

## Budgetary Operations and Employment Generation: Nigerian Experience

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### Abstract

**Purpose** – The study examines the relationship between ‘budgetary operations and employment generation: Nigerian experience’. In other to attempt the investigations, the study was guided by proffering answers to some cardinal related questions. Prominent among them bother on what functional relationship prevails between government economic, social, transfer expenditure and human development index in Nigeria?

**Design/methodology**– The research design adopted in this study was ex-post facto design, where secondary data sourced from CBN bulletin and NBS annual reports for the period 1986 to 2018. The budgetary operations proxied by Economic Expenditure, Social Expenditure and Transfer Expenditure while employment generation for same period measured by Human Development Index (HDI).

The study employed the Autoregressive Distributed Lag (ARDL) technique to analyse the relationship between budgetary operations and employment generation in Nigerian economy after discovering a fractional integration amongst the employed variables with the aid of Augmented Dickey Fuller unit root test.

**Findings** – The results of the study reveal that while economic expenditure, social expenditure as well as transfer expenditure all exert negative relationships with human development index which all negate the a priori expectations, on the other hand, only social expenditure is statistically significant in relation to human development index in Nigeria within the period of study.

**Conclusion** – Premised on the findings of this study, the study concluded that employment generation issues have not been sufficiently captured in the national budget for capital projects, hence the adverse effect of economic expenditure, social expenditure and transfer expenditure on Human Development Index of Nigeria.

**Recommendations**–The large labour force in Nigeria presents a big opportunity for development, therefore, the study suggested that the government should increase its capital expenditure on human capacity building, through building of skill acquisition centers, more schools to absorb school dropouts, providing accessible loans. Also, effective check and monitoring mechanism should be put in place for the possibility of morale hazard and fund misappropriation, thereby defeating the purpose of government effort in combating against unemployment rate in the country.

**Keywords:** Government Budget, Economic Expenditure, Social Expenditure, Transfer Expenditure, Employment Generation, Human Development Index, Nigeria.

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### I. Introduction

The prosperity of any nation is largely determined by the efficiency with which national resources are allocated and utilised. In fact, all countries and governments have to mobilise resources appropriately and sufficiently, allocate and utilise their resources responsively and efficiently to meet the national goals (Djurović-Todorović & Djordjevic, 2009).

Besides, the budget document is the mechanism through which government establishes its economic and social priorities, sets the direction for the entire economy, determines who gets what and when, as well as provides funds to implement new initiatives/policies (Bengali, 2004). It is therefore suggestive that without the instrumentality of budgeting, resource mobilisation and allocation could be characterised by political frictions and inadequate socio-economic development (Ben-Caleb, 2015).

This Budget proposal, the first by our Government, seeks to stimulate the economy, making it more competitive by focusing on infrastructural development; delivering inclusive growth; and prioritizing the welfare of Nigerians. We believe that this budget, while helping industry, commerce and investment to pick up, will as a matter of urgency, address the immediate problems of youth unemployment and the terrible living conditions of the extremely poor and vulnerable Nigerians (The Budget of Change, 2016).

In recent years, the growth and performance of key macroeconomic indicators in many developing countries has decelerated. The current recession and tightening of global financial conditions in addition to financial market volatility may lead to a decrease or reversals of capital inflows. Since the risk to capital flows can limit monetary policy in these countries, the choice of fiscal policy as a countercyclical tool becomes highly essential. Fiscal policy as a tool of macroeconomic management, is central to the health of any economy, as the tax and expenditure policy of the public sector affects the disposable income of individuals and business organisations. Hence, effective fiscal policy operations will ensure a sound balance of payment and price stability that will provide the atmosphere needed for sustainable economic growth and development (Idris & Bakir, 2017).

Keynes submitted that the persistent unemployment and economic depression were as a result of the failure on the part of the public sector to control the economy through appropriate economic policies. Keynes further suggested that the government's support for knowledge accumulation, research and development, maintenance of law and order, productive investment, and the provision of other public goods and services can encourage growth in both the short-run and the long-run (Blinder, 2016).

This study intends to provide a review of the budgetary operations of fiscal policy in relation to employment generation in Nigeria over a period of three and the half decades. This is because, in an economy in which macroeconomic fluctuations are partly due to the combination of aggregate demand effects and nominal rigidities, fiscal policy has the potentials to reduce these fluctuations to the desired level through aggregate demand and hence increase the level of economic and social welfare (Idris & Bakir, 2017).

### **Statement of Problem**

There is no doubt that Nigeria is endowed with abundant natural resources, but why these resources have not translated into national prosperity remains an intractable question. What seems to be paradoxical is that the more resources are mobilised and spent, the poorer the people and the nation become (Ben-Caleb, 2015).

Over the last decade, Nigeria has seen its economy grow by 5% or more each year and 2.84% in 2015 (The Budget of Change, 2016). A rebasing of its GDP saw the figure reach ₦307.6 billion in 2013, making Nigeria the largest economy in Africa (The International Development Committee, 2016).

However, according to the national bureau of statistics bulletin (NBS, 2018), redundancy rate in Nigeria increased from 18.8% in the third quarter of 2017 to 23.1% in the second to the last quarter of the year 2018. Out of the 9.7 million people that were completely unemployed in Nigeria, 17.2% were without jobs for less than a year. 15.7% were unemployed for about two (2) years while the left over 32% persons were jobless for over 3 years and above (NBS, 2018).

