980 accounting for 31 percent of the GDP with oil revenue representing 81 percent and non-oil revenue accounting for 19 percent of the total public revenue. This development in the share of oil revenue was geared by favourable oil price in the international oil market. There was also further increase in the public revenue in 1990 to ₦98, 102.30 million representing 37 percent of the GDP. In the same period, oil revenue continue to dominate the Nigeria's revenue base by contributing 73 percent while non-oil revenue accounts for the remaining 27 percent. The over-reliance of Nigeria on oil revenue remained unchanged even after successful transition from military to civilian rule in 1999. The total public revenue in 2000 expanded to ₦1,816,441.40 million representing 40 percent of the GDP with oil revenue still maintaining a very high share of 81 percent of the total public revenue while the remaining 19 percent account for non-oil revenue. Although, from 2010 there was slightly increase in the share of non-oil revenue in Nigeria which can be partly linked to fluctuation in oil price and reforms in the public financial management which has relatively improved the non-oil revenue through reducing frauds and inefficiency in tax administration.

Public Debt Profiles

In Nigeria, public debt has been expanding over the years and there was structural changes in the debt profile especially after oil discovery in the 1970s. The changes occurred under both military and civilian governments resulting into differences in the share of domestic and external debt in the total public debt. There are also years of high and low debt profile where the high dominated the Nigeria's debt shadow. Figure 7 depicts Nigeria's share of domestic and external debt in total debt for the period between 1970 and 2016.

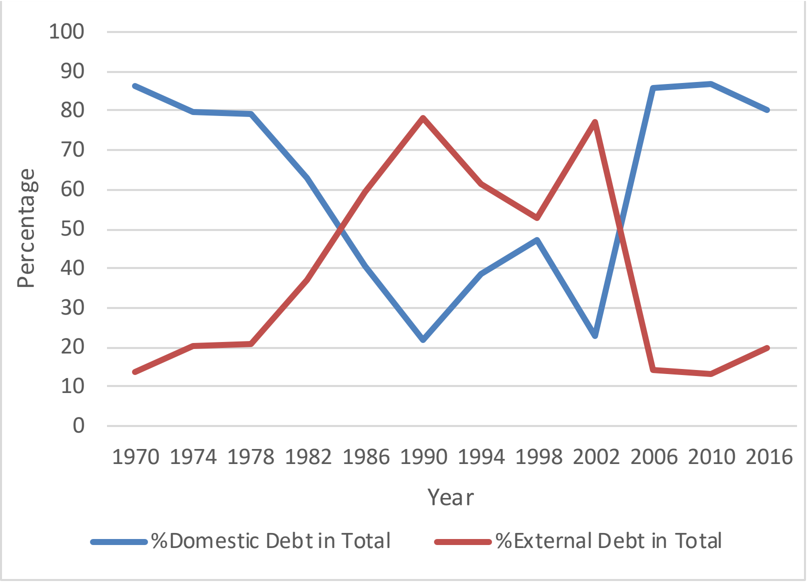

Figure 7. *Percentage share of Domestic and External Debt in Total Debt Stock*

Source: Computed from Statistical Bulletin of the CBN, 2017.

The Nigeria's total public debt in the 1970 stands at ₦1, 266.00 million representing 24 percent of the GDP with domestic debt constituting a larger share of 86 percent of the total debt stock. Domestic debt continued to dominate the Nigeria's debt stock though out 1970s constituting on average 71 percent of the total debt stock but drastically reduced in the 1980s which can be linked to large oil revenue accrued during the period. On the other hand, there was significant increase in Nigeria's external debt throughout the period of 1980s reaching its peak level in 1990 representing 112 percent of the GDP. The $1billion jumbo loan contracted from international capital market during the period has been blamed to be the root cause of debt crisis in the country during the 1980s. The period was characterized by military regimes that contracted the loans under rigid and unconducive modalities. Besides that, there was massive mismanagement of the funds through institutionalized corruption of the military dictators which worsened the debt profile. There are evidences that majority of the loans vanished into private accounts of government officials while the projects for which the loans were collected for are left uncompleted or mostly abandoned. After the country returned to democratic rule in 1999, the country recognizes the need for reducing the debt burden so as to create a room for improvement in the performance of the economy. The efforts are manifested by government through placing an embargo on new coming loans, reducing debt servicing payment to improve budgetary allocations to various sectors and restructuring of debt by reducing the existing debt through refinancing, rescheduling and creation of new money. These efforts led Nigeria to be granted debt relief which drastically reduced it external debt while domestic debt continue to rise over the period. As stated earlier, these achievements were made after the country established Debt Management Office in 2000.

