International Journal of Commerce and Finance, Vol. 7, Issue 1, 2021, 109-121

IMPACT OF FISCAL POLICY ON DEVELOPMENT FINANCING: EVIDENCE FROM NIGERIA

Mukaila Abiola TONADE

Olabısı Onabanjo Unıversıty, Nigeria

Bamidele ILO

Olabısı Onabanjo Unıversıty, Nigeria

Olusola Enitan OLOWOFELA

Olabısı Onabanjo Unıversıty, Nigeria

Received: February 17, 2021 Accepted: April 14, 2021 Published: May 01, 2021

Abstract

This study examined the relationship between fiscal policy and development financing in Nigeria and the extent to which the former effects the latter. The study employed public choice framework and the model is estimated with time-series data from 1981 to 2014, using the Johansen estimation technique. The findings revealed that there is a strong positive relationship between fiscal policy and development financing, real GDP per capital, consumer price index and capital expenditure respectively. The results further confirmed that more expenses were incurred funding recurrent than capital and this had taken its toll on development. The study recommended that government should increase revenue base so as to fund capital expenditure in order to achieve sustainable development while it is also necessary to reduce recurrent expenditures and domestic debt.

Keywords: *Fiscal Policy, Economic Growth, Development financing*

JEL Classification: *B22, C25, E62, H2*

1. Introduction

The modern-day economic crisis has invigorated the debate on importance of fiscal policy over monetary policy in achieving gross domestic growth. Developing countries economic crises had shown that monetary policy may not offer adequate response to macroeconomic challenges, hence there is need to bring into discussion how fiscal policy can serve as a machinery to correct dampening gross domestic growth and increase capital expenditure. This thought continued to spark debate among researchers, developmental institutions and academics among others. Fiscal policy is an essential determinant of cyclical dynamics of macroeconomic aggregates that contributes positively in achieving stabilization and inclusive growth. It could take either expansionary or contractionary approaches. It's also involves the use of government spending, taxation and borrowing to influence the pattern of economic activities, growth of aggregate demand, output and employment and economic stability in order to achieve inclusive growth and development (Olugbenga, and Owoye, 2007).

Nigeria, like most developing countries depend solely on revenue from crude oil as a major source of income in achieving macroeconomic goals and other developmental projects. However, this major source of income is subjected to revenue volatility as a result of decline in global oil price thereby creating disruption in provision of government essential services since the quantum of income flows usually determines the level and pace of development attainable by the country. Intently, governmental development activities in developing countries particularly Nigeria has continued to increase despite the serious threat posed by shortage of funds for developmental propose (Shonchoy, 2010). It is therefore expedient for government to consider alternative source of income in order to increase capital expenditure because of the growing population and problems connected with urbanization which often aggravate the need for government to increase public expenditure (Shelton, 2007). As a result of these, government mobilizes long-term funds either directly or indirectly for the capital expenditure and

other development aspirations of government. Development financing mix available to Nigerian economy can broadly be classified into internal and external sources. It can also be categorized into debt and non-debt (Duc-Anh, Phu and Arnelie ,2015). The debt source includes treasury bonds, development loan stocks and loan from bilateral, multilateral and international capital market sources used by government to finance development. The non-debt sources include public and private savings and gains from international trade. Others include foreign direct investment, foreign aids and grants (Bolaji, Olukayode and Abdulmaq, 2011). Intently, Taiwo and Abayomi (2011) affirmed that the degree and composition of public expenditure will determine the pattern and growth in output of the economy. However, how this development financing mix has transformed capital expenditure remain puzzle.

The examination of country's debt sources of finance shows that domestic debt in 1981 is about 11.19billion representing 11.87% of GDP, this continue to increase till 1994 to 407.58billion representing 29.12% of GDP. Recently the amount contracted on domestic debt in 2014 is about 7904.02billion representing 8.88% of GDP. External debt on the other hand rose from 2.33billion in 1981 representing 2.47% of GDP to an all time highest point in 1987/92 of about 60% of GDP due to the introduction of Structural Adjustment Programme (SAP). This trend continues to the beginning of this current republic when external debt was contracted to the tune of about 50% of GDP. Recently the amount contracted on external debt had fallen to all time low point of about 1.83% of GDP (CBN, 2015). The same thing can be said of the government fiscal policy, much of the government revenue has been used to finance recurrent expenditure which leaves very little for capital expenditure. Majority of the project still surviving till today are those projects which have been executed since the 90s. Right from the beginning of this republic investment in capital project has been on the downward trend till it drops to 7.78% of the total government revenue in 2014.