With rapid population growth in Nigeria, unemployment has since become a major issue of concern to successive government in Nigeria since the 1960s. The negative effects of unemployment on Nigerian economy cannot be over emphasized. It results in non-utilisation of resources leading to low productivity. It is also a major cause of rural-urban drift which has led to congestion problems in the urban centres with its attendant problems such as urban unemployment, destitution and high rate of criminal activities, among other problems (Fasoranti, 2010). Unemployment is a serious impediment to social progress. Apart from representing a colossal waste of a country's manpower resources, it generates welfare loss in terms of lower output thereby leading to lower income and well-being (Akinboyo, 1987). Sequel to this menace of unemployment and its attendant's problems despite series of government employment schemes over the years, necessitates this study to examine the effect of budgetary operations on employment generation in Nigeria.

Therefore, the questions that strike the mind at this juncture include:

- i. What functional relationship between economic expenditure and human development index in Nigeria?
- ii. What functional relationship between social expenditure and human development index in Nigeria?
- iii. What functional relationship between transfer expenditure and human development index in Nigeria?

## **II. Literature Review**

### **Budget**

Generally, a budget can be considered as a document, or a quantitative expression of a plan of action which aids the coordination and implementation of the plan (National Minority AIDS Council, 2009). It is a statement of intended expenditure and its sources of finance over a definite period (Osanyintuyi, 2007).

The budget may be considered the high way map which shows the roads to take to reach the desired destination. It is the administration first full statement of its priorities, policies and proposals for meeting the national needs. Government budget is a quantitative and qualitative statement of estimates of in-flows and out-flows that are expected to be realised and incurred respectively in a particular fiscal year, which in Nigeria, starts from January and terminates in December (Ogboru, 2016)

Public sector budgeting is a complex, multi-disciplinary field, having been influenced by many disciplines including political science, public administration, economics and accounting (Onuma & Simpson, 2008). Each of these disciplines had impacted on public budgeting both in theory and in practice. Under this thinking, the public sector budget is an important policy document through which the government establishes its economic and social priorities and sets the direction of the economy (Ben-Caleb, 2015).

Broadly speaking, government budget can be categorized into three types namely: balanced budget, deficit budget and surplus budget (Alade, 2017).

The logical series of activities from budget conception to evaluation is technically called the budget process or simply budgeting. More formally, it is the chain of activities and processes through the gamut of identifying expenditure needs, and mobilising the allocation of resources to meet the needs as well as the monitoring and control of expenditure (Osanyintuyi, 2007). This view of budgeting emphasises the centrality of expenditure and revenue in the construction of a budget, since the needs expressed in a budget can only be realised by the availability of resources (Idahosa, 2002).

The number and delineation of the stages most times depends on the perception and conviction of the author. However, what is also clear is the fact that the stages of the budget process are both discrete and continuous and follows a cyclical pattern; hence it is sometime referred to as the budget cycle. This is because the end of a process (budget audit) signals the beginning of another cycle as well as provides feedback for the first stage (budget formulation), and the cycle continues (Ben-Caleb, 2015). Therefore, budget formulation, budget enactment, budget implementation, budget audit and assessment, and again budget formulation form the budget cycle (Ben-Caleb, 2015)

Ben-Caleb(2015) asserts that effective budgeting refers to the budgetary process that is characterized by discipline, efficiency and effectiveness, integrity, accessibility or transparency and accountability as well as stability. In an effective budget, the budget outcomes must have great resemblance to the original plans. In other words, effective budgeting can be assessed through the following criteria (Ben-Caleb, 2015). This implies that:

- i. Budgetary allocations must be in congruence with national cum citizens' priorities and hence must be geared towards achieving those priority objectives (budget effectiveness)
- ii. Budget estimates must be strictly adhered to or at least only favourable variances are permitted (budget discipline).
- iii. The achievement of budgetary objectives should not put unnecessary pressure (or overheat) on the economy. In other words, the economy should not be thrown into debt or unfavourable balance of payment because of the desire to achieve budgetary objectives (budget Efficiency)

### **Nigerian Budget: An overview**

Section 16 confers the powers of resources management to the state. It recognises the fact that the prosperity of a nation and the welfare of the citizens is the cardinal essence of the existence of the state, and that the resources of the state must be managed prudently for the achievement of government's economic objectives (Constitution of the Federal Republic of Nigeria, 1999).

The Constitution also defines roles and responsibilities in the budget process. For instance, the legislature is expected to influence the budget and to exercise oversight functions on the budget execution. This is to ensure the effectiveness, efficiency and economy of service delivery as well as ensure that public spending is translated into positive impacts on the poor communities. However, this traditional expectation of the Constitution is found to be flouted in practice as multiple institutions have similar and over-lapping responsibilities over budget preparation, management and monitoring (Ajam 2007).

