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PUBLIC INVESTMENTS AND NIGERIA'S EXTERNAL DEBT PROFILE

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ABSTRACT

The study investigated the relationship between public investment and Nigeria's external debt profile from 2015 to 2024. The specific objectives are as follow: to examine the relationship between capital expenditure on education and Nigeria's external debt, to investigate the relationship between capital expenditure on agriculture and Nigeria's external debt and to evaluate the relationship between capital expenditure on health care and Nigeria's external debt. Data for the study were collected from Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS) Report and Debt Management Office (DMO). Data were analyzed using correlation analysis model. The result showed that there is a weak positive and insignificant relationship between capital expenditure on education and Nigeria's external debt. With a P-value of 0.507, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of 0.239% which indicates that increase in capital expenditure on education weakly increases nation's external debt by 23.9%. It also revealed that there is an insignificant and weak negative relationship between capital expenditure on agriculture and Nigeria's external debt. With a P-value of 0.437, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of -0.278% which indicates that increase in capital expenditure on agriculture decreases Nigeria's external debt by -27.8%. It also showed that there is an insignificant and weak negative relationship between capital expenditure on health care and Nigeria's external debt. With a P-value of 0.944, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of -0.026% which indicates that increase in capital expenditure on health care decreases Nigeria's external debt by -2.6%. The study recommends among others that government at all levels should only seek external borrowing when vital priority projects are being considered and should equally place a limit on external borrowing.

1.0 INTRODUCTION

The most important function of government expenditure is to maintain reasonable degree of price level stability and sustain the rate of economic growth that will enhance the economy to achieve full developmental potential and stabilization (Oluwatoyin, Tamunotonye, Olabisi & Tomike 2019). Onoja & Adione (2019) argued that the theories of Wagner, Big Push theory, Musgrave theory of increasing government activities, and the theory of deficit financing, all underlined the need for government spending to improve economic welfare through the provision of public goods. High levels of government expenditure are potential ways to increase the level of employment, investment and profitability via multiplier effects on aggregate demand. Thus, government expenditure can contribute positively to economic growth and lead to economic development. Public investments have been viewed as the creation of physical assets which include economic infrastructure (roads, airports, seaports, energy network) and social infrastructure (schools and hospitals) that foster development in the economy. Furthermore, Adeosun, Orisadare & Fagbemi (2020) emphasized that public investment stimulates the stock of capital which is embedded as a component of the aggregate production function In relation to Nigeria and given the severe infrastructural deficit in the country, as reported by World Economic Forum which ranked Nigeria 132 out of 138 countries, Total Factor Productivity (TFP) growth underscores the pitfalls of limited focus on the quality of capital spending. Comparatively, public investment management system also ranked Nigeria in the four bottom countries worldwide owing to dire deficiencies in the selection of projects and evaluation (World Bank 2017). Bosco, Omeje & Obayori (2019) emphasized that capital expenditure on education brings about growth and development in human capital which provide a better quality of life to every citizen of any nation Agriculture in the past was the largest sector in Nigeria and still accounts for more than twenty five percent of Gross Domestic Product (CBN 2019). The sector employed about sixty percent of the labour force. Prior to 1970s, agriculture provided the needed food for the population as well as serving as a major foreign exchange earner for the country. David (2017) views the sector as a source of raw material for the agro-allied industries. Economic researchers have attributed the present economic problem in Nigeria to the poor performance of agricultural sector. To attain agricultural sector goals in Nigeria, several policies were formulated and implemented. According to the Commission on Macroeconomics and Health (2011), the minimum financial needs per person per year to cover essential intervention is estimated to be between US$30 and US$40. In Nigeria, health expenditure is estimated to be US$8 per capita compared to the international recommendation. While health care needs are increasing, government capital expenditure on health in Nigeria is declining in terms of exchange rate.