Despite all this funds from various financing mix, the economy has been engaging in deficit financing throughout these periods of study except in 1995/96 when the economy had a surplus, not much has been gained in terms of investment on development since much of these finance usually go into recurrent expenditure. The amount spent on capital expenditure during the period hovers around 5% of GDP in fact in 2014 only 0.88% of GDP was spent on capital expenditure. From the foregoing, the main objective of this study is to examine the extent to which government fiscal policy has impacted on development financing, using both fiscal policy mix and development financing mix as complement and substitute and regressing the same on capital expenditure. Many works previously conducted in this area have been looking at the nexus between fiscal policy and economic growth or purely on development financing and economic growth. Apart from the introduction, the rest of the paper is divided into five sections. Section 2 Literature Review, section three (3) focuses on research methodology, section four (4) is discussion of findings and section five (5) concludes the paper.

2. Theoretical Review/ Literature Review

The theoretical postulates linking fiscal policy to development financing can be established through the way and manner in which fiscal policy, particularly deficit financing affect economic growth and development as government expenditure is believed to be financed by different development financing mix available. There is consensus in the literature that most of the government expenditure should be channelled to capital spending particularly in developing economy for meaningful development to take place. Fiscal policy aims at stabilizing the economy (Amada &Essi, 2006). Increases in government spending or a reduction in taxes tend to pull the economy out of a recession; while reduced spending or increased taxes slow down a boom (Dornbusch& Fischer, 1990). Government interventions in economic activities are basically in the form of controls of selected areas/sectors of the economy. These controls differ, and depend on the specific needs or purpose the government desires to achieve. Samuelson &Nordhaus (1998), distinguished between two forms of regulation, namely:

Economic regulation (involving control of prices, entry and exit conditions, regulation of public utilities, such as transportation and media organizations, regulation of the financial sector operations and social regulation (aimed at protecting the health and safety of workers at work place, the environment, and protection of consumer rights. our focus is on economic regulation.Proponents of government expansion (the Keynesian economist) are of the view that government expenditures provide valuable public goods including: education, roads, infrastructure, and security, among (Mitchell, 2005). They claim that increases in government spending are capable of enhancing growth through, perhaps, increase in purchasing power of the citizenry, both in the short- and long run (Samson, 2013). The importance of fiscal policy as an instrument of economic development was first envisaged by Keynes in his General

Theory wherein he showed that the total national income was an index of economic activity and brought out the relationship of economic activity to total spending (Emanuele 2003). Hence fiscal policy could be used to influence economic development.

Proponents of minimal government spending (the neo-classical economist), however, are of the opinion that high government spending do crowd-out private investments and hence, undermine economic growth. They are of the opinion that increases in government spending often transfer resources from the productive sector of the economy to government, where the resources are likely to be used inefficiently. They also argue that expanding public sector can complicate efforts aimed at implementing pro-growth policies such as, fundamental tax reform and personal retirement accounts (Mitchell, 2005). Thomas (2012) submitted that effectiveness of fiscal policy depends on the theoretical model of the macro economy that is adopted. That is because fiscal policy works through aggregate demand, and the impact of aggregate demand on the real economy depends on macroeconomic perspective. The implication is that fiscal policy debate is ultimately a debate over macroeconomic theory. No theoretical paradigm is completely satisfying. Comparison of paradigms spotlights the critical assumptions each makes; provides a better basis of understanding; and can help guide and improve policy

Ajisafe and Folorunsho (2002) investigate relative effectiveness of fiscal and monetary policy on macroeconomic management in Nigeria using co-integration and error correction modeling techniques. The result of the analysis shows that monetary rather than fiscal policy exerts a great impact on economic activity in Nigeria. The emphasis on fiscal action of the government has led to greater distortion in the Nigerian economy. The result however, suggests that both monetary and fiscal policies should be complementary. Nurudeen and Usman (2010) investigate effect of government expenditure on economic growth in a disaggregated analysis using co-integration and error correction methods to analyze data. Their findings revealed that government total capital expenditure, total recurrent expenditures, and government expenditure on education have negative effect on economic growth. On the contrary, rising government expenditure on transport and communication, and health results to an increase in economic growth. The study recommends that government should increase both capital expenditure and recurrent expenditure, including expenditures on education, as well as ensuring that funds meant for the development of these sectors are properly managed. Secondly, government should increase its investment in the development of transport and communication, in order to create an enabling environment for business to strive. Thirdly, government should raise its expenditure in the development of the health sector since it would enhance labour productivity and economic growth. Lastly, government should encourage and increase the funding of anti-corruption agencies in order to tackle the high level of corruption found in public office.

