Budgetary Implementation and Performance of the Public Sector

Prince Okechukwu Moore
Department of Accountancy,
Chukwuemeka Odumegwu Ojukwu University,
Igbariam Campus, Nigeria
Email: okechukwu.moore@firs.gov.ng

Ven. Prof. Onuora, J.K.J
Department of Accountancy
Chukwuemeka Odumuegwu Ojukwu University
Igboariam, Nigeria
Email: Jk.onuora@coou.edu.ng

Ujam, Oluchukwu Juliet
Department of Accountancy,
Chukwuemeka Odumegwu Ojukwu University,
Igbariam Campus, Nigeria
Email: ujamjuliet@yahoo.com
DOI 10.56201/ijebm.v10.no7.2024.pg249.264

Abstract

The study examined the effect of budgetary implementation and performance of public sector in Nigeria. The independent variables of this study are government recurrent expenditures and capital expenditure, while the dependent variable is real gross domestic product. The study adopted Ex-post facto research design. The study covered the period of 1981-2023 based on the convenient and systematic sampling techniques. This period is adopted because the duration is considered appropriate because it helps to have robust findings. The study makes use of a secondary source of data (time series data), the data will be collected from CBN statistical bulletin for the period 1981-2023'. The area of the study is Nigeria public sector, as the study use economic indicator measure performance of public sector in Nigeria (RGDP). Ordinary Least Square Regression Model was developed to test the effect between dependent and independent variables. It was operated using EVIEWS 10. The results of the Ordinary Least Square Model revealed that, government recurrent expenditure has a positive and significant effect on the real gross domestic product (RGDP) of (P<.5), government capital expenditure has a negative insignificant effect on the real gross domestic product (RGDP) of (P>.5). In conclusion, both recurrent and capital expenditures by governments in Nigeria play very important roles in boosting the country's economic growth. While recurrent expenditures ensure the smooth functioning of the public sector and immediate economic stimulation, capital expenditures lay the foundation for sustained development and increased productivity. The study recommended that, government should *maintain timely and efficient allocation of funds for recurrent expenditures to ensure continuous and effective delivery of public services, which in turn supports economic stability and growth and also, governments should increase and prioritize capital expenditures on key infrastructure projects and social services to foster long-term economic growth and development, thereby enhancing the overall productivity and competitiveness of the economy.*

Keywords: *State Government Expenditure, Recurrent Expenditure, Capital Expenditure Economic Resuscitation and Real Domestic Product.*

Introduction

In economic principle, there is the general assumption that human wants are numerous but the resources to satisfy them are inadequate and there is every tendency to waste or under-utilize the inadequate resources by human factor concerned in the production of goods and services. It is imperative for organizations to produce at a minimum cost so as to continue their production cycles and make sufficient revenues for stakeholders (Unamma, 2017).

Budgeting in Nigeria has continued to spring up various controversies as to the modality for preparation and administration due to continuous change in government and the consequential change in policy and ideology. In 2013 there was the controversy over the oil benchmark that delayed the National Assembly from the passage of the 2013 budget due to dispute over the price that must be used for budgeting purposes. The budget of 2016 was also fraught with issues like from budget padding and misplaced budget. A budget is designed to stimulate the growth in the production sector, check inflationary pressure, correct balance of payment deficit and maintaining a reasonable foreign exchange reserve however delays and imbalances would slow down any country's journey to economic prosperity. Since 1999, Nigeria has witnessed low level of budget implementation resulting in limitations to the executive arm's ability to effectively execute projects that would improve the living conditions of the citizenry (Ibrahim, 2011).

The Nigerian economy is faced with series of imbalances in economic policy formulation and implementation. The root of most problems in Nigeria is imbalances in budget formulation and implementation. According to Ogujiuba and Ehigiamusoe (2013), the budget ought to be the most important economic policy instrument; unfortunately, it is shrouded with a lot of myths and illusions and as such might not contribute to the economic growth and development of the country. Basically in Nigeria, budget process includes budget preparation by the executive, legislative approval and implementation by the different ministry, department and parastatal of the government. During the phase of budget implementation, there are many possibilities for interventions and manipulations in view of the fact that officials have a great amount of discretionary power to decide which spending ministry or agency will be granted spending authorization. In Nigeria, before ministries and spending agencies of the government can incur an obligation to make expenditures, they must secure spending authorization from the Ministry of Finance through the use of warrants. This warrant will authorize officers controlling votes to incur expenditure in accordance with the approved estimates subject to any reserved items. In spite of the specific nature of appropriation laws, the commitment phase of the expenditure process is a fertile ground for corrupt activities. If the Appropriation Act has not come into operation at the beginning of the year, a provisional general warrant may be issued to ensure continuity of the services of government at a level not exceeding those of the previous year. The length of period of spending authorization is determined in functional cash flow forecast for the period when payments are anticipated. Over the years, the implementation of the annual budget has been a source of concern for successive governments in Nigeria.