Fiscal Policy and Inflation

The effect of inflation is seen in rising prices of goods and services and reducing purchasing power of country's currency. The presumption underlying the analysis of the relationship between inflation and public expenditure growth is that inflation leads to an increase in the cost of government activities through increase in the prices of public utilities and other essential services needed to be provided by the government for the general wellbeing of the society.[44] Thus, understanding the relationship between the two macroeconomic variables (inflation and public

[44] Unlike inflation, large government expenditure does not necessarily lead to inflationary pressure, it depends on the patterns of the spending.

expenditure) is paramount particularly for the formulation and implementation of fiscal policies in a country. Generally, inflation can occur due to increase in wages and salaries, expansion in money supply, low productivity, political instability, among others.[45]

Figure 8 depicts the trend of Nigeria's inflation between 1970 and 2016 which is characterized by fluctuations and changes with high level of 72 percent in 1995 and low level of 3.5 percent in 1972.

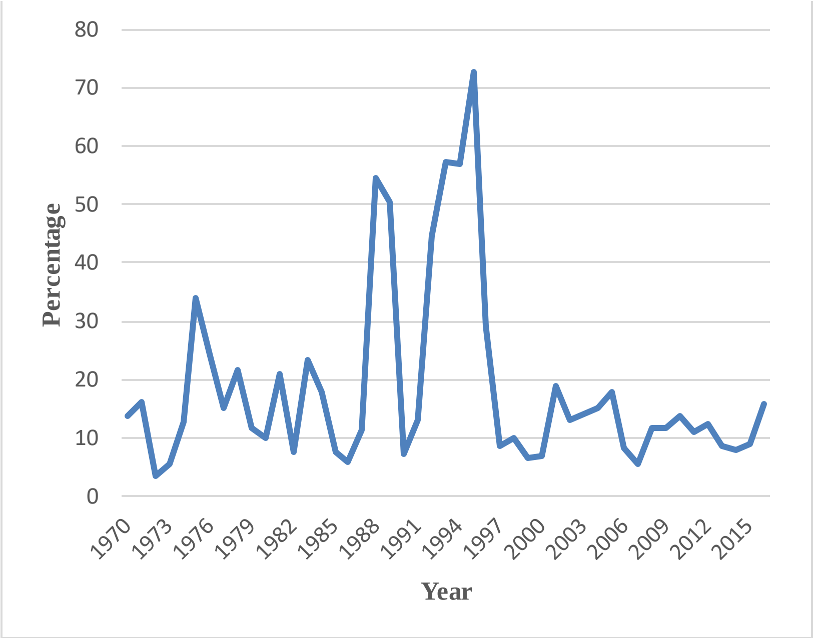

Figure 8. *Nigeria's Inflation Rate (1970-2016)*
Source: Computed from Statistical Bulletin of the CBN, 2017.

From 1970, Nigeria inflation rate was languishing between 3.5 lowest in 1972 to 12.4 percent in 1974 but rose

[45]In Nigeria, over the years, inflation rate has been fluctuating causing so much fiscal uncertainties. So many factors are found to be responsible for fluctuation in Nigeria's inflation depending on time/periods.

rapidly to 33.9 percent in 1975 (CBN, 2017). This can be linked to large budgetary allocation during the period. Inflation was 5.7 percent in 1986. After the deregulation of Nigerian economy through SAP in 1986, the inflation rate increased to higher rate of 54.5 percent and 50.4 percent respectively in 1988 and 1989 (CBN, 2017). This can be attributed to domestic fuel hike, fluctuation in oil price in the international market, exchange rate instability among others. Correspondingly, public expenditure was ₦16.22 billion but rose to ₦27.75 billion and ₦41.03 billion in 1988 and 1989 representing 26.0 percent and 47.0percent growth rate respectively (CBN, 2017).