Babalola and Aminu (2011) investigate impact of fiscal policy on economic growth in Nigeria using error correction mechanism. The result indicates that productive expenditure positively impacted on economic growth during the period and that long run relationship exist between them. The paper recommends that there should be an improvement in government expenditure on health and education and economic services, as components of productive expenditure, to boost economic growth. Joshua, Kenneth and Brian (2007) considered optimal public investment and fiscal policy for developing countries that have limited tax and debt capacities using non stochastic constant returns to scale (CRS) endogenous growth model where public expenditure is captured in the production process, in countries where distortions and policy enforcement neglect affect fiscal abilities, as captured by a maximal effective tax rate. The finding revealed that flow of public expenditure increase productivity. It furthered show that government should not borrow to finance as this can lead to increase in public debt, which would lower welfare and the growth rate.

Liu Chih, Hsu, and Younis (2008) considered causality between GDP and public expenditure of United State between 1947- 2002. The result showed that total government expenditure causes growth of GDP. While growth of GDP does not create expansion of government expenditure. Estimation analysis results indicated that public expenditure raises the US economic growth. Akanni and Osinowo (2013) discussed effect of fiscal instability on economic growth in Nigeria. The cyclical effects of fiscal spending component were quantified using the HodrickPrescot (HP)-filtered fiscal spending components and output with the correlation technique. Results indicated that between 1970 and 1985, both the real gross domestic product and real total fiscal spending were highly volatile. However, total fiscal spending appears to be countercyclical between 1970 to 1986. But from 1987 to 2010,

the variation in total fiscal spending was relatively stationary while real output was still relatively unstable. The paper concludes that fiscal discipline is required to ensure a sustainably stable economic environment in Nigeria.

Agu, Okwo, Ugwunta&Idike (2015) discussed impact of various components of fiscal policy on the Nigerian economy using descriptive statistics and OLS multiple regression analysis for estimation. Findings revealed that total government expenditures have tended to increase with government revenue, with expenditures peaking faster than revenue. Investment expenditures were much lower than recurrent expenditures evidencing the poor growth in the country's economy. Hence, there were some evidence of positive correlation between government expenditure on economic services and economic growth. Therefore, in public spending, it is important to note that the effectiveness of the private sector depends on the stability and predictability of the public incentive framework, which promotes or crowds out private investment.

Babalola (2015) examined the short-run and long-run impact of fiscal policy on economic development in Nigeria using pair-wise correlation, co-integration and error correction mechanism. The result showed that government recurrent expenditure and government investment have positive and significant impact on economic development both in the short-run and long-run. Capital expenditure however, appeared to have short-run positive impact but not in the long-run. Tax revenue had an inverse significant impact both in the short run and long run. Cyril (2016) investigates the effect of fiscal policy on economic growth in Nigeria. Using descriptive statistics and Ordinary Least Square (OLS) multiple regression analysis, the result reveals that total government expenditures is significant and positively related to government revenue. Investment expenditures were much lower than recurrent expenditures evidencing poor growth in the country's economy. The paper recommends that government should formulate and implement viable fiscal policy option that will stabilize the economy.

Olugbenga and Owoye (2007) considered the relationship between government expenditure and economic growth in thirty (30) countries during the period of 1970-2005. Their study revealed that a long-run relationship exists between government expenditure and economic growth. Also, the causality runs from economic growth to government expenditure in 10 of the countries, this affirmed Wagner's law. From the foregoing, and inconformity with Abata, Kehinde and Bolarinwa, (2012), it is clearer that if fiscal policy is used with circumspection and synchronized with other measures, it will likely smoothen out business cycles and lead to economic growth and stability. This paper contribute empirically to literature by looking at the nexus between fiscal policy and development financing in Nigeria.To the best of our knowledge we have not been able to see any works looking at the nexus between fiscal policy and development financing directly.