Since independence, planning systems have been in existence but little attention has been given to budgetary control as a tool for decision making and financial performance (Kamau et al, 2017). Generally, budget control is used as a financial performance measure in government institutions but particularly it is not the only determinant of decision making as other factors also account to the overall achievement of its goals (Adongo and Jagongo, 2013). Preparation of a budget is just one aspect of budgeting and implementation of the budget and is equally important to decision making (Olaye and Oladipupo, 2014).

Despite the potential advantages of budgeting, Nigerian state corporations' budgetary performance is questioned (Suleiman, 2015). This is not unique to Nigeria alone; according to The Guardian (2019), 85% of governments worldwide fail to offer appropriate information for the general population. Undoubtedly, a state's economic progress depends much on the amount of government spending and revenue utilisation. But for a state to achieve the desired level of economic growth, it must spend money on recurring expenses, economic infrastructure, and debt service (Folayin & Famoloya, 2015). It must be emphasized that one of the criteria used to determine whether a state is improving or regressing within the committee of states is how well it uses its resources to boost its budget performance (Ilemona & Nwite, 2018). It's interesting that few studies have examined budgetary implemented and the performance of public sector. In their endeavour, Olaoye and Bankole (2019) concentrated solely on statutory allocation and budget execution in southwest Nigeria. In light of the aforementioned, this study examines how the public sector budget is implemented and how well the government performs in Southwest Nigeria between 2012 and 2021 by using the fiscal policy variables of capital expenditure, recurrent expenditure (budget implementation), and par capita income while controlling for statutory allocation and intervention fund. The fact that the federal government has occasionally provided intervention funds or bailout funds for state governments to use for wages and development projects is no longer news. It is to monitor and compares the usual statutory allocation given to state governments on a monthly basis with the successes record via the influence of this intervention fund. As a result, monitoring the intervention fund and statutory allocation is necessary to assess how well the state government is implementing the budget in Nigeria. It is on this backdrop this study evaluate the relationship between budgetary implementation and performance of public sector. The specific objectives of this study are to:

1. Assess the relationship between capital expenditure and economic growth in Nigeria
2. Examine the relationship between recurrent expenditure and economic growth in Nigeria

2.0 Review of Related Literature

2.1 Conceptual Review

2.1.1 Government Budgetary Implementation

This refers to the process by which a government executes its approved budget. This process involves translating the budget, which outlines the planned revenues and expenditures for a given fiscal year, into actual financial operations. Budget is a financial plan for a defined period of time. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows (Chartered Institute of Management Accounting, 2013). It expresses strategic plans of business units, and an organization, activities or events in measurable terms. A budget is a framework for revenue and expenditure outlays over a specified period usually one year (Olurankise 2012). It is an instrument stipulating policies and programmed aimed at realizing the development objectives of a government. Meigs and Meigs, (2004) defined budget as a comprehensive financial plan, setting forth the expected route for achieving the financial and operational goals of an organization. Omolehinwa (2003) is of the view that Budget is the plan of dominant individuals in an organization expressed in monetary terms and subject to the constraints imposed by other participants and the environment indicating how the available resources may be utilized to achieve whatever the dominant individual agreed to be the organization's proprieties. The concept of government budget from layman's perspective can be seen as an estimate of government income and expenditure for a set period of time. A much narrow view of government budget is that the budget is a regular estimate of expenditure put forward by a finance minister. Smith and Thomas (2004) also defined budget to be a plan for the accomplishment of program related to objectives and goals within a definite time period including an estimate of the resources required together with an estimate of resources available usually compared with one or more past periods showing future requirements. However, Samuel and Wilfred (2009) provided a broader concept. They opined that budget is a comprehensive document that outlines what economic and non-economic activities a government wants to undertake with special focus on policies, objectives and strategies for accomplishment that are substantiated with revenue and expenditure projections.

Challenges in Budgetary Implementation

Revenue shortfalls: when actual revenues fall below projections, it can lead to budget deficits and hinder the implementation of planned expenditures, corruption and mismanagement: misallocation or misuse of funds can derail budget implementation and reduce the effectiveness of government programs, bureaucratic delays: slow processes in procurement, approval, and fund disbursement can delay project implementation, political interference: shifts in political priorities can result in changes to the budget during implementation, sometimes at the expense of planned projects. Successful budgetary implementation is crucial for achieving the goals set out in the government's financial plan and ensuring that public resources are used effectively.