As has been noted, the increased in inflation has swimmingly caused increase in government spending through increase in prices of public utilities and cost of governance. There was significant increase in government expenditure and inflation during the periods. It can also be observed that inflation fell to one digit value (7.3) percent in 1990 but further expanded and rose to higher level of 57 percent, 57 percent and 72 percent respectively in 1993, 1994 and 1995 (CBN, 2017).

Since then, public spending maintained a rising trend and in the same vein inflation continued to fluctuate mostly in two digits' form. This trend has so many effects on the economy, including fuelling the growth of public expenditure. It is very clear that efforts to bring Nigerian inflation rate to a single digit by the CBN has not yielded a desired result as inflation continued to maintain double digits in the recent years. Thus, inflation, over the years, has contributed significantly to the expansion of public spending through purchase of goods and services and provision of public utilities for the societal welfare and in the same vein causes instabilities in the country.

Overall Fiscal Policy Operations

The main targets of Nigeria's fiscal policy since the country gained her political independence has been the pursued of sustainable growth and development through reduction in poverty, employment generation, provision of infrastructural facilities and ensuring of stable macroeconomic environment. However, in an attempt to actualize these prime objectives, several fiscal variables have obstructed the efficiency and effectiveness of fiscal policy operations with devastating consequences.

Prior to the oil boom of early 1970s, fiscal policy was basically driven by taxes and foreign exchange earnings from agricultural exports. However, with over 80 percent of the nation's revenue coming from oil since the 1970s, the pattern of fiscal policy has been prone to oil-driven volatility. It is observed that both revenue and expenditure tend to move in line with increase in oil price with revenue and expenditure expanding rapidly in the periods of high oil prices and sharply reduced during oil price decline. Such boom-bust tendencies has been disrupting the provision of public services and overall functioning of Nigeria's fiscal policy.

The major feature of the Nigeria fiscal policy has been consistent deficit in her fiscal operations. This particular observation started after the oil boom which prompted government to increase expenditure from an average of ₦314.40 billion in the 1960s to ₦5972.90 billion in the 1970s.

During the oil-boom era, the share of oil revenue in federal government revenue increased rapidly from 41.4 percent between 1971 and 1972 to 73.9 percent between 1973 and 1979, reflecting largely the increase in volume of sales and prices witnessed during the periods. Public revenue increased from ₦0.63 billion or 12 percent of the GDP in 1971 to ₦10.91 billion or 28 percent of the GDP in 1980, which can be linked to favorable development in the international oil market resulting from Middle East crisis of the mid-1970s. The period also witnessed a transition in Nigeria's revenue base from non-oil to oil based economy with the share of oil in the total revenue increasing from 26.3 percent in the 1970 to 82 percent in the 1980, representing an average growth rate of 79 percent. In the same vein, public expenditure also increased from ₦0.90 billion or 17.1 percent of the GDP to ₦7.41 or 18.0 percent of GDP at an average growth rate of 28 percent during the same period. However, the expansion in government expenditure was higher than revenue such that it resulted to fiscal deficit amounting to ₦0.32 billion or 1.2 percent of GDP during the period. The financing of the deficit were largely through domestic sources (CBN, 2017). The high level of the deficit as reflected in the current account operation of government call for the use of domestic borrowing to finance the gap.

The performance of fiscal policy in the 1980s was severely affected by the oil glut at the international market, but the measures taken under SAP softened the effect of the reduced prices on oil revenue. Consequently, total revenue rose from ₦15.23 billion to ₦53.87 billion, representing about 36.0 and 72.6 percent of the GDP in 1980 and 1989 respectively. Expectedly, public expenditure increased from ₦14.97 billion or 30.2 percent of GDP in 1980 to ₦41.03 billion or 18.9 in 1989 corresponding with expansion in public revenue during the period. The overall government balance over the 1981-1990 decade resulted in an average fiscal deficit of ₦16.14 billion or 7.1 percent of the GDP (CBN, 2017). The deficit were financed by both domestic and external with it adverse macroeconomic implications during the period. This happened despite effort by government to reduce the level of debt financing by exploring other sources of revenue especially non-oil revenue in the economy.