3. Research Methodology

The annual data used in this study cover a period of 33 years from 1981 to 2014; these years were picked because it comprised of the periods of economic, political and financial sector transformation in Nigeria and there was data availability. The data was sourced from Central Bank of Nigeria statistical bulletin, 2014, and World Development Indicators (WDI, 2014).

3.1. Definitions and Measurement of Variables

Variables	**Definition/Measurement**
Dependent Variable:	
DEVNA	This depicts development financing and proxied by capital expenditure. Development is only financed when financing capital expenditure. All fund expended on recurrent expenditure is only for consumption
Independent variables:	

DDBT	Domestic Debt
EXDBT	External Debt
DEFIN	Deficit Financing, measured as difference between total revenue and total expenditure
NONOILR	Non-oil revenue (Mainly tax), measured as non-oil tax revenue and other revenue from other sources apart from oil.
Control variables:	
$RGDP_{PC}$	Real GDP per capita, a proxy for economic development to measure the interaction between development financing and economic development. Measured at 2005 constant price
CPI	Consumer price index, a proxy for the level of inflation

3.2. Empirical Model and Estimation technique

The paper examines the impact of fiscal policy on development financing in Nigeria. The relationship between fiscal policy and development financing is specified as follows:

$$DEVNA = F(FISCAL\ POLICY, Z) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where; development financing is expressed as a function of fiscal policy mix available to the government and some control variables.

The model is therefore specified in econometric form as:

$$DEVNA = \alpha_0 + \beta_1 DDBT + \beta_2 EXDBT + \beta_3 DEFIN + \beta_4 NONOILR + \beta_5 RGDP_{PC} + \beta_6 CPI + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Where, DEVNA = development financing, DDBT= domestic debt, EXDBT= external debt, DEFIN= deficit financing, NONOILR= non-oil revenue, RGDP per capita= proxy for economic development and CPI= consumer price index. μ= error term, β_1 to β_6 = coefficient of regression equation.

3.3.Descriptive Statistics

TABLE 3.3: DESCRIPTIVE STATISTICS

	MEAN	MAXIMUM	MEDIAN	MINIMUM	STD ERROR
DEVNA	347.0652	1152.797	240.5696	4.100100	371.8570
DDBT	1546.756	7904.020	531.2906	11.19260	2212.566

EXDBT	1119.329	4890.270	606.6260	2.331200	1363.869
DEFIN	243.5869	1158.518	67.71415	-32.04940	382.4501
NONOILR	661.0862	3275.121	152.6488	2.984100	940.5360
$RGDP_{PC}$	695.0275	1098.040	597.9042	494.2390	189.8668
CPI	39.32688	145.7960	25.00820	0.493799	43.86516

Sources: Extract from Appendix II Note: DEVNA = Development financing. DDBT= Domestic Debt. EXDBT= External Debt. DEFIN= Deficit Financing. NONOILR= Total non-oil revenue. RGDPPC= Real GDP per capita. CPI= Consumer Price Index.

The characteristics of data series used in the regression analysis are presented in Table 3.8 below. It provides information about the mean, median, standard deviation and their maximum and minimum values. The mean value of development financing is #347.07billion while the mean value of fiscal policy mix, for instance, domestic and external debt is #1546.76billion and #1119.33billion. The mean value of deficit financing is #243.57billion and that of non-oil revenue is #661.09billion. On the other hand, the mean value of real GDP per capita is #695.03billion while the mean value of consumer price index is 39.33. The data shows that all the series display high level of consistency as their mean and median values are within their maximum and minimum values.

TABLE 3.4: CORRELATION

	DEVNA	**DDBT**	**EXDBT**	**DEFIN**	**NONOILR**	**RGDP**	**CPI**
DEVNA	1.0000						
DDBT	0.8414	1.0000					
EXDBT	0.1955	0.1492	1.0000				
DEFIN	0.8059	0.9298	0.1534	1.0000			
NONOILR	0.8844	0.9881	0.1594	0.9097	1.0000		
$RGDP_{PC}$	0.8581	0.8936	0.0320	0.8117	0.9115	1.0000	
CPI	0.9296	0.9630	0.2594	0.8775	0.9734	0.9146	1.0000

Sources: Extract from Appendix III Note: DEVNA = Development financing. DDBT= Domestic Debt. EXDBT= External Debt. DEFIN= Deficit Financing. NONOILR= Total non-oil revenue. RGDPPC= Real GDP per capita. CPI= Consumer Price Index.