2.1.2 Capital Expenditure and Performance of Public Sector

The expenditure of government has been on the geometric increase through the interactions with and activities of government agencies, departments and ministries. This continuous increase in the volume of government expenditure has been the experience in Nigeria if not very common in all countries world over due to the continuous state/federal expansion activities. The development of the state activities since the 20th century in areas including industrial innovations, public health, education, commercial activities, etc have accelerated government expenditure increases to a large extent. The Nigerian public expenditure structure can be segmented into recurrent expenditure and capital expenditure. The components of the recurrent expenditure include expenditure on administration. (Interest on loans and maintenance, salaries and wages) while capital expenditure captures government projects on the generation of the electricity, education, telecommunication, airports, roads, and so on. The provision of public infrastructural facilities has been one of the fundamental bases for public spending. Providing and maintaining these infrastructural amenities cost a huge amount financing. Hence, investment on infrastructures and productive activities spending is expected to positively contribute to the growth of the economy whereas spending on consumption by the government retard growth. It is argued that the country will benefit socially and economically from government investment (spending) on health, roads, education, agriculture, etc. Among the world of scholars, the issue of impact of public expenditure on the growth of the economy has sponsored continuous debate. (Owui et'al, 2020)

Government capital expenditures are funds used to develop buildings, machinery, equipment, educational and healthcare facilities, etc. Additionally, it covers the costs incurred by the government to make investments that will yield dividends in the future and to acquire fixed assets. Spending on development or investment has benefits that last for years in the future, and these expenditures are referred to as capital spending. Purchasing fixed and intangible assets, improving an existing asset, fixing an existing asset, and loan repayment are all considered capital expenditures. Repaying a debt is a capital expenditure because it reduces obligation in addition to creating assets. The long-term character of capital investment, which results in the formation of assets, enables the economy to generate income for many years by expanding or upgrading manufacturing facilities and increasing operational effectiveness. Additionally, it raises labor force participation, assesses the state of the economy, and increases the economy's potential for future growth. Government spending continues to be a crucial tool in the development process. At all stages of growth and development, it is crucial to the operation of any economy. Today, the majority of industrialized and emerging nations employ public spending to alter the composition of national income, improve income distribution, and steer resource allocation in desirable directions (Vtyurina, 2020).

According to statistics made available by CBN (2023), the average amount of government capital expenditure increased from 1981 to 2021. After the pandemic has been entirely contained, one would reasonably anticipate that responsible governments would exercise greater caution in crucial economic sectors while purposefully paying closer attention to those that were most severely affected by its impacts. Public expenditure, a potent instrument in the toolbox of fiscal policy, can be used to not only reroute production but also to encourage and stimulate production through innovation, which will then lead to expansion in production, which will enhance output and employment. The federal government of Nigeria spent 12,164.1 billion naira in 2021 compared to 10,231.7 billion naira in 2020, an increase of 18.87%. Government deficit spending increased from 6,248.6 billion naira in 2020 to 7,118.7 billion naira in 2021, an increase of 13.9%, but it still does not leave much to be desired (CBN, 2023). Even after the pandemic is over, all economic indicators continue to fall, and markets kept contracting as output plunged. It is clear that the main goals of government spending, such as the provision of public goods and resource redistribution, are still far from being met. Economic growth should be expected to follow a pattern consistent with government capital expenditures on administration, social and community service, economic services, transfers, and government deficits. This calls for an interest in empirical research into how government capital spending affects the rate of economic growth (RGDP). Follow economic growth as Wagner hypothesized.

2.1.3 Recurrent Expenditure and Performance of Public Sector

Government recurrent expenditures, in particular, relate to government spending that occurs on a regular basis throughout the year. Administrative expenses, expenditures on the provision of economic, social, and community services, and expenditures on transfer payments are all included (Ogbu et'al, 2021). Year after year, recurring expenses are incurred on a regular basis. In other words, they are operating expenses that are required for government departments to function on a day-to-day basis. These expenses include civil administration, defense forces, public health and education, and government machinery maintenance. These expenditures must be made on a regular basis if government operations are to be maintained, and they must not result in the acquisition of permanent assets. They are divided into administration (general administration, defense, and internal security); social and community services (Education, Health, and Others); economic services, and transfers (public debt charges or interests for both internal and external debts, pensions and gratuities, and others such as transfer to contingency fund, net depreciation on investment revaluation, and extra-budget transfers) (Ogbu et'al, 2021)

Recurrent government expenditures are made on a regular basis to keep government activities running. These expenses are frequently reflected in the budget, and they are thus identified as areas for development or improvement to which funds are allocated. They include all employees' regular salaries, money spent on essential services or regular infrastructure maintenance, and money spent on administration. Nigeria, on the other hand, has a wealth of resources that can be used to boost the country's economy. In Nigeria, there have been problems with mineral exploration and extraction. Oil has received a lot of attention as the country's main source of revenue. Other resources, particularly those that are solid, are frequently overlooked or dismissed. National growth has become very erratic as a result. As a result, there is insufficient funding for expenditures that can help the economy grow. Whereas the country urgently requires housing, rural electrification, enough megawatts to catalyze development, health maintenance and upkeep, works and road construction, and recurrent.

The Federal Government of Nigeria's recurrent expenditure has steadily increased over time as a result of large receipts from crude oil production and sales. Despite the fact that Nigeria's recurrent expenditure has been steadily increasing, there are still public outcries about the state of the country's infrastructure. There are no infrastructures to improve commerce within the system, and no social amenities to improve the welfare of the average economy citizen. Nigeria, however, remains one of the world's poorest countries, with more than half of the population living on less than $2 per day. Recurrent government expenditures such as administration, economic services, social and community services, and transfers have been on the rise. Government recurrent expenditure on administration, for example, grew from N1228.99 billion in 2015 to N1584.06 billion in 2018 and N1916.64 billion in 2019. Recurrent social and community service expenditure increased from N79.63 billion in 2001 to N807.59 billion in 2015, and N1311.26 billion in 2019.