Statement of the Problem

In Nigeria, there has been a sharp rise in government expenditure due to increased demand for public goods and services such as education, health care, security and even food. Unfortunately, this increase in government expenditure has not translated to meaningful growth and development in terms of standard of living of the citizens. Furthermore, the problem of the increase in Nigeria's external debt profile is also a major obstacle facing the country's economic development. Apparently, greater revenues of the country were devoted to servicing her debt, thus playing down on capital investment which invariably affects macroeconomic indicators such as balance of payment, inflation rate, exchange rate and national savings. Although capital expenditure on various sectors of the economy is crucial for growth and productivity, but many have questioned the effectiveness and consequences of such expenditures. There have been arguments on whether external debt is a veritable instrument for promoting capital expenditure in debtor nations. Empirical findings in this area vary. Some scholars are of the opinion that capital expenditures have no significant relationship with the

countries debt, others believe that there is a significant relationship between them. It is against this backdrop that a study to investigate the relationship between public investments and Nigeria's external debt profile is carried out.

Objective of the Study

The broad objective of the study is to determine the relationship between public investment and Nigeria's external debt profile. The Specific objectives of the study will be:

1. To examine the relationship between capital expenditure on education and Nigeria's external debt

2. To investigate the relationship between capital expenditure on agriculture and Nigeria's external debt.

3. To evaluate the relationship between capital expenditure on health care and Nigeria's external debt.

Review of Related Literature

Public Investment

Public investment is investment by the state in particular asset whether through central or local government or through publicly owned industries or corporations. Ibrahim and Suleman (2022) are of the opinion that public investment has arisen historically from the need to provide certain goods and services that are deemed to be of vital national interest. It tends to increase as a consequence of industrialization and corresponding demands for new infrastructure to facilitate the growth of towns and communities. Public investment is measured quantitatively, on an annual basis, as a percentage of total national income in a given period. It includes physical or tangible investment in infrastructure (for example, transport, telecommunications and buildings); human or intangible investment in education, skills, and knowledge; and current investment in the consumption of goods and services (for example, welfare benefits and pensions). In Nigeria, government invests in various sectors of economy in form of capital expenditure (Edeme and Nkalu 2016).

Capital expenditure on Education

Education can be viewed as a mode through which an individual obtains the requisite physical and social abilities or competencies needed for the development of a society. Education is a system by which the necessary knowledge and understanding are gained through the methods of teaching and learning. The role education plays in the national development of any nation cannot be over-emphasized. It has been established that no country can develop beyond her educational level (Ugbogbo, Akwemoh and Omoregie, 2013). Orji and Job (2013) are of the opinion that in order to position Nigerian economy for a more desirable and meaningful development, the challenges facing the Nigerian educational sector and its reforms should be approached in a more pragmatic manner that would ensure sustainability, soundness and healthy environment in the system. The government at all levels should desist from paying lips services to many problems facing the sector which is considered pivotal to economic transformation of any nation.

In Nigeria, one of the challenges in the education sector is the skew nature in the trend of expenditure on education. In 2015 and 2016, the federal government budget for education was N392.4billion and N369.6 billion representing 15.05% and9.32% respectively of the total budget. This allocation is far below the 26% recommended by the United Nations Education,

Social and Cultural Organization (UNESCO) for developing countries. The underfunding has resulted to frequent and unabated clampdown on schools through strike actions usually embarked upon by lecturers. Over ten million children are still out-of-school in Nigeria (National Bureau of Statistics 2016).

Capital Expenditure on Agriculture

Chinanuife, Eze and Nwodo (2018) posit that capital expenditure on Agriculture is seen to include the following expenditure categories: agricultural research, agricultural extension and training, agricultural marketing, agricultural input supply and subsidization (seed, fertilizer, crop chemicals, etc.), crop development, livestock development, fisheries, irrigation (to the extent that it is undertaken by federal and state ministries of agriculture and local departments of agriculture), and food security. Forestry and wildlife were initially considered for inclusion, but in the end they were not included because in Nigeria investments in those subsectors take place outside of the federal and state ministries of agriculture, meaning that an entirely separate data collection effort would have been necessary (Ndubuaku, Okoro, Bello and Alozie 2019).The development impact of an effective and desirable agricultural sector for any economy is hard to over-emphasize. Agriculture is of great importance for people in many developing countries because it has an unswerving effect on poverty alleviation, eradication of extreme hunger and reduction of unemployment rates as the majority of the population in developing countries are directly engaged in agricultureIn Nigeria, economic growth has largely been accounted for by resilient agricultural growth. According to the Nigeria Vision 2020 First Implementation Plan for the period 2010-2013, the agricultural sector contributed 73% of GDP growth over the period 1999-2009. With real growth averaging about 7% per annum from 2004-2008, and value added to the tune of 42% of the Gross Domestic Product (GDP) within the same period, the agricultural sector in Nigeria clearly stands out as the most dominant and leading component of economic growth (Mathew and Modecai 2016).