Similarly, public revenue continues its upward trend in the decade of 1990s, partly as a result of favourable developments from the international oil market arising from the Gulf War of 1991. Public revenue increased from ₦98.10 billion or 36.0 percent of GDP to ₦949.19 billion, albeit, it has marginally reduced from 36.0 to 29.7 percent as a percentage of GDP. More so, between 1990 and 1994, the growth rate of oil revenue was 38.8 percent and it rose to 58.2 percent between 1995 and 2000 (CBN, 2010). The increase could be attributed to large volume of sales and favourable price in the international oil market. Furthermore, CBN (2013) also notes that partial removal of fuel subsidy in the domestic market and dual exchange rate policy adopted during the period have significantly contributed in public revenue expansion which resulted to fiscal surpluses in 1994 and 1995. Additionally, there was also a slight boost in non-oil revenue as a result of introduction of Value Added Tax (VAT) in 1994. Thus, this period was more of inflationary which was obstructed the growth and development of the country. It can also be observed that inflation fell to one-digit value (7.3) percent in 1990 but further expanded and rose to higher level of 57 percent, 57 percent and 72 percent respectively in 1993, 1994 and 1995 (CBN, 2017). This was the highest inflation rate recorded so far in Nigeria. This cannot be disconnected from series of activities that took place during the periods including a change in government from civilian to military rule resulting in political instability, increase in wages and salaries and conduct of election which was later annulled. Expectedly, there was corresponding expansion in public expenditure in the periods. Public expenditure was ₦191.23 billion in 1993 representing 106.1 percent growth rate but increased to ₦248.77 billion in 1995 representing a growth rate of 54.6 percent (CBN, 2017). This shows an increase of about 150 percent in public expenditure. Although there was inflationary pressure, but the capital expenditure witnessed a growth of 4.1 percent during the period which was conducive for long term growth of infrastructures. In fact, majority of the express roads including Lagos-Ibadan, Abuja-Kaduna, Kaduna-Kano, among others were constructed during the period.

The fiscal operations in the decade of 2000s was seen as exceptionally different as a result of transition in government from military to democratic rule. Albeit, the growth in Nigeria's public revenue continued during the decade of 2000s, but the financial crises of 2008 brought uncertainties to Nigerian economy due to fall in oil price in the international market. Despite the adverse effect of global financial crisis, Nigeria's public revenue has maintained rising trend with expansion in revenue from ₦1,906.16 billion in 2000 to ₦7, 303.67 billion in 2010 (CBN, 2013). But the average growth during the decade declined by 19 percent. However, the share of oil revenue in total revenue has increased to average of 78.4 percent compared to 77.1 percent in the 1990s. In the same line, government expenditure also expanded from ₦701.69 billion in 2000 to ₦194.32 in 2010 and this can be linked to fiscal incentives introduced during the global financial crises and increase in debt service obligation during the period. The fiscal incentives were introduced to enhance productivity in the real sector and provide alternative transportation of goods through investment in upgrading the existing railway networks to boost industrial and agricultural activities as part of the efforts to diversify the economy

Despite government's efforts at diversifying the country's revenue base, oil revenue continues to be the dominant source of revenue to the government with its share within the period averaging 77.1 percent or 20.7 percent of GDP. The overall fiscal balance of government during the decade was on average ₦68.74 billion and was financed from domestic sources (CBN, 2017). With expenditure rising faster than revenue, deficit grew from an average of 10.3 percent of gross domestic product (GDP) in the decade of 1990s to an average of 15.5 percent in the decade of 2000s. The deficit financing was part of the efforts of government to push the economy towards the path of growth and development by developing the infrastructural base.

Fiscal Deficit in Nigeria

As noted earlier, government expenditure has consistently exceeded government revenues throughout most of the past decades since 1970 except for 1971, 1973-74. 1979 and 1995-96 periods. The government's commitments too development of the country through various development programs especially after the civil war largely accounts for the deficits.