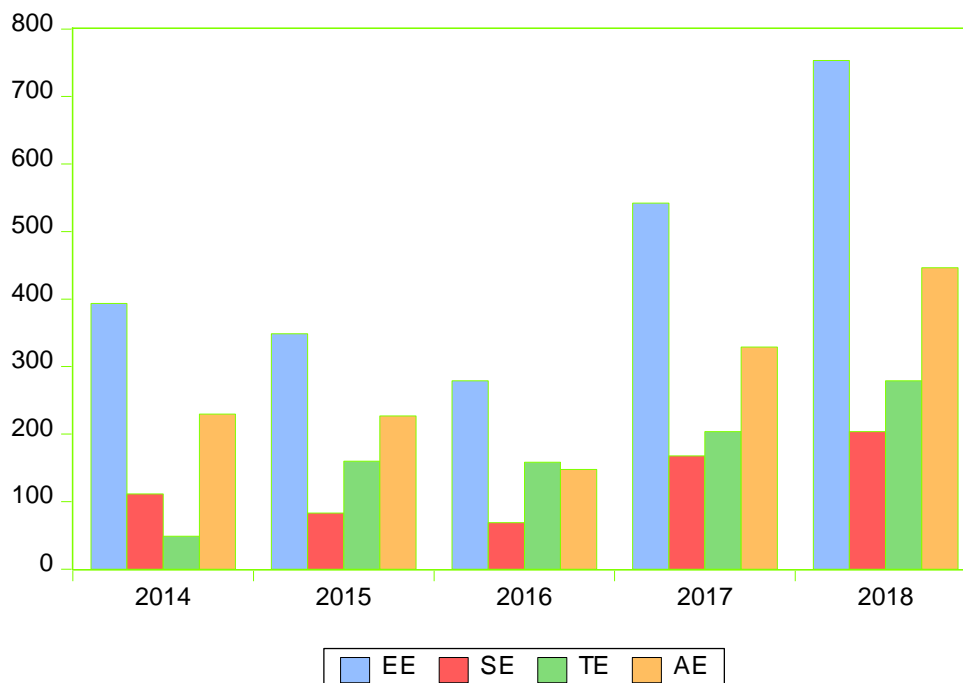
Section 2(a) of the Act makes it clear that one of the core objectives of the CBN is the maintenance of price stability (CBN Act, 2007). This is an important function, since macroeconomic stability which, is a function of price stability is essential for growth and development in any economy. Price stability is the ability of CBN to moderate inflation, attain stable interest and exchange rates as well as create a conducive investment climate for long term growth and development (CBN, 2007). This implies that both monetary and fiscal instrument must be harmonised to achieve the function of price stability (Ben-Caleb, 2015).

The Fiscal Responsibility Act (FRA) was signed into law by President Musa Yar'Adua in 2007. It is meant to ensure prudent management of national resources, a mandate consistent with section 16 of the 1999 Constitution. It was also to ensure long term macroeconomic stability in line with section 2 of the CBN Act 2007. Besides, the FRA was set up to promote greater accountability and transparency in fiscal operations within the medium term fiscal policy framework (Omolehinwa & Naiyeju, 2011).

**Table 1: Budgetary Expenditure Allocations in Nigeria (2014 - 2018)**

| Budget                  | Budgetary Items (2014 - 2018) in Billions |               |               |               |               |
|-------------------------|---|---------------|---------------|---------------|---------------|
|                         | 2014                                      | 2015          | 2016          | 2017          | 2018          |
| Economic Sector         | 393.45                                    | 348.75        | 278.95        | 542.19        | 753.49        |
| Social Sector           | 111.29                                    | 82.98         | 68.80         | 167.66        | 203.42        |
| Transfer of Other Funds | 48.75                                     | 159.82        | 158.14        | 203.51        | 278.94        |
| Administrative sector   | 229.63                                    | 226.81        | 147.72        | 328.94        | 446.25        |
| <b>Total</b>            | <b>783.12</b>                             | <b>818.36</b> | <b>653.61</b> | <b>1242.3</b> | <b>1682.1</b> |

Source: Authors' Compilation Based on CBN Bulletin Data



Source: Eview output on CBN Data 2014 to 2018.

**Figure 1:** Showing Government Capital Spending from 2014 to 2018 in Nigeria

As observed from Figure 1 above, economic expenditure followed by Administrative expenditure have been the priority of government over the years. Although, they were they experience a decline from 2014 to 2016, however, a rapid increase was recorded in them from 2017 to 2018 suggesting increase in income and government effort to tackle economic and administrative problems in the country which is commendable if judiciously employed as we see increase in hardship, poverty, security challenges and criminal activities accelerating. Meanwhile, social expenditure appears given the least government attention which truly reflects the state of the country with incessant epileptic power supply, poor facilitated health sector, decay in educational sector, and lots more.

Major sources of budgeted revenue to Nigeria includes: oil related revenues, non-oil revenues, comprising Company Income Tax (CIT), Value Added Tax (VAT), Customs and Excise duties, and Federation Account levies (The Budget of Change, 2016).

In 2016, the projected revenue was N3.45 trillion, with an outlay of N4.49 trillion, implying a deficit of N1.04 trillion. The 2016 Budget was based on a benchmark oil price of \$53 per barrel, oil production of 2.28 million barrels per day and an exchange rate of N190 to the US\$ (The Budget of Change, 2016).

If budgets are fully implemented, it will impact positively on the lives of the citizens. For instance, if the budget provides for recruitment of people in a given year and they are recruited, it will create more income, enhance the revenue base of government through income tax and generally improve the life of the employee and his/her dependants.

**Associated Bottlenecks with Budget Implementation in Nigeria**

Nigeria as an emerging country, distortions to national budget have been: domestic security challenges, declining oil prices, and the attendant difficulties in providing foreign exchange to meet market demands (The Budget of Change, 2016).

Ogboru (2016) posits that budgeting processes in Nigeria are fraught with a number of problems, among which are the problems of:

- (i) Implementation by unqualified personnel;
- (ii) Deliberate deviation from the budget plan by the executive;
- (iii) Lack of well-defined lines of authority; and
- (iv) Inability of projecting realisable estimates.

Whether budget takes place on an arbitrary basis at the military era, or is subjected to scrutiny at various stages by the executive and legislative arms of government before the budget is finally approved like the civilian administration, the budget process has always been abused (Ezeagbe & Adigwe, 2015). Ezeagbe and Adigwe (2015) identifies a number of visible bottlenecks associated with budget implementation in Nigeria to include: non-release, partial release or delay in the release of approved funds for budgeted expenditure. It has been observed that on occasion funds allocated for a particular quarter are made available only at the end of that quarter.