The Table 3.4 shows the correlation matrix result measuring the degree of relationship between the variables in the study. The result shows that there exist a very strong positive correlation between development financing and

domestic debt, deficit financing, non-oil revenue, real GDP per capita and consumer price index respectively at 0.84, 0.81, 0.88, 0.86 and 0.93 respectively. The correlation between external debt and capital spending is weak and positive at 0.20. Augmented Dickey Fuller Test is used to check the stationary of the variables. A time series data usually show trend with time. This trend can be removed by differencing. The results of ADF test are given in the table below:

TABLE 3.5: ADF UNIT ROOT TEST

1ST DIFFERENCE		**2ND DIFFERENCE**		**LAG LENGTH**
Variables	**T-Statistics**	**Variables**	**T-Statistics**	
DEVNA	-3.711722*			1
-	-	DDBT	-4.413812*	1
EXDBT	-3.891276*			1
DEFIN	-3.780040*			1
NONOILR	-4.045837*			1
$RGDP_{PC}$	-3.212804**			1
CPI	-3.249275**			1
Critical Values:		**Critical Values:**		
1%	-3.661661*	1%	-4.296729*	
5%	-2.960411**	5%	-3.568379**	
10%	-2.619160***	10%	-3.218382***	

Sources: Extract from Appendix VI Note: DEVNA = Development financing. DDBT= Domestic Debt. EXDBT= External Debt. DEFIN= Deficit Financing. NONOILR= Total non-oil revenue. RGDPPC= Real GDP per capita. CPI= Consumer Price Index.

From the result above, Development financing, External Debt, Deficit Financing and non-oil revenue are stationary at first difference at 1 percent level while Real GDP per capita and Consumer Price Index are also stationary at first difference but at 5 percent level respectively. Domestic Debt on the other hand is found to be stationary at second difference at 1 percent level respectively.

Based on the result of Johansen co-integration test presented below, there is evidence in support of co-integrating relationship. The test result indicates the existence of 4 co-integrating relationship in the equation at 5 percent level of significant. Thus, the null hypothesis of no co-integration is rejected. It indicated that there exist a long-run relationship between fiscal policy and development financing in Nigeria.

TABLE 3.6: JOHANSEN CO-INTEGRATION TEST

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.908011	240.0834	125.6154	0.0000
At most 1 *	0.847667	163.7286	95.75366	0.0000
At most 2 *	0.707519	103.5147	69.81889	0.0000
At most 3 *	0.627632	64.17527	47.85613	0.0007
At most 4	0.525856	32.56332	29.79707	0.0234
At most 5	0.232141	8.683532	15.49471	0.3955
At most 6	0.007185	0.230744	3.841466	0.6310

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.908011	76.35480	46.23142	0.0000
At most 1 *	0.847667	60.21394	40.07757	0.0001
At most 2 *	0.707519	39.33942	33.87687	0.0101
At most 3 *	0.627632	31.61195	27.58434	0.0143
At most 4	0.525856	23.87979	21.13162	0.0200
At most 5	0.232141	8.452789	14.26460	0.3345
At most 6	0.007185	0.230744	3.841466	0.6310

Trace test and Maximum Eigenvalue indicates 4 cointegratingeqn(s) at the 0.05 level

**** denotes rejection of the hypothesis at the 0.05 level***

*****MacKinnon-Haug-Michelis (1999) p-values***

Pairwise Granger Causality test presented below shows the direction of causality between development financing, and fiscal policy mix in the model. The result shows evidence in support of a uni-directional causality among development financing, domestic debt, deficit financing, external debt, non-oil revenue and real GDP per capita.

Causality is running from development financing to domestic debt, from development financing to deficit financing, Capital spending to non-oil revenue, and development financing to real GDP per capita while causality is running in opposite direction from External debt development financing.