Fiscal deficits have been growing at a rate that is alarmingly not constant. The growth rate of fiscal deficits rose from 97.55 percent in 1981 to 171.54 percent in 1986 and rose to 3104.94 percent in 1996 respectively. Fiscal deficit growth rate was negative (-115.60 percent) in 1997, but increased sharply to 2567.78 percent in 1998 and declined to 2.07 percent in 2016 (CBN, 2017). Additionally, between 1998 and 2016, the deficit growth rate has been rising and falling. This clearly shows that fiscal deficit has not been growing at a constant rate. The deficit problem has remained persistent due to inability of government to maintain a reasonable level of government expenditure and/or expand revenue sources over the years.

More so, available data from the CBN (2017) statistical bulletin, also show that deficit of -8.62 percent of GDP was recorded in 1970 which rose to a surplus of 2.58 percent of GDP in 1971 and sharply declined to -0.82 percent of GDP in

1972. In 1974, the country experienced a noticeable improvement in the overall fiscal balances from 1970 to 2017 as surplus rose from 1.92 percent of GDP in 1973 to a surplus unit of about 9.54 percent of GDP as can be seen in figure 9.

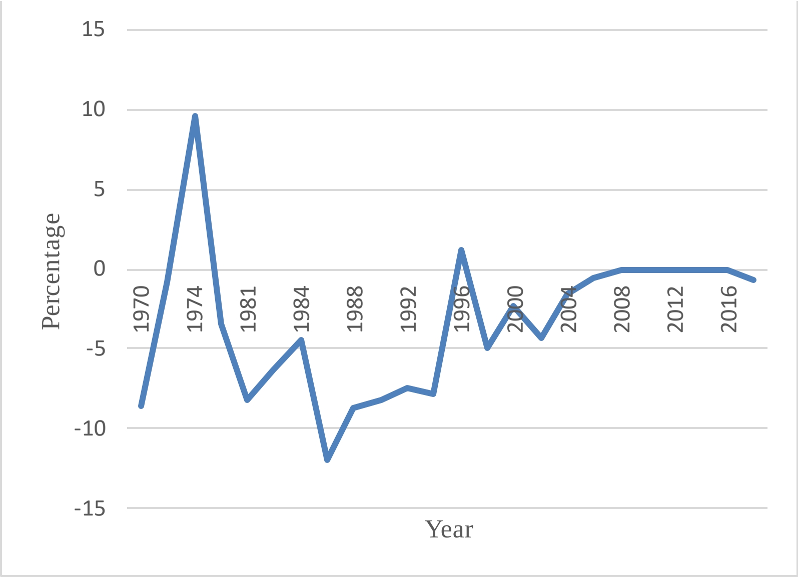

Figure 9. *Fiscal Deficit as a Percentage of GDP (1970-2017)*
Source: Computed from CBN Statistical Bulletin, 2017.

The Nigerian overall fiscal balance deteriorated between 1980 and 1994 and recorded greater deficit of about -12.44 percent of GDP in 1982 on the average. However, other years experiencing different deficit percentages to GDP with devastating effects on the economy.

Fiscal Policy and Public Debt

The overall expansion in public debt remain an important outcome of Nigeria's fiscal operations since the oil boom of 1970s. Over the four and half decades, fiscal operation of Nigeria experienced surplus for only 4 years. Specifically, these surpluses occurred in 1971, 1973, 1974, 1979, 1995 and 1996. This is attributed to oil boom of 1970s and sharp increase in international oil price in the 1990s. Nigerian economy continues to metamorphose from the level of a million naira to billion and postulating to trillions of naira on the expenditure side of the budget over the years. As noted earlier, the deficit financing is part of the efforts of various administrations to carry out development projects to transform the economy of Nigeria.