### **The Dilemma of unemployment in Nigeria**

Labour Organization (ILO) defines the unemployed as numbers of the economically active population who are without work but available for and seeking work, including people who have lost their jobs and those who have voluntarily left work (World Bank, 1998). According to Fajana (2000), unemployment refers to a situation where people who are willing and capable of working are unable to find suitable paid employment. It is one of the macro-economic problems which every responsible government is expected to monitor and regulate. The higher the unemployment rate in an economy the higher would be the poverty level and associated welfare challenges. Fajana (2000), Alao (2005), and Wikipedia (2010) identify the following types of unemployment. President Muhammadu Buhari acknowledged this and cry situation by he asserts that:

*I know the state of our economy is a source of concern for many. This has been further worsened by the unbridled corruption and security challenges we have faced in the last few years. From those who have lost their jobs, to those young people who have never had a job, to the people in the North East whose families and businesses were destroyed by insurgents, this has been a difficult period in our nation's history, lessons that we must not forget or ignore, as we plan for the future (The Budget of Change, 2016).*

As we focus on inclusive growth, we are conscious of the current rate of unemployment and underemployment. This is a challenge we are determined to meet; and this budget is the platform for putting more Nigerians to work. I can assure you that this administration will have a job creation focus in every aspect of the execution of this budget. Nigeria's job creation drive will be private sector led. We will encourage this by a reduction in tax rates for smaller businesses as well as subsidized funding for priority sectors such as agriculture and solid minerals (The Budget of Change, 2016).

### **Employment Promotion Programmes in Nigeria**

Both fiscal and monetary policies have among their major aims the need to create full employment (Central Bank of Nigeria, 2011). And in bid to fulfill this mission, several employment promotion programmes have been put on gear which calls for a review.

Successive Nigerian National Development Planning has stressed the importance of manpower development, utilization, promotion and creation of job opportunities. The policies and programmes that were put in place in some of the previous plans to address areas of manpower lapse are discussed below.

**a) Expatriate Quota Allocation Policy (1963):** The aim was to ensure that expatriate were only employed in areas with persistent acute shortage of indigenous personnel (Adeyemi, 1996).

**b) ITF, CMD and ASCON:** The Industrial Training Fund (ITF) Decree No.47 of 1971 made it mandatory for all employers with 25 employees and above to pay a training level of 1% of their annual payrolls to the ITF while employers were to be reimbursed up to 60% of the cost of training programmes arranged for their employees on annual basis. The purpose of this was to promote the employment of indigenous manpower through enhanced training programmes. The fund was also a major contributor to the training programmes of the Centre for Management (CMD) which was established by an enabling decree in 1976.

**c) National Directorate of Employment (NDE):** This was established on November 22nd 1986, an enabling decree – Decree No. 24 of 1989 - gave it legal backing and made it the national agency for tackling unemployment in the country. The overriding objectives of NDE were to give training opportunities to the unemployed, especially the youth, by providing guidance, finance and other support services, to help them create jobs for themselves and for others.

**d) National Poverty Eradication Programme (NAPEP)** which commenced operation in 2002. The impact of these programmes and policies on employment generations over the years will be assessed with a view to determining the effectiveness of the policies in addressing unemployment problems in Nigeria.

**e) N-Power:** The N-power is also linked to the Federal Government's policies in the economic employment and social development arenas. It was initiated in 2016 under the administration of President Muhammadu Buhari to alleviate the attendant ills associated with unemployment. The scheme which commenced in batches absorbed

over 500 graduates, some into the educational sectors, others equipped with divers entrepreneurial skills needed for economic growth and development.

### **Challenges to Employment Promotion Programmes**

The general failure to make substantial positive impact in the massive employment crises facing Nigeria in the last two decades represents a major challenge to this employment promotion programmes in Nigeria. This failure on the part of this programmes have been attributed, amongst others to the application of flawed policy regimes; collapse of investment ratio and financial intermediation; failure of infrastructural policies; deficient governance structure and mismanagement, poor projects/policy design; problems of the education sector, inadequate mainstreaming of employment issues in guiding policy instruments like NEEDS (National Economic Empowerment and Development Strategy) and the poor implementation, monitoring and evaluation of projects and annual budgets (Nigerian Vision 20-20 Program, 2009). In addition, the policies have focused on skill development and micro credit delivery for self-employment given the importance of the informal sector in most African countries. Less attention has been paid to policies and programmes to enhance the capacity of the private sector to generate more employment opportunities in Nigeria. Many people are yet to be aware of the existence of this special programme such as the NDE in rural especially in rural areas in Nigeria. In addition, very limited funds have been provided for this programme thereby hindering their smooth operations. The continuous dependence on oil revenue as a major source of revenue also presents a major challenge to implementation of development programmes. The international oil market is not stable and therefore any planning made based on the price of oil in the international market is subject to distortions both internally and externally. The rapid population growth rate of the country also presents another major challenge. This has contributed immensely to rapid growth of the labour force in Nigeria. The corollary of this is that the rate of growth of labour force is higher than that of employment generation and this has impacted on the rate of growth of unemployment in Nigeria.

More so, because of lack of managerial effectiveness in developing countries, the best efforts to secure growth that is commensurate with aspirations, especially in Nigeria is usually frustrated (Ojo, 2012). This boils down to the quality of education and training received by the citizens. In other words, a country that is seriously short of the trained manpower and other resources essential to keep any nation viable, and equally critically dependent, above all, in the character and capacity of its public bureaucracy will definitely find it difficult to attain whatever future goal it may set for itself (Ojo, 2012).