TABLE 3.7: PAIRWISE GRANGER CAUSALITY TEST

Null Hypothesis:	Lags	Obs	F-Statistic	Prob.
CPI does not Granger Cause DEVNA	2	32	0.77008	0.4729
DEVNA does not Granger Cause CPI			1.03516	0.3688
DDBT does not Granger Cause DEVNA	2	32	2.17648	0.1329
DEVNA does not Granger Cause DDBT			11.9646	0.0002
DEFIN does not Granger Cause DEVNA	2	32	25.5159	6.E-07
DEVNA does not Granger Cause DEFIN			10.1730	0.0005
EXDBT does not Granger Cause DEVNA	2	32	2.70512	0.0850
DEVNA does not Granger Cause EXDBT			0.81544	0.4530
NONOILR does not Granger Cause DEVNA	2	32	0.55716	0.5793
DEVNA does not Granger Cause NONOILR			5.06245	0.0136
RGDPPC does not Granger Cause DEVNA	2	32	1.67817	0.2056
DEVNA does not Granger Cause RGDPPC			2.59252	0.0933

Sources: Extract from Appendix V Note: DEVNA = Development financing. DDBT= Domestic Debt. EXDBT= External Debt. DEFIN= Deficit Financing. NONOILR= Total non-oil revenue. RGDPPC= Real GDP per capita. CPI= Consumer Price Index.

The regression result as presented below in Table 3.8 shows that proxies for fiscal policy like deficit financing, non-oil revenue and consumer price index exert positively and significantly on proxy for development financing (capital spending) at 1 percent level respectively. Indicating that a 1 unit increase in deficit financing, non-oil revenue and consumer price index would increase development financing (capital spending) by 0.4728, 0.3857 and 16.0930 units respectively. On the other hand, domestic debt, external debt and real GDP per capita exert negatively and significantly on development financing. Indicating that a 1 unit increase in domestic debt, external debt and real GDP per capita would reduce development financing (capital spending) by 0.3737, 0.0518, and 0.3310 units respectively.

The R-square value of 0.966 (96.6%) implies that 96.6 percent of total variation in development financing is explained by proxies for fiscal policy in Nigeria. coincidentally the Adjusted R-square, measuring the goodness fit remained high at 95.9 percent after adjusting for the degree of freedom.

The DW statistics of 1.78 is observed to be higher than R-square of 0.966 indicating that the regression is non-spurious (meaningful), therefore it can be used for policy purpose. The DW statistics of 1.78 indicate the absence of

autocorrelation. The F-statistics of 129.0901 with a p-value of less than I percent shows that we can reject the null hypothesis and conclude that fiscal policy exert significantly on development financing in Nigeria.

TABLE 3.8: REGRESSION RESULT

Dependent Variable: DEVNA

Variable	Coefficient	Std. Error	T-Statistics	P-value
DDBT	-0.373679	0.045454	-8.221053	0.0000
EXDBT	-0.051767	0.012853	-4.027725	0.0004
DEFIN	0.472763	0.095922	4.928604	0.0000
NONOILR	0.385668	0.110612	3.486675	0.0017
$RGDP_{PC}$	-0.330984	0.205011	-1.614467	0.1181
CPI	16.09299	1.733211	9.285075	0.0000
CONSTANT	210.0361	117.5184	1.787261	0.0851
R-SQUARE	**ADJ R-SQUARE**	**DW**	**F-STATS**	**P-VALUE**
0.966315	0.958829	1.782279	129.0901	0.0000

Sources: Extract from Appendix I Note: DEVNA = Development financing DDBT= Domestic Debt. EXDBT= External Debt. DEFIN= Deficit Financing. NONOILR= Total non-oil revenue. RGDPPC= Real GDP per capita. CPI= Consumer Price Index.

The result of diagnostic tests is shown in Table 3.6 the result shows that error term are not normally distributed. The model passes the breusch-pagan heteroskedasticity test, autoregressive conditional heteroskedasticity (ARCH) test, the serial correlation test and the Ramsey reset test suggests that the model is well specified.

TABLE 3.9: SENSITIVITY TEST

TEST	F-STATISTICS	P-VALUE
Normalty	15.3561	0.0005
Breusch-Pagan Heteroskedasticity	0.8529	0.5412
ARCH Test	0.0349	0.8530
Serial Correlation Test	2.4580	0.1060
Ramsey Rest Test	1.4103	0.2457

4. Discussion and Conclusion

The paper examines impact of fiscal policy on development financing in Nigeria from 1981 to 2014. The result of the correlation coefficient reveals that a very high positive association exists among fiscal policy and development financing. An increase in domestic debt, external debt, deficit financing, non-oil revenue, real GDP per capita and consumer price index is associated with 84.14%, 19.6%, 80.89%, 88.44%, 85.81% and 92.96% increase in development financing respectively.