Economic services recurrent expenditure increased from N255.78 billion in 2016 to N450.77 billion in 2019, while transfers expenditure increased from N1392.93 billion in 2014 to N3188.06 billion in 2019. (CBN Statistical Bulletin, 2019). Government expenditures are the costs incurred by the government for its own upkeep, as well as for society and the economy as a whole. All government consumption, investment, and transfer payments are included.

Economic growth is a fundamental requisite to economic development. Essentially, economic growth is because of the gap between savings and investment. Savings provide developing countries (including Nigeria) associated with policies aimed at transforming and restructuring the real economic sectors. Nevertheless, the lack of sufficient domestic resources, savings and investment to support and sustain the sectors is a major impediment to economic development in the country with the much needed capital for investment which improved economic growth. Increase in savings lead to increase in capital formation and production activities that will lead to employment creation and reduce external borrowing of government. Government expenditure can be described as the expenses incurred by the government in the provision of public goods and services.

2.1.5 Governmental Performance

According to Ranjani and Ambe (2016), governmental performance refers to the degree to which governmental goals or targets are met. These goals might range from socioeconomic and developmental goals to planning, control, and budgetary goals. The overall perspective is actually dependent on each person taking precise steps to achieve the group's goal in the required way, such doing so for less money than was originally budgeted. According to Holland (2000), for long-term plans to be effective, governmental goals, targets, or objectives must originate from all levels of government. Job performance, management performance, departmental performance, and governmental performance make up the four performance indicators. According to Ranjani and Ambe (2016), overall governmental success is predicated on performance at lower levels (job, management, and departmental levels). Budget performance is more complicated than it first appears because when individuals discuss performance in general, they frequently mean multiple things. According to Hunger and Wheelan (1997), performance is the outcome of an activity, and the suitable metric chosen to evaluate corporate performance is said to rely on the type of organisation being assessed as well as the goals the assessment is intended to achieve. According to Ellis-Christensen (2010), performance measurement includes (i) using statistical evidence to determine progress towards clearly defined organizational objectives and (ii) developing measurable indicators that can be systematically tracked to assess progress made in achieving predetermined goals and using such indicators to assess progress in achieving these goals. In order to compare budgeted goals and objectives via resource inputs and control in order to achieve them and improve future goals, budget performance measurement may thus be defined as the process through which a focused organisation sets parameters. Indicators of performance in this sort of study will require comparing the authorised budget with the results in order to identify any variations that may exist. The management of expenditures is, however, the most appealing aspect of any budget's execution and performance. According to Blocher et al. (2005), expenditure is considered to be controlled if management has the freedom to decide whether to make it or can significantly affect its quantity during a certain, often brief period of time. The goal of expenditure control is to keep a product's or service's cost within a reasonable range. Spending management includes all techniques for keeping expenditures in check so that resources are used effectively to meet an organization's goals. As a result, it turns into a procedure, and any procedures created to continuously guide and monitor spending might prompt management to take fast action for successful measurement and adjustments (Abuh & Aliyu, 2013)

2.2 Theoretical Framework

2.2.1 Budgetary Control Theory

According to this theory, a good budgetary control system must be able to address the efficiency and effectiveness of the organization's expenditure. A good budget is determined by the level of income of the organization (Robinson, 2009). Sawhill and Williamson (2001) argue that budgets can be used an indicator of the performance of the ruling government. It is a statement of whether they are competent in administering the organization and the national resources. It is therefore essential for the organization to understand its budgeting system and give priority to urgent matters that require attention to its control tools. In order to find out the relationship between the budgeting system and the organizational performance, it is important for the public universities to determine the patterns of the expenditure of the organization and its performance (Phyrr, 1970).

2.3 Empirical Review

Lumatete and Ondieki (2021) studied budget and budgetary control systems as a tool for decision making in an organization: a case study of Kenya public universities.

Mutuma, et'al (2016) examined challenges of budget implementation in the public sector: a case of meru county in Kenya. The specific objectives were institutional constraints in budget implementation, performance in revenue collection, county government capacity on use of IFMIS and effective oversight and audit function. The study employed a descriptive research design. This study was a descriptive in nature done on a population consisting 80 members of staff who were in management positions in the thirteen (13) departments of Meru County and within the executive arm. These departments were Office of the Governor, County Treasury, Agriculture, water, education, health, planning, public service, transport, cooperatives, culture, public service board and town administration department. A sample was drawn from these targeted 80 employees in the county. A sample size of 40 comprised of ten (10) CECs, ten (10) COs and twenty (20) directors. Self-administered questionnaires were distributed to the sample drawn and descriptive analysis was employed. Pie charts, tables, graphs were then used as appropriate to present the data. The data was analyzed using multiple regressions. It was found that there was relationship between the set of independent variables and the dependent variable. The challenges of budget implementation in Meru County were related to institutional constraints, capacity on use of IFMIS and oversight and audit function. The study hence recommends a further research be done on another County and broaden the respondents to include both the middle level and top management. A further research could also be carried out on challenges of budget preparation in the public sector to see if the same results would be arrived at.