### **Theoretical Underpins**

According to the Keynesian economist, fiscal policy is a key tool of economic management. The role of government is very crucial in maintaining the economy at the full employment. This is done by managing the level of aggregate demand until the economy is at full employment. Therefore, an increase in government expenditure increases aggregate demand. A minimal reduction in personal income tax increases disposable income thereby increasing aggregate demand. Nevertheless government expenditure is one of the components of aggregate demand (Obayori, 2016). The equation as shows below:

$$Y=C+I+G+ (X-M) \quad (1)$$

Where; Y = aggregate demand, C= consumption, I =investment, G= government expenditure, X=Export, M=Import and X-M = net export.

From the equation above, it follows that an expansionary and well-coordinated fiscal policy will help to create employment in the country. This is done by increase government expenditure in the country with an appropriate policy mix improvement in quality of government expenditure. To achieve full employment, government increases taxes on goods that are not locally produced as a means of increasing revenue. Conversely, government give tax concession to local entrepreneur in order to encourage greater exports volume to pay for increased imports. Also, tax concession is a means of encouraging local production and employment creation and as well reducing the level of imports (Obayori, 2016). Therefore, increased government expenditure stimulates greater export volume which will in turn translate to appreciation of a country's currency value. To this end, sustained fiscal deficits with consistent fiscal discipline will stabilize the economy both in the short and long run.

Furthermore, in the Keynesian theory, employment depends upon effective demand which results in increased output, output creates income and income provides employment. Here regarded employment as a function of income. Effective demand is determined by aggregate supply and demand functions. The aggregate supply function depends on physical or technical conditions which do not change in the short run, thus it remains stable. Keynes (1934) concentrated on aggregate demand function to fight depression and unemployment. Thus, employment depends on aggregated demands which in turn are determined by consumption demand and investment demand. According to Keynes, employment can be increased by increasing consumption and investment. Consumption depends on income and when income rises, savings rises.

Consumption can be increased by raising the propensity to consume in order to increase income and employment but the psychology of the people such as taste and habit which are also constant in the short run. Therefore, the propensity to consume is stable. Employment thus depends on investment (Obayori, 2016). Thus, to increase employment level, there must be an increase in investment.

### **Empirical Review**

Empirical studies on the nexus between fiscal and the economy abound both in the developed and developing countries. But only those that are directly relevant to the current study are discussed below. For instance, Arewa and Nwakahma (2013) examined the relationship between government expenditures and a set of macroeconomic variables (GDP), consumer price index and unemployment) for the period of 1981 to 2011. The study adopts Johansson multivariate co-integration for its estimation procedure and found that there is long-run relationship between government expenditure and the specified macroeconomic variables. Also, the study found that an increase in capital expenditure improves economic bliss, while recurrent expenditure is detrimental to growth.

Austin and Ogbole (2014) examined public sector spending and macroeconomic variables in Nigeria for a period of 1970-2010. A test of causal relationships between government expenditure (GE) and other explanatory variables- GDP, unemployment (UER), inflation (IFR) Balance of payment (BOP) was examined using OLS and Johanson's co-integration/ Granger causality tests. The results of the analysis shows that public sector was more effective though marginally in stimulating economic growth (measured by GDP) in the period of regulation and more effective in reducing unemployment and enhancing BOP in the period of deregulation. With respect to maintaining price stability, the public sector was significantly more effective in the period of deregulation. Granger causality test shows causal flow from government expenditure (GE) to BOP no causal flows to GDP, inflation rate (IFR) and unemployment (UER).

Danjuma and Bala (2012) examined the role of governance in employment generation in Nigeria. The study employed primary data obtained through the use of interviews. The findings of the study showed that unemployment rate in Nigeria created tension and hatred between the people and leads to communal clashes that resulted in the emergence of militant groups (like the Boko Haram sect and Niger Delta militant), prostitution, armed robbery and child trafficking, constituting hiccups to security of lives and properties.

Attamah, Anthony and Ukpere (2015) investigate the impact of fiscal and Monetary Policies on Unemployment rate Problem in Nigeria and covers the periods 1980 to 2013 using OLS, the Augmented Dickey-Fuller Test, co-integration tests and Engle Granger approach. Error correction models were estimated to take care of the short run dynamics. It was found that while government expenditure had a positive relationship with Unemployment rate problem in Nigeria, the result of government revenue was negative and insignificant on Unemployment rate problem. For monetary policy, it was found that money supply and exchange rate had positive and significant impact while interest rate has only a positive relationship on Unemployment rate problem in Nigeria. The study also revealed that increases in interest and exchange rates escalate Unemployment rate by increasing cost of production which discourages the private sector from employing large workforce. On the other hand, national productivity measured by real GDP had a negative and significant impact on Unemployment rate rate in Nigeria. The study recommended that for an effective combat to Unemployment rate problem in Nigeria, there should be a systematic diversion of strategies, and thus more emphasis should be laid on aggressively pursuing entrepreneurial development and increased productivity.

Abubakar (2016) investigates the effect of fiscal policy shocks on output and unemployment in Nigeria under the Keynesian framework by employing the Structural Vector Autoregression (SVAR) methodology to analyse annual series on the relevant variables for the period 1981-2015. Augmented Dickey Fuller (ADF) test for unit root result shows all variables to be integrated of order one and Johansen Cointegration test confirms the presence of long run association among the variables. Findings of the SVAR model shows shock in public expenditure as having a positive long- lasting effect on output. Revenue shock was found to exert a positive effect (lower than that of public expenditure shock) on output. However, the effect of revenue shock on unemployment was found to be negative but short-lived. The study suggested that government should restructure its spending pattern by allocating more to productive expenditure. In the same vein, it was suggested that government should harness its revenue potentials by expanding its revenue base via effective and efficient taxation system and also through diversification of its revenue base.