The results from the Augmented-Dickey Fuller unit root test shows that all the series are stationary at first difference signifying that there is no presence of unit root in the data used therefore confirming the consistency in the data. The Johansen co-integration test establishes evidence in support of a long run relationship among the proxy for fiscal policy and development financing. This is shown by the presence of four co-integrating equations at 5 percent level of significance. While the Pair-wise Granger Causality test shows that there is a uni-directional causality among fiscal policy and development financing, but the causality runs from development financing to domestic debt, to deficit financing, to non-oil revenue and real GDP per capita while it runs in the opposite direction from external debt to development financing and no causality exist between consumer price index and development financing.

The regression result shows that proxies for fiscal policy, like deficit financing, non-oil revenue and consumer price index exert positively and significantly on proxy for development financing (capital spending) at 1 percent level respectively. Indicating that a 1 unit increase in deficit financing, non-oil revenue and consumer price index would increase development financing (capital spending) by 0.4728, 0.3857 and 16.0930 units respectively. This finding is in line with theoretical postulations of fiscal policy leading to development when an appropriate fiscal policy is geared toward appropriately financing capital expenditure. On the other hand, domestic debt, external debt and real GDP per capita exert negatively and significantly on development financing (capital expenditure). Indicating that a 1 unit increase in domestic debt, external debt and real GDP per capita would reduce development financing (capital spending) by 0.3737, 0.0518, and 0.3310 units respectively. This finding is only speaking the mind of the data since over the years the development of infrastructure as been neglected in favour of current consumption by the government. It implies that most of the debt contracted by the government as not been use for the purpose for which they are meant leading to waste and problems of financial obligations associated with paying back these debts and accrued interest on it.

The R-square value of 0.966 (96.6%) implies that 96.6 percent of total variation in development financing is explained by proxies for fiscal policy in Nigeria. coincidentally the Adjusted R-square, measuring the goodness fit remained high at 95.9 percent after adjusting for the degree of freedom. The DW statistics of 1.78 is observed to be higher than R-square of 0.966 indicating that the regression is non-spurious (meaningful), therefore it can be used for policy purpose. The DW statistics of 1.78 indicate the absence of autocorrelation. The F-statistics of 129.0901 with a p-value of less than I percent shows that we can reject the null hypothesis and conclude that fiscal policy exert significantly on development financing in Nigeria. All the result presented passes all required diagnostic test.

The implication of the above findings is that a long-run a significant relationship exist between fiscal policy and development financing in Nigeria. The various result presented shows some interesting result which is pointing to the fact that government fiscal policy measures should be directed towards mobilizing the needed funds for development financing and these funds should be well monitored such that all money so received from various sources are channel towards developing capital projects. A situation in which debt is contracted to finance recurrent expenditure and the little earmarked for capital expenditure is not judiciously spent leave less to be desired. A serious development cannot take place in a country where more 70 percent of its revenue goes into recurrent expenditure and only 0.88 percent of GDP is spent capital expenditure. So in the current situation of economic recession the country is battling with, the policy makers should engineer a policy direction that will diversify the economy from primary base to manufacturing, improving all available infrastructures an opening up of new ones, opening all our rail system and all road network should be expanded and more should be constructed to cater for the ever increasing economic activities. Energy needs of the country should be cater for and the security of lives and property should be assured at all times. All the above can be achieved through a judicious use of the resources available to government from various sources and a large scale and extensive investment in capital project.

There is dearth of studies linking fiscal policy to development financing. The commonest literatures explored fiscal policy and economic growth. This paper tries to cover this gap by examining the extent to which fiscal policy measures supports development financing in Nigeria. The result confirms the presence of long-run relationship between fiscal policy and development financing in Nigeria. A positive and significant relationship was confirmed

between development financing and deficit financing, non-oil revenue and consumer price index. While a negative significant relationship was confirmed between development financing, domestic debt, external debt and real GDP per capita. The various reliability test shows that the results are reliable. The paper therefore recommends that:

- Government should mobilize more tax revenue by carrying out a comprehensive audit of all firms in the country particularly those in the informal sector so as to bring in more tax payer into the tax net. They should block all leakages in the tax system and ensure that those resources so mobilize are directed towards capital expenditure.
- Government should cut its consumption on recurrent expenditure and divert same into capital expenditure. Capital spending is recommended not to be less than 40 percent of total revenue for serious development to take place.
- Government should avoid contracting more debt particularly external debt, and if they must do it should be solely for development sake (capital expenditure) it should not be used to pay personnel cost. Increasing the level of domestic debt can also be detrimental to the economy as it can crowd-out private investors.
- The amount of deficit financing should be kept at 4 percent level of GDP as recommended by the West African Monetary Zone.