Nwala and Ogboji (2020) studied effect of budget implementation on economic growth in Nigeria. Ex-post facto research design was adopted for this study. Secondary data relating to the study were obtained from Federal Ministry of Finance and Central Bank of Nigeria Statistical Bulletin for the period 1981 to 2018. Gross Domestic Product was used as the dependent proxy, while Capital expenditure, Recurrent expenditure and Debt as the independent proxies. Using E-Views 10, it was found that capital expenditure exerts positive and significant relationship with the Gross Domestic Product of Nigeria. Likewise, recurrent expenditure and gross domestic product show positive and significant relationship, and government debt and gross domestic product also show negatve and significant relationship. Based on these it is recommended that government should try to put in place effective machineries that will ensure the strict adherence to due process and total implementation of annual budget provision and avoid diversion of public funds to personal uses.

Abu and Abdullah (2010) investigates the relationship between government expenditure and economic growth in Nigeria from the period ranging from 1970 to 2008.They used disaggregated analysis in an attempt to unravel the impact of government expenditure on economic growth. Their results reveal that government total capital expenditure, total recurrent expenditure and Education have negative effect on economic growth. On the contrary, government expenditure on transport, communication and health result in an increase in economic growth. They recommend that government should increase both capital expenditure and recurrent expenditure including expenditure on education as well as ensure that funds meant for development on these sectors are properly utilized. They also recommend that government should encourage and increase the funding of anti-corruption agencies in order to tackle the high level of corruption found in public offices in Nigeria.

Nurudeen and Usman (2010) investigated the effect of government expenditure on economic growth with disaggregated expenditure data from 1979 to 2007. The results reveal that government total capital expenditure, total recurrent expenditures, and government expenditure on education have negative effect on economic growth. While the foregoing studies focused on the Keynesian model which stipulates that expansion of government expenditure accelerates economic growth.

Ighodaro, Clement and Dickson (2010) in addition using total government expenditure they also used a disaggregated government expenditure data from 1961-2007, specifically; expenditure on general administration and that of community and social services to determine the specific government expenditure that economic growth may have significant impact on. Other variables reflecting fiscal policy changes and political freedom were also included in the model to augment the functional form of Wagner"s law. All the variables used were found to be positive and long run relationship exists between the dependent and the independent variables except in the case where only GDP was used as the independent variable. Wagner"s hypothesis did not hold in all the estimations rather Keynesian hypothesis was validated.

Oke (2013) conducted a study to theoretically and empirically explore the effect of budget implementation on the Nigerian economic growth and provides a panacea to the problem of budget allocation and its implementation. The study adopted ordinary least square (OLS) regression test for analysis and time series data span from 1993 to 2010 was considered to capture the short run relationship between the proxies of budget implementation and economic growth. The study revealed that implementation has a positive effect impact on Nigeria economic growth. The study further showed a positive relationship between GDP and public total expenditure (PEX), public recurrent expenditure (PRE), public capital expenditure, external debt (EXD), while public capital expenditure (PCE) shows a negative relationship to GDP.

Patricia and Izuchukwu (2013) investigated the effect of government expenditure in education on economic growth in Nigeria over a period from 1977 to 2012, the study adopted the Error Correction Model (ECM) to achieve its objectives. The study used Ex-post facto research design and applied time series econometrics technique to examine the long and short run effects of public expenditure and economic growth in Nigeria. The study revealed that Total Expenditure Education is highly and statistically significant and have positive relationship on economic growth in Nigeria in the long run. The result has more implication in terms of policy and budget implementation in Nigerian.

Onaolapo and Olaoye (2013) conducted a study on the appraisal of the factors contributing disparity in budget proposal and implementation. The main thrust of this paper was to examine the behavioral aspect of budget implementation disparity. Two hypotheses were set forth and tested using two ministries namely: education and finance in the Ekiti State of Nigeria. The study was analyzed using the primary data of analysis. Thirty high ranking staff involved in budget preparation and implementation out of thirty-five administered with questionnaires responded to time. Their findings revealed that government ministries always meet their budget target and the ministries have adequate measures to curb budget variances.

3.0 Methodology

The study adopted *ex-post facto* design. The *ex-post facto* research design is used because this type of research is one that takes place after the event or the fact had taken place while Quasi Experimental design is adopted because it seeks to explore the causal effect of government expenditure on economic resuscitation in Nigeria. The study covered the period of 1981-2023 based on the convenient and systematic sampling techniques. This period is adopted because of the duration is consider appropriate because it help to have robust finding. The study makes used of secondary source of data (time series data), the data will be collected from CBN statistical bulletin for the period 1981-2023'. The area of the study is in Nigeria, as the study focuses on performance of public sector using economic indicator (GDP).