For instance, in the decade of 1970s, total public debt was on average stood at 27.3 percent but expanded to 44.0 percent during the 1980s with domestic debt constituting an average of 29.3 percent of total public debt during the period.[46] Public debt continued to maintain a rising trend with a value of ₦382.17 or 143.0 percent of GDP in 1990. This development was associated with continuous borrowing by federal government to meet its financial obligations. The government made a remarkable stride to mitigate the impact of heavy debt servicing on the economy, by restructuring the domestic debt instruments into longer term securities. Despite this effort, external debt rose by an average of 42.5 percent or 66.9 percent of GDP with the share of Paris Club constituting larger proportion of 64.0 percent of the total. In the same vein, domestic debt also rose by an average of 36.0 percent during the same period.

By borrowing, for example, it means the government has to agree on terms of payments which are usually stringent conditions with high interest rate. This implies that financing public expenditure through borrowing may increase external

[46] The structure of domestic debt was primarily concentrated in short time securities of less than two yearswith banking system particularly the apexbankholding the bulk of totaloutstanding instruments.

indebtedness and rise future debt servicing.[47] Besides, it has also led to deterioration of balance of payment.

Public debt slightly declined between 2000 and 2010 as a result of debt relief from IMF and other bodies. It is paramount to know that before Nigeria was granted debt relief in 2005, Nigeria's public debt was ₦9, 101.40 billion representing 64 percent share of the GDP. Also, foreign debt stood at ₦7,072.30 billion while domestic debt was ₦2,029.10 billion. Following the debt relief, there was drastic fall in foreign debt to mere ₦689.50 billion while on the other hand, domestic debt rose to ₦2,718.60 billion. This connotes that public debt fell to ₦3,419.92 billion, representing 11.8 percent debt-GDP ratio in 2006 (DMO, 2015). The debt profile of Nigeria has been on the increase over the years despite the headway by previous regimes to maintain a reasonable level of debt, particularly 25 percent debt-GDP ratio based on World Bank recommendation. But, that has not been achieved due to expansionary fiscal policy and deficit financing in the past decades. For instance, the 53 percent salary increase for civil servants in 2010 was financed by domestic debt (DMO, 2015). Borrowing for government spending, particularly recurrent expenditure or consumption spending was alarming in the recent past. Debt servicing has also been expanding the scope of Nigeria's expenditure. For instance, the debt servicing was nearly one quarter of total public revenue in 2013. Figure 10 shows a graphical representation of the percentage share of domestic, external and total debt in GDP for the period between 1970 and 2015.

[47] This perpetuate the deficit as money will be spent by government on servicing the debt which creates more expenditure and more deficit over time.

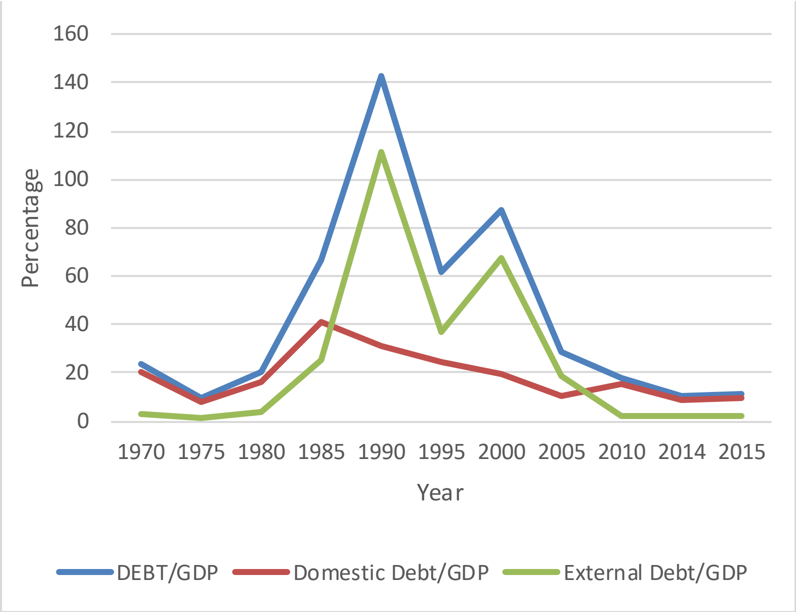

Figure 10. *Percentage Share of Domestic, External and Total Debt in GDP*

Source: Computed from Statistical Bulletin of the CBN, 2017.