Obayori (2016) investigates fiscal policy and unemployment in Nigeria (1980 - 2013). The data was analyzed with the co-integration and ECM methods. The findings are: the test for stationarity using Augmented Dickey Fuller (ADF) showed that all the variables were stationary at various levels. The Johansen-Juselius co-integration employed in testing for long run equilibrium relationship among the variables indicated that cointegrating relationship was found among the variables. The parsimonious ECM result reveals that the two independent variables (Government Capital and Recurrent Expenditure) have both negative and significant relationship with unemployment in Nigeria. The result also reveals a long run relationship between fiscal policy

and unemployment, as depicted by both the sign and the statistical significance of the coefficient of the ECM. From the result so far, it is obvious that fiscal policy is effective in reducing unemployment rate in Nigeria. Based on these findings, the paper recommends amongst others that expansionary fiscal policy should be encouraged as it plays a vital role in the development process of an economy. Also, there should be appropriate policy mix improvement in quality of government expenditure. This will enable Nigeria government to increase her capital expenditure especially in the area of infrastructural development e.g power supply so that the citizenry can utilize such to boost the production and hence increase employment opportunities in Nigeria.

Emmanuel (2017) empirically examined the impact of fiscal fundamental on unemployment in Nigeria. The study employed the Annual data on government expenditure, government revenue, interest rate, and public debt from Central Bank of Nigeria Statistical Bulletin covering the period of 1981-2015. The result of this study shows that government expenditure (GX) and interest rate (IR) exerts significant positive impact on unemployment rate in Nigeria where government revenue (GR) and public debt (PDT) has insignificant positive impact on unemployment rate in Nigeria. The result equally shows that unemployment granger cause government expenditure and government revenue in Nigeria. It was concluded that fiscal fundamental does not granger cause the rate of unemployment in the country, thus, the pass values of government expenditure, government revenue and public debt does not significantly influence the rate of unemployment in the country. Consequently, the study recommends that government should refocus expenditure in the country to areas such as development of infrastructural facilities so as to increase the rate of productivity in the country and bade economic growth necessary for increase employment of labour. Government should also redefine its priority to include harnessing of other courses of revenue of the country, such as massive investment in the exportable agricultural products in the country. In contrast, government should also design framework that will ensure effective implementation and completion of project and programmes in the country so as to ensure that objectives of each project and programme is achieved most effectively and efficiently.

Olukayode and Alimi (2018) investigates the impact of fiscal policy instruments on employment generation in Nigeria within the periods of 1980-2015. The study used the Augmented Dickey Fuller test to estimate the stationarity level, Engel Granger cointegration test for long-run relationship and ordinary leastsquare for long-run estimates. The findings show that government spending and manufacturing output had negative impact on unemployment rate in Nigeria. It suggests that government spending and output from manufacturing industry reduce unemployment rate in Nigeria. However, tax revenue and agricultural output have direct impact on unemployment rate in Nigeria. The findings suggest that government expenditure has the potential of creating more jobs if they were expended on appropriate capital projects that are capable of facilitating employment creation and linking rural-urban centres smoothly and not encouraging migration. Manufacturing sector also has the prospect of alleviating jobless growth, likewise the agriculture sector if policies are targeted at raising their outputs.

### **III. Methodology**

The research design adopted in this study was ex-post facto design (the use of secondary data). This study is to empirically evaluate the budgetary operation role fiscal policy on employment generation in emerging economy such as Nigerian Economy. Data used in this study were all observational secondary panel data extracted from the Central Bank of Nigeria (CBN) statistical bulletin and annual reports and accounts for the 1986-2018 periods. We aimed at examining the relationship between the budgetary operations (measured by Economic Expenditure, Social Expenditure and Transfer Expenditure) and employment generation for same period measured by Human Development Index (HDI).

The study employs the Autoregressive Distributed Lag (ARDL) technique to analyse the relationship between budgetary operations and employment generation in Nigerian economy.

Following the postulation of Obayori (2016) and the theoretical underpinnings of the Keynesian model which states that expansion of government expenditure accelerates human development which captures employment generation, and other empirical review earlier made in this paper, we can hypothesize that Human Development Index (HDI) is a positive function of, economic expenditure, social expenditure and transfer expenditure of the federal government budget of Nigeria. Given these considerations, we can specify a three-predictor model of budgetary-economic growth model linearly as:

Human Development Index (HDI) expressed as a function of Economic Expenditure (EE), Social Expenditure (SE), Transfer Expenditure (TE).

The functional form of the model is:  $HDI = f(EE, SE, TE) (+) (+) (+)$

Where

HDI = Human Development Index

EE = Economic Expenditure

SE = Social Expenditure

TE = Transfer Expenditure



The econometric model for the research is set explicitly as follows:

$$HDI = \beta_0 + \beta_1 EE + \beta_2 SE + \beta_3 TE + \mu$$

Where

$\mu_t$  = Error term

$\beta_0$  = Intercept  $\beta_1$ ,

$\beta_2$  and  $\beta_3$  = Coefficients

#### IV. Results and Discussion

As earlier stated, economic expenditure, social expenditure and transfer expenditure are used to capture budgetary operations, while Human Development Index (HDI) employed to proxy employment generation for the period 1986 to 2018. These data are hence presented under appendix 1.