Model Specification

This study adopted the study of Omoniyi (2021) on budget implementation and economic performance in Nigeria. Model is stated below:

RGDP = *ƒ*(TRE, FCE)--eqn 1

This can be econometrically expressed as

RGDP = *ƒ*(β0 + β1 TRE_t + β2TCE_t + μ)- ---eqn 2

Where

RGDP = Real Gross Domestic Product

TRE = Total Recurrent Expenditure

TCE = Total Capital Expenditure

SCSE = Social and Community Service Expenditure

$\beta 0$ = Constant

$\beta 1, \ldots \beta 4$, = are the coefficient of the regression equation

μ = Error term

t = is the year (time series)

Decision Rule

Accept Null if P-Value is greater than 5% and reject Alternate Accept Alternate if P- Value is less than 5% and reject Null

4.1 Descriptive Analysis

The descriptive analysis of the data is shown in Table 4.1 below

Table 4.1 Descriptive Analysis

	CAP	***REC***	***RGDP***
Mean	829.9438	1037.523	40903.86
Median	324.0200	545.3100	33346.62
Maximum	3982.430	3477.220	77338.85
Minimum	1.030000	4.590000	16211.49
Std. Dev.	1005.752	1146.755	21641.84
Skewness	1.222854	0.722351	0.408488
Kurtosis	3.965301	2.155708	1.527187
Jarque-Bera	11.81021	4.783317	4.845905
Probability	0.002725	0.091478	0.088659
Sum	34027.70	42538.45	1677058.
Sum Sq. Dev.	40461445	52601863	1.87E+10
Observations	41	41	41

Source: Eviews 10 Output (2024)

In Table 4.1, the descriptive analysis of CAP (capital expenditures) shows a mean value of 829.9438, indicating the average capital expenditure by the state government over the period studied. The maximum and minimum values of 3982.430 and 1.030000 respectively, suggest a wide range in capital spending, with substantial variation as indicated by a standard deviation of 1005.752. The skewness of 1.222854 shows that the distribution of capital expenditures is positively skewed, meaning there are more instances of smaller expenditures but a few very large expenditures. The kurtosis value of 3.965301, slightly above the normal distribution's value of 3, indicates a moderate presence of outliers. The probability of the Jarque-Bera statistic is 0.002725, suggesting that the distribution significantly deviates from normality at 5% level of significance.

For REC (recurrent expenditures), Table 4.1 shows a mean value of 1037.523, indicating the average recurrent expenditure by the state government. The maximum value of 3477.220 and the minimum value of 4.590000 indicate a substantial disparity in recurrent spending levels, further supported by a standard deviation of 1146.755. With a skewness of 0.722351, the distribution of recurrent expenditures is moderately positively skewed, indicating more frequent smaller expenditures and fewer large ones. The kurtosis value of 2.155708 is below the value of 3 for a normal distribution, implying a relatively flatter distribution with fewer extreme values. The probability of the Jarque-Bera statistic at 0.091478 suggests that the distribution of recurrent expenditures does not significantly deviate from normality at 5% level of significance.

Analyzing RGDP (real GDP) from Table 4.1, we see a mean value of 40903.86, reflecting the average real GDP over the period. The maximum and minimum values of 77338.85 and 16211.49 respectively indicate considerable variability in economic output, which is further evidenced by a standard deviation of 21641.84. The skewness of 0.408488 indicates a slight positive skewness, suggesting a fairly symmetrical distribution of real GDP values but with a tendency towards higher values. The kurtosis of 1.527187 is well below 3, indicating a relatively flatter distribution compared to a normal distribution, with fewer and less extreme outliers. The probability of the Jarque-Bera statistic at 0.088659 suggests that the real GDP distribution does not significantly deviate from normality at the 5% level of significance.

4.2 Test of Hypotheses

The hypotheses for the study were tested using the estimates from Ordinary Least Squares, as shown below in Table 4.2.

Table 4.2 Hypotheses Testing with OLS

Dependent Variable: RGDP
Method: Least Squares
Date: 08/26/24 Time: 06:02
Sample: 1983 2023
Included observations: 41

Variable	Coefficient	Std. Error	t-Statistic	Prob.
REC	20.18471	2.049626	9.847994	0.0000
CAP	-2.166661	2.336977	-0.927121	0.3597
C	21759.97	1044.865	20.82563	0.0000

R-squared	0.950834	Mean dependent var	40903.86
Adjusted R-squared	0.948247	S.D. dependent var	21641.84
S.E. of regression	4923.388	Akaike info criterion	19.91174

Sum squared resid	9.21E+08	Schwarz criterion	20.03712
Log likelihood	-405.1906	Hannan-Quinn criter.	19.95739
F-statistic	367.4474	Durbin-Watson stat	1.089251
Prob(F-statistic)	0.000000		

Source: Eviews 10 Output (2024)

Table 4.2 presents the results of the hypotheses testing using Ordinary Least Squares (OLS) regression, where the dependent variable is real GDP (RGDP). The R-squared value of 0.950834 indicates that approximately 95.08% of the variability in Nigeria's real GDP can be explained by the state government recurrent expenditures and capital expenditures included in the model. This high R-squared value suggests a strong explanatory power of the independent variables on the dependent variable, implying that state government expenditures are significant determinants of economic growth in Nigeria. Additionally, the probability value associated with the F-statistic is 0.000000, which is highly significant. This indicates that the overall regression model is statistically significant and that the independent variables, recurrent and capital expenditures, jointly have a significant effect on real GDP.