Challenges in Nigeria's Fiscal Operations

Fiscal policy of Nigeria can be said to have been characterized by rising government expenditure without corresponding increase in public revenue which had deteriorated the fiscal stability of the country resulting to higher inflation and fiscal deficit accompanied by large accumulation of debt. This is majorly caused by fluctuation in oil price in the international market which to a large extent determine the revenue level of the country. In fact, the rising inflationary pressure continue to serve as a major setback in ensuring fiscal stability in the macroeconomic environment of the country.

The ability of the country to implement countercyclical fiscal policy to address the fiscal imbalances is mostly constrained by administrative inefficiencies and irregularities in the budgetary process. In recent time, the Nigeria's government has raised alarm over the continued persistence of fiscal deficits amidst of high level of poverty, unemployment and death of necessary infrastructural facilities like road, health care facilities, schools and other public utilities. The increase concern calls for reforms in the fiscal operation and strict adherence to sound economic principle in fiscal policy formulation and implementation. This can be seen from various reforms undertaken such as Fiscal Responsibility Act, Bureau of Public Procurement, Excess Crude Oil Account, Debt Management Office, among others. Sadly, these initiatives that are saddled with the responsibility of promoting fiscal management are weakened by persistent political influence and unnecessary delays in formulation and implementation of policies which in turn affect their performance. Budget figures are often manipulated by politicians to suit their political interests causing delays in formulation and implementation of fiscal policy.

Although it is argued that successive fiscal policy in Nigeria was hampered mainly by factors beyond the control of the politicians and policy makers – like ethno-religious and regional differences, heavy reliance on oil revenue (which appears to be volatile due to external shocks), excessive expansion of government sector, weak institutions, among others. Most of the approaches to fiscal policy reform that are mostly labelled as 'international standard' and 'best practice' may not necessarily work well for a country with the aforementioned features without some modifications.

It is also noted that in Nigeria, the failure of these fiscal policy reforms especially during the present democratic era can be blamed on politicians and their appointees that appeared in most cases uninterested in making strides toward ensuring proper and genuine implementation of the reforms. Similarly, in recent time, pressure to increase expenditures were fuelled by the democratic system the country is practising. Democracy brought avenues which propel government to spend more money specially to maintain the political system instead of providing efficient services in form of public goods that are needed for the general wellbeing of the country.

Furthermore, as noted earlier, in an effort to control debt expansion and regularly check debt interest payment, the government fiscal effort was geared towards correcting such imbalances by establishing DMO in 2000. Although the office has recorded significant progress in reducing Nigeria's debt burden, nonetheless budget deficit continued to remain an essential feature of the economy. Budget formulation in the country has not reflected the policy objective of achieving sustainability in debt profile. In this regards, there are efforts by government in diversifying the revenue base by going beyond oil revenue in financing government expenditure in Nigeria. This can be seen from various reforms especially in the tax system and public financial system. This has increased the share of non-oil revenue in total revenue from 18 percent in the 1990s to about 38 percent in 2000s. Despite this development, efforts to diversify the revenue base through reforms in the tax system has failed short of its goal due to poor collection capacity and small corporate sector which have prevented the development of broad based company and personal income tax that have the capacity to improve the share of tax revenue in the total government revenue. Albeit, the country continued to rely on oil revenue to a larger extent in revenue mobilization for execution of projects and steering the affairs of government.[48] The economic consequences of the above scenario is that the entire operations of government especially budgetary formulation and implementation depend on oil prices that are exogenously determined by international oil price. This implies that budget preparation and implementation at all levels of government to a large extent depends on oil revenue which is solely determined in the international oil market. Although, that has not been the case before the discovery of oil in commercial quantities during the early 1970s. Agriculture used to be the backbone of the economy.

Setting of fiscal rule in fiscal policy management has proven to be efficacious in many countries like Norway but the critical determinant of the success of fiscal rule is political support and commitment. This may be challenging particularly considering the intense political tension that always emerge between the executive and the legislature in Nigeria. More again, how to convince the electorates for the need to save during oil boom while they are expecting democratic dividends especially with the deplorable condition of infrastructural facilities in the country remained a stumbling block. This is why the establishment of Excess Crude Oil Account as a fiscal rule has not been successful. There are so many augments and counter augments as regard to saving oil revenue amidst of deplorable condition of social and economic services and high level of poverty in the country.