**Table 3:** ADF Stationary (Unit Root) Test Result

| Variable | ADF test statistic | Critical Value 5% |           |           | Order of Integration | Prob.  |
|----------|--------------------|-------------------|-----------|-----------|----------------------|--------|
|          |                    | 1%                | 5%        | 10%       |                      |        |
| HDI      | -8.105748          | -4.296729         | -3.568379 | -3.218382 | I(1)                 | 0.0000 |
| EE       | -5.458061          | -4.356068         | -3.595026 | -3.233456 | I(0)                 | 0.0008 |
| SE       | -6.369647          | -4.296729         | -3.568379 | -3.218382 | I(1)                 | 0.0001 |
| TE       | -4.974799          | -4.296729         | -3.568379 | -3.218382 | I(1)                 | 0.0020 |

Source: E-view (Version 10) Output

As observed in table 3, there is a fractional integration, as some of the variables are stationary at difference 1(1) while Economic expenditure is stationary at level 1(0). Thus, evidence of stationarity at first difference is very strong for human development index, social expenditure and transfer expenditure but weak for economic expenditure.

The conclusion is that the study variables have different orders of integration. Economic expenditure is integrated at zero order or I(0) while human development index, social expenditure and transfer expenditure all have first order integration or I(1). These results have implication for ARDL methodology which, unlike its competitors (e.g. Johansen and Engle-Granger co-integration frameworks), allows co-integration among variables that have different orders of integration. Therefore, the use of ARDL method for data analysis in this study has been justified.

#### ARDL Lag Order Selection

As it is well known, optimal lag determination is the first stage in empirical analysis involving dynamic models. The lag order selection for our ARDL model was based on the Schwarz information criterion (SIC). The decision rule is to select the lag order that corresponds to the minimum value of SIC.

From the optimum lag length selection exercise, the minimum values of the AIC and SIC are -3.095333 and -2.910302 respectively, and the model that gives this minimum values is ARDL (1,1,1,0). This implies that a model that includes one lag of the dependent variable and one lag of Transfer Expenditure as additional repressors is the best description of our time series data.

**Table 4:** Result of Autoregressive Distributive Lag (ARDL) Estimation

| Relative Utility Statistics |                             |                    |                        |
|-----------------------------|-----------------------------|--------------------|------------------------|
| Variable                    | Coefficients                | t-Statistics       | Prob.                  |
| HDI(-1)                     | 0.762014                    | 2.978862           | 0.0107                 |
| EE                          | -0.002458                   | -1.656417          | 0.1216                 |
| SE                          | -0.005720                   | -2.530755          | 0.0251                 |
| TE(-1)                      | -0.001373                   | -1.207368          | 0.2488                 |
| C                           | 0.413630                    | 2.940017           | 0.0115                 |
| Global Utility Statistics   |                             |                    |                        |
| $R^2 = 0.936351$            | $F\text{-Stat.} = 12.74958$ | $Prob. = 0.000021$ | $DW. Stat. = 2.080372$ |

Source: Extract from E-view 10 Output on 1986 to 2018 CBN Data

A priori expectations are that all the variables should have a positive relationship with the HDI (that is, employment generation). From the ARDL results shown in Table 4 above, coefficient of determination ( $R^2$ ) for the model is 0.936351 indicating the strength of the independent variables to explain changes/variations that take place in the dependent variable. It implies that, the independent variables explain or account for 93.6 percent of variation in the dependent variable. That is, 93.6% of the variations in Human Development Index (HDI) are explained by the economic expenditure, social expenditure and transfer expenditure. In other words, about 6.4 percent of variation in the dependent variable is caused by other factors not included in the model. In line with the output of the analysis, the model will appear with its estimates as follows:

$HDI = 0.413630 - 0.002458EE - 0.005720SE - 0.001373TE + \mu$ .

The coefficients of EE, SE and TE assumes a negative value. This implies that one percentage point rise in government expenditure on economic activities, social infrastructures and transfers in form of grants, loans, etc. retardshuman development index by 0.0023, 0.0057 and 0.0014 percent respectively. It is worthy to note while EE and TE exert insignificant relationships as their t-statistics probabilities are greater than 0.05 significant level, SE exerts significant relationship with human development index. These resultsdo not conform to the a priori expectation with the negative signs.

The robustness of this result is further buttressed by an F-statistic of 12.74958 while the Durbin-Watson statistic of 2.080372 clearly indicates that there is no effect of serial correlation among the variables used in the study. With the Probability of F-statistic of 0.000021, it is significant enough to conclude that the model has performed well.

The negative coefficient of economic, social and transfer expenditure is not surprising because budgetary provisions or fund budgeted, meant for the development of the production sector have not been properly utilized and in most cases embezzled, thus precipitating the increasing dependent on imported goods, thereby increasing the level of unemployment in the country. This finding supported the work of Imide and Imoughele (2019); Omodero (2019) whose findings reveal that government's budgetary operation have insignificant negative influence on HDI in Nigeria.

## V. Conclusion and Recommendations

Premised on the findings of this study, the study concluded that employment generation issues havenot been sufficiently captured in the national budget for capital projects, hence the adverse effect of economic expenditure, social expenditure and transfer expenditure on Human Development Index of Nigeria. Therefore, the study suggests that the government should increase its capital expenditure on human capacity building, this is in line with endogenous growth theory which states that investment in human capital hasexternal spillovers that lead to economic growth. These investments are in form of researchand development (R&D) which are capital intensive projects, building of skill acquisitioncenters, more schools to absorb school dropouts. Also, Government should diversify the economy with a view to developing alternatives sources of revenue to the government. The large labour force in Nigeria presents a big opportunity for development. Government should provide an enabling environment for growth of both the private and the informal sector in Nigeria. For example, loans are inaccessible to SMEs. There is a compelling need to solve the problems of inaccessibility of loans for small scale businesses and informal sector economic operators by government. This will promote employment generation for the teeming youths and therefore contribute to overall development in Nigeria. Moreover, effective check and monitoring mechanism should be put in place for the possibility of morale hazard and fund misappropriation, thereby defeating the purpose of government effort.