4.2.1 Test of Hypothesis I

H01: Recurrent expenditures of State governments in Nigeria have no significant influence on real gross domestic product of Nigeria

In Table 4.2, the regression coefficient for REC (recurrent expenditures) is 20.18471 with a probability (p-value) of 0.0000. This coefficient suggests that for every unit increase in state government recurrent expenditures, the real GDP (RGDP) of Nigeria is expected to increase by 20.18471 units, holding all other factors constant. The p-value being 0.0000 which is less than 0.05 indicates that this relationship is highly statistically significant, implying strong evidence that state government recurrent expenditures have a positive and significant effect on Nigeria's economic growth. Therefore, recurrent expenditures of state governments in Nigeria have a positive and significant influence on real gross domestic product of Nigeria.

4.2.2 Test of Hypothesis II

H02: Capital expenditure of State governments in Nigeria have no significant effect on real gross domestic product of Nigeria.

For CAP (capital expenditures), Table 4.2 shows a regression coefficient of -2.166661 with a probability (p-value) of 0.3597. This coefficient suggests that for every unit increase in state government capital expenditures, the real GDP of Nigeria is expected to decrease by 2.166661 units, holding other factors constant. However, the p-value of 0.3597 which exceeded 0.05 is not statistically significant, indicating that there is no strong evidence to suggest that state government capital expenditures have a significant effect on Nigeria's economic growth. This implies that

Capital expenditure of State governments in Nigeria have a positive but non-significant effect on real gross domestic product of Nigeria.

4.3 Discussion of Findings

Recurrent expenditures of state governments in Nigeria, which include spending on salaries, wages, and other operational costs, have been found to positively and significantly influence the country's real GDP. This positive influence can be attributed to several factors. First, recurrent expenditures help maintain and improve the efficiency of the public sector, ensuring that essential services such as healthcare, education, and security are consistently delivered. By paying salaries and wages, the government injects money into the economy, which in turn increases consumption and stimulates economic activity. Moreover, a well-compensated workforce tends to be more productive, contributing further to economic growth. The stability and predictability of recurrent spending also provide a steady demand for goods and services, bolstering businesses and encouraging investment. Ogbu et al. (2021) found that while overall recurrent expenditures positively contribute to Nigeria's economic growth, expenditures on social and community services and transfers are the most impactful, with administrative and economic services also showing positive effects to a lesser extent. In contrast, Chandana et al. (2021) found no significant impact of recurrent expenditures on economic growth in both the short and long term but recommended improving spending patterns to enhance human development.

Secondly, capital expenditures of state governments in Nigeria, which encompass investments in infrastructure, education facilities, healthcare, and other long-term assets, also have a positive but non-significant effect on real GDP. These expenditures are critical for the long-term development and modernization of the economy. By investing in infrastructure such as roads, bridges, and power plants, the government not only creates immediate jobs but also facilitates smoother and more efficient economic activities. Improved infrastructure reduces the cost of doing business, attracts foreign investment, and enhances overall productivity. Furthermore, capital investments in education and healthcare build human capital, which is essential for sustained economic growth. The long-term benefits of these expenditures can be substantial, creating a more robust and competitive economy. This finding negates that of Chandana et al. (2021) which emphasized the positive and significant impact of capital expenditures on economic growth, both in the short and long run. Adole (2021) reinforced these findings, showing that capital expenditures have a significant positive impact on economic growth in the long run. Abomaye (2020) also confirmed the significant positive impact of capital expenditures, advocating for increased investment in education, health, agriculture, and infrastructure.

5.0 Conclusion and Recommendations

Government expenditure and performance of public sector has been widely studied, and in the context of Nigeria, as this study used economic indicator (economic growth) to represent performance of public sector in Nigeria, it is particularly significant due to the country's developmental needs and economic structure. A positive and significant effect of recurrent expenditures of governments on economic growth is justifiable since recurrent spending ensures the smooth functioning of government operations and public services, which are essential for maintaining stability and efficiency in the economy. Additionally, recurrent expenditures often lead to increased consumption as government employees spend their income, thereby stimulating demand for goods and services in the economy. This increased demand can boost production and, consequently, economic growth. However, capital expenditures by governments in Nigeria was shown to have a non-significant positive effect on economic growth. The positive influence is because such investments are critical for building the foundational structures necessary for sustainable economic growth. Investments in education and healthcare enhance human capital, leading to a more skilled and healthier workforce that can contribute more effectively to the economy. Furthermore, capital projects can create employment opportunities both directly, through construction jobs, and indirectly, by stimulating related industries. In conclusion, both recurrent and capital expenditures by governments in Nigeria play very important roles in the country's economic growth. While recurrent expenditures ensure the smooth functioning of the public sector and immediate economic stimulation, capital expenditures lay the foundation for sustained development and increased productivity. Therefore, we recommend that:

1. Government should maintain timely and efficient allocation of funds for recurrent expenditures to ensure continuous and effective delivery of public services, which in turn supports economic stability and growth.