Another challenging issue in Nigeria's fiscal policy is the federal system that the country is operating. Fiscal federalism has been known to be problematic especially where the sub-national governments are not fully

[48] While government revenue continues to fluctuate specially when there are changes in oil price in the international market, government expenditure maintained an upward trend throughout the period.

independent like in the case of Nigeria. The resulting effect is in terms of revenue and expenditure sharing and unifying government policies to ensure balance development always turn to be problematic. The essence of government under federal system at all levels is to ensure sustainable development through adequate provision of social services for the overall wellbeing of the citizens. The fiscal federalism is therefore expected to adequately cater for the sub-national units to enable them to develop their own regions which is embedded in the constitution. However, over the years in Nigeria, the struggles for resource control and fair distribution of national resources by units that made up of the federation has created unhealthy competition that affected fiscal policy operation. That has made the Nigeria's fiscal system to focus more attention on *revenue sharing* than *revenue generating*. Hence, the challenge is to make Nigeria's fiscal system conform with internationally best practice – like the case of United States – to enable it contributes to balance development of the country without resorting to unhealthy competition between sub- units. This is because the lopsided fiscal policy the country is operating has only increased the desperation of sub-national governments for more allocation rather than making efforts at their levels to explore revenue sources that would meet up with their demands without much relying on the central government.[49]

Furthermore, the issue of distributive justice in the provision of public goods and services remain a serious problem within Nigeria's fiscal space. The decision of sharing of wealth and income has been challenging in ensuring what various units, regions and tribes want and consider it just and fair. In a similar manner, lack of proper

[49] The overall effect can be seen from the inability of the Nigeria's fiscal policy to promote higher level of growth and development in the country.

coordination between the central and sub-national governments also remained an unsolved issue – creating wastage and macroeconomic imbalance between central and sub-national governments. Thus, the problems associated with the fiscal arrangements of the Nigerian federation are fundamentally attributable to the nature, content and character of the country's fiscal regime as well as the institutional and socio-political factors that shaped the country's economic policy including limited revenue base as discussed above.

The fiscal space of Nigeria has also been aggravated in the recent time due to high burden of debt service which continue to absorb the nation budgetary and foreign exchange earning with disastrous impact on the critical sectors of the economy which continue to suffer from underfunding. There is also a fear that the high debt servicing may incapacitated the effort of the country to reduce infrastructural decay and improve the overall wellbeing of its citizens.[50]

More so, another alarming feature of Nigeria's fiscal policy that remained persistent especially after the country returned to democracy in 1999 is the continued reduction in the share of capital expenditure in total expenditure which generally declined from 47 percent on average in the 1990s to 29 percent and 19 percent in 2000s and between 2011 and 2017 respectively. This downward picture of capital investment reflects a challenge to fiscal policy to transfer government revenue to capital investment which is necessary for infrastructural development.[51]

Conclusively, since the 1970s, the Nigeria's fiscal policy

[50] Although Nigeria is not the only country experiencing this problem, but when compared with some oil producing nations, its debt stock is severely huge.

[51] This can be connected with the deficit of infrastructures in the country.

can be said to lack definite and clear objective as majority of times the objectives are too broad reflecting majorly macroeconomic goals of income distribution, price stability, full employment and overall growth and development of the economy. This questions the efficacy of the fiscal policy in pushing the country's economy into optimum level of growth and development. In many developing countries especially – oil producing nations – they moved from broad fiscal policy to specific policies in line with domestic needs which in turn help them to transform their economies to emerging countries of the world.[52] The fragility of the Nigerian fiscal system meant that the sustainability of the public finances required considerable wisdom from policy makers rather than mere policies.

[52]Some of these countries are Indonesia, Malaysia and Saudi Arabia.

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Fiscal Policy Operation in Nigeria: Trends, Magnitude and Challenges

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