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**Appendices**

**Appendix 1: Showing Data of Variables employed in the Study**

| YEAR | HDI   | EE    | SE    | TE    |
|------|-------|-------|-------|-------|
| 1986 | 0.393 | 12.90 | 7.69  | 76.31 |
| 1987 | 0.38  | 33.89 | 9.72  | 27.89 |
| 1988 | 0.37  | 25.52 | 20.70 | 31.02 |
| 1989 | 0.378 | 26.12 | 12.27 | 44.20 |
| 1990 | 0.322 | 14.49 | 8.72  | 64.65 |
| 1991 | 0.328 | 11.10 | 5.26  | 71.84 |
| 1992 | 0.348 | 5.88  | 5.36  | 75.89 |
| 1993 | 0.389 | 33.66 | 6.56  | 44.95 |
| 1994 | 0.384 | 38.22 | 7.04  | 42.35 |
| 1995 | 0.452 | 35.62 | 7.61  | 45.76 |
| 1996 | 0.393 | 55.34 | 4.07  | 33.62 |
| 1997 | 0.456 | 62.90 | 2.56  | 16.16 |
| 1998 | 0.439 | 65.00 | 7.56  | 16.02 |
| 1999 | 0.455 | 64.97 | 3.46  | 22.98 |
| 2000 | 0.462 | 46.57 | 11.68 | 19.50 |
| 2001 | 0.463 | 59.21 | 12.16 | 17.40 |
| 2002 | 0.4   | 67.00 | 10.10 | 0.00  |
| 2003 | 0.4   | 40.54 | 23.06 | 0.00  |
| 2004 | 0.428 | 47.75 | 8.56  | 4.48  |
| 2005 | 0.434 | 51.02 | 13.74 | 2.21  |
| 2006 | 0.444 | 47.47 | 14.24 | 4.76  |
| 2007 | 0.448 | 47.20 | 19.87 | 3.03  |
| 2008 | 0.453 | 52.48 | 15.84 | 1.80  |
| 2009 | 0.457 | 43.89 | 12.57 | 18.23 |
| 2010 | 0.462 | 46.64 | 17.17 | 6.75  |
| 2011 | 0.467 | 42.07 | 10.11 | 22.59 |
| 2012 | 0.512 | 36.69 | 11.14 | 30.40 |
| 2013 | 0.501 | 45.63 | 13.96 | 14.82 |
| 2014 | 0.524 | 50.24 | 14.21 | 6.23  |
| 2015 | 0.527 | 42.62 | 10.14 | 19.53 |
| 2016 | 0.53  | 42.68 | 10.53 | 24.19 |
| 2017 | 0.532 | 43.64 | 13.50 | 16.38 |
| 2018 | 0.541 | 44.79 | 12.09 | 16.58 |

**Source:** CBN Statistical Bulletin and NBS, 2018

**Appendix 2: Showing Result of Autoregressive Distributed Lag**

Dependent Variable: HDI  
 Method: ARDL  
 Date: 09/11/19 Time: 21:47  
 Sample (adjusted): 1990 2018  
 Included observations: 29 after adjustments  
 Maximum dependent lags: 4 (Automatic selection)  
 Model selection method: Akaike info criterion (AIC)  
 Dynamic regressors (4 lags, partial automatic): EE SE @FL(TE,1)  
 Fixed regressors: C  
 Number of models evaluated: 100  
 Selected Model: ARDL(3, 4, 4, 1)

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.* |
|--------------------|-------------|-----------------------|-------------|--------|
| HDI(-1)            | 0.762014    | 0.255807              | 2.978862    | 0.0107 |
| HDI(-2)            | 0.663973    | 0.200593              | 3.310057    | 0.0056 |
| HDI(-3)            | -0.500582   | 0.251690              | -1.988884   | 0.0682 |
| EE                 | -0.002458   | 0.001484              | -1.656417   | 0.1216 |
| EE(-1)             | -0.002486   | 0.001259              | -1.974094   | 0.0700 |
| EE(-2)             | 0.001960    | 0.000758              | 2.585360    | 0.0226 |
| EE(-3)             | -0.001757   | 0.000705              | -2.492437   | 0.0270 |
| EE(-4)             | 0.000790    | 0.000609              | 1.297655    | 0.2170 |
| SE                 | -0.005720   | 0.002260              | -2.530755   | 0.0251 |
| SE(-1)             | -0.004406   | 0.002197              | -2.005603   | 0.0662 |
| SE(-2)             | -0.000485   | 0.001430              | -0.339169   | 0.7399 |
| SE(-3)             | -0.002305   | 0.001260              | -1.830162   | 0.0902 |
| SE(-4)             | 0.001957    | 0.001116              | 1.754422    | 0.1029 |
| TE                 | -0.002194   | 0.001123              | -1.953612   | 0.0726 |
| TE(-1)             | -0.001373   | 0.001137              | -1.207368   | 0.2488 |
| C                  | 0.413630    | 0.140690              | 2.940017    | 0.0115 |
| <hr/>              |             |                       |             |        |
| R-squared          | 0.936351    | Mean dependent var    | 0.446586    |        |
| Adjusted R-squared | 0.862909    | S.D. dependent var    | 0.059367    |        |
| S.E. of regression | 0.021981    | Akaike info criterion | -4.496157   |        |
| Sum squared resid  | 0.006281    | Schwarz criterion     | -3.741787   |        |
| Log likelihood     | 81.19427    | Hannan-Quinn criter.  | -4.259897   |        |
| F-statistic        | 12.74958    | Durbin-Watson stat    | 2.080372    |        |
| Prob(F-statistic)  | 0.000021    |                       |             |        |

\*Note: p-values and any subsequent tests do not account for model selection.

Source: E-View output (Version 10)

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