2. Governments should increase and prioritize capital expenditures on key infrastructure projects and social services to foster long-term economic growth and development, thereby enhancing the overall productivity and competitiveness of the economy.

References

Abu, N. & Abdulahi, U. (2010). Government Expenditure and Economic Growth in Nigeria: A Disaggregated Analysis. Business and Economic Journal, 4(3), 237-330.

Abomaye-Nimenibo, W. A. S. (2020). The empirical evaluation of how public expenditure influences economic growth in Nigeria. *Global Journal of Management and Business Research: B-Economics and Commerce*, 20(2), 43-58.

Adole, S.O., Ijuo, A.O., & Akiri, S.E. (2021). Government expenditure and Economic Growth in Nigeria. IOSR *Journal of Economics and Finance*. (12), 1 , 28-35.

Adebiyi, M.A. (2003). Debt Service-Education Expenditure Nexus: The Nigerian Experience, Human Resource Development in Africa: Selected Papers for the Year 2002 Annual Conference, The Nigerian Economic Society (NES), Part Three, pp. 243-267

Chandana, A., Adamu, J., & Musa A. (2021). Impact of government expenditure on Economic Growth in Nigeria, 1970-2019. *CBN Journal of Applied Statistics* (12)1. 139-174

Central Bank of Nigeria (CBN) (2020). Central Bank of Nigeria Statistical Bulletin. Abuja: CBN.

Folayin, K. S., & Famoloya, R. I. (2015). Unveiling the potentials of entrepreneurship. Journal of Economic Development 8(4), 113-119.

Geleta, D.G., Mohd, A.B & Shagufta, T.K, (2020). Factors Affecting the Budgetary Practice Effectiveness; Evidence from Ethiopia's Public Sector Organizations in Assosa, International Journal of Management, 11(10), 2020, pp. 591-605

Ighodaro, Clement A. U. & Dickson E. O. (2010). Does the Relationship between Government Expenditure and Economic Growth Follow Wagner"s Law in Nigeria?" Annals of the University OfPetroşani, Economics, 10(2), 185-198.

Ilemona, S.A., & Nwite, S. (2018). Budget implementation and economic growth in Nigeria: An exploratory review (2014-2018). International Journal of Academic Research in Accounting, Finance and Management Sciences 8(4), 171- 176

Kamau, J. K., Rotich, G., & Anyango, W. (2017). Effect of budgeting process on budget performance of state corporations in Kenya: A case of Kenyatta National Hospital. International Academic Journal of Human Resource and Business Administration, 2(3), 255-281.

Meig. W., & Meig, F. (2004). Accounting the Basic Business Decision New York, USA, MCGraw-Hill Book Company, 51-68

Nwala, M.N., & Ogboji, T.B. (2020). Effect of Budget Implementation on Economic Growth in Nigeria Journal of Economics and Finance. 11(1) 40-48

Nurudeen, A. & Usman A. (2010). Government Expenditure and Economic Growth in Nigeria, 1970-2008: A Disaggregated Analysis. Business and Economics Journal, Volume 2010 BEJ-4, 1-11

Ogujiuba, K. K. & Ehigiamusoe, K. (2013). Capital budget Implementation in Nigeria: Evidence from the 2012 Capital Budget, 24(10), 299-314.

Ogbu, S. O., Okwo, i., Chike, N. (2021). Effect of government recurrent expenditure components on Nigerian Economic Growth. *IOSR Journal of Business and Management* 23(10), 2021, 09-23.

Oke, M. O. (2013). Budget Implementation and Economic Growth in Nigeria. Developing CountryStudies, 3(13), 1-7

Suleiman E, S. (2015). The Nigeria budget process, Central bank of Nigeria report

Sunday, D., Onyeka, C.M. & Ugorji, C.N. (2024). Financial management practices and profitability of listed deposit money banks in Nigeria. Journal of Accounting and Financial Management. 10(4) 2695-2211.

Sunday, D. & Agubata. N.S. (2023). Effect of management efficiency on performance of listed consumer goods companies in Nigeria. International Journal of Economics and Business Management. 9(3) 2489-0065

Vtyurina, S. (2020). Effectiveness and equity in social spending: the case of Spain. IMF Working Paper, No. WP/20/16.

World Bank (2020). World Development Indicators. Washington, D.C.: The World Bank Group.