References

Abata, M. A., Kehinde, J. S., &Bolarinwa, S. A. (2012). Fiscal/monetary policy and economic growth in Nigeria: A theoretical exploration. International Journal of Academic Research in Economics and Management Sciences,1(5), 75.

Agu, S. U., Okwo, I. M., Ugwunta, O. D., &Idike, A. (2015).Fiscal Policy and Economic Growth in Nigeria. SAGE Open, 5(4), 2158244015610171.

Ajisafe, R. A., &Folorunso, B. A. (2002).The relative effectiveness of fiscal and monetary policy in macroeconomic management in Nigeria. The African economic and business Review, 3(1), 23-40.

Akanni, K. A., &Osinowo, O. H. (2013). Effect of fiscal instability on economic growth in Nigeria". Advances in Economics and Business, 1(2), 124-133.

Amadi, S. N. and Essi, I. D. (2006). "Government Economic Policy and Nigerian Capital Market Behaviour: A Causality Analysis." J. Dev. Alternatives Area Stud., San Antonio, USA.

Audu, N. P. (2012). The impact of fiscal policy on the Nigerian economy. International Review of Social Sciences and Humanities, 4(1), 142-150.

Babalola (2015) Fiscal policy and economic growth relationship in Nigeria. International Journal of Business and Social Science, 2(17).

Babalola, S. J., &Aminu, U. (2011). Fiscal policy and economic growth relationship in Nigeria. International Journal of Business and Social Science, 2(17).

Bolaji, A. A., Olukayode, M. E., &Abdulmaq, A. (2011).Strategic development financing Mix and Economic Growth in Nigeria. Pakistan Journal of Social Sciences, 8(1), 8-12.

Cyril (2016). The effect of fiscal policy on economic growth. Journal of Finance and Accounting, 4(3): 140-145.

Duc-Anh Lea~ Cuong Le Vanb, Phu Nguyen-Van, and Arnelie Barbier-Cauchard (2015) Government expenditure, external and domestic public debts, and economic growth. BETA, CNRS and Universite de Strasbourg and IPAG and CES, Universite Paris Pantheon-Sorbonne

Dornbusch R, and Fischer, S. (1990). Macroeconomics (5thed.) New York: McGraw-Hill Publishing Company.

Joshua Aizenman, Kenneth Kletzer, and Brian Pinto (2007). Economic growth with constraints on tax revenues and public debt: implications for fiscal policy and cross-country differences nber working paper no. 12750.

Mitchell, J. D. (2005). The Impact of government spending on economic growth. backgrounder, 1831. (www.heritage.org/research/budget/bg1831.cfm)

Nurudeen, A., and Usman, A. (2010). Government expenditure and economic growth in Nigeria, 1970-2008: A disaggregated analysis. Business and Economics Journal, 2010, 1-11.

Liu Chih-HL, Hsu C, and Younis MZ, 2008. The association between government expenditure and economic growth: the granger causality test of the United State data, 1974-2002. Journal Of Public Budgeting, Accounting And Financial Management, 20(4): 439-52.

Olugbenga, A. O. and Owoye, O. (2007). Public expenditure and economic growth: new evidence from OECD Countries.

Oriavwote, E., &Eshenake, S. J. Does fiscal policy matters for economic growth? an empirical assessment of the Nigerian situation.

Osuka, B. O., &Chioma, A. J. (2014).The impact of budget deficits on macroeconomic variables in the Nigerian economy. International Journal for Innovation Education and Research, 2(11).

Taiwo, A. S. & Agbatogun, K. K (2011). Government expenditure in Nigeria: a sine qua non for economic growth and development. JORIND, 9(2), 155 – 162.

Samson, A. A. (2013). Government spending and economic growth: evidence from

Nigeria.http://mpra.ub.unimuench. de/43916/.

Samuelson, P. A., & Nordhaus, W. D. (1998).Economics (16thed). Boston: Irwin/McGraw-Hill.

Shelton, C.A (2007). The size and composition of government expenditure. J Public Econ 91:2230–2260

Shonchoy, A.S (2010). Determinants of government consumption expenditure in developing countries: a panel data analysis (IDE Discussion Paper No. 266). Chiba, Japan: Institute of Developing Economies, Jetro