Capital Expenditure on Health Care

Adeleye (2018) opined that health is an indicator of the welfare status of every economy. This is the reason why health sector is primarily established for the prevention of disease, and improvement of living standard of the people. In developing countries, the health sector is facing challenges especially that of financing the inputs that will produce the required outcome. The major challenges are health facilities and personnel, inadequate drug-manufacturing plants, remigration of professional health workers to developed countries, poverty social development are budgetary deficit. It is based on this belief that Sustainable Development Goals (SDGs) was set to achieve the significant health status/ outcomes in developing countries. In financial literature, there are two means of financing healthcare delivery. They are government and market based means which can be domestic or international. The choice depends on the financial status of the economy. However, in most developed countries the health sector is financed by the government through the ministry of health. While in some economies private individuals provide the healthcare but in that case, market forces determine the price and quality of healthcare delivery. Private healthcare services are relatively expensive in an economy that is characterized with high level of poverty because such countries require an incentives in form of Subsidy to enable the poor attain minimum requirement of health outcome. However, the global health community has recognized that public spending on health in developing countries is essential for meeting the sustainable development goals, reducing poverty and fighting major disease that kills (Babatunde, Awuniji and Jennifer 2017).

Nigeria's External Debt

External debt is the portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions. Soludo (2003) posits that countries borrow for two broad reasons, higher investment, higher consumption[education and health] or to finance transitory balance of payments deficits to lower nominal interest rates abroad, lack of domestic long-term credit, or to circumvent hard budget constraints. This means that countries borrow to boost economic growth and reduce poverty. To encourage growth, countries at early stages of development like Nigeria borrow to augment what they have and hence likely to have investment opportunities with rate of return higher than that of their counterparts in developing economies. Pattillo Economics theory suggests that reasonable levels of borrowing by a developing country are likely to enhance its economic growth (Pattilo, Poirson & Ricci 2002).This means that unreasonable borrowing may have a negative impact on the economic development of a nation. Idris & Ahmad (2017) also posit that the government borrowing for the purposes of carrying out its fiscal policies represents outstanding liabilities called national debt. Borrowing to offset macroeconomic crises is not a problem in itself especially when the means to pay is available. However, it becomes an issue when a nation borrows without corresponding means to pay. Sometimes debts are difficult for countries to pay especially in situations where borrowings are not judiciously used for economic advancement, thus resulting in bad debts

Theoretical Framework

This section gives an insight into the theory to which the study is based. Theories supporting this study are exogenous growth theory and Debt overhang theory.

Exogenous Growth Theory

Exogenous Growth Theory is a theory of neoclassical economics which states that economic growth arises due to influences outside the economy or company of interest. Exogenous growth assumes that economic prosperity is primarily determined by factors which exist outside of the given company or economy as opposed to internal factors. External factors include items such as the rate of technological advancement, the savings rate, tax rates and political forces.

Debt Overhang Theory

The concept of debt overhang theory was developed by Krugman (1988). It has been applied to sovereign governments, predominantly in developing countries. The concept describes a situation where the debt of a country exceeds its future capacity to pay. Borensztein (1990) stated that the theory is based on the premise that if debt exceeds the country's repayment ability, expected debt service is likely to be an increasing function of the output level. Debt overhang is also scenario in which a debtor country benefits very little from the return of additional investment because of debt service obligation. This creates a disincentive to investment from the point of view of the global interest of the debtor. According to Lawal (2016), debt overhang is the situation in which investment are reduced or postponed since the private sector anticipates that the returns from their firm investment will serve to pay back creditors. It moreover explains a debt burden that is so large that an entity cannot taken an additional debt to finance future project, even those that are profitable enough to enable it to reduce it indebtedness overtimeThis study is anchored on Debt overhang theory because it deals with the variables that reveal the relationship between public investment in form of (capital expenditure on education, agriculture, health care, power sector, transport sector) and external debt.

Capital Expenditure on Education and External Debt

Ekaette, Owan & Agbo (2019) investigated external debts and the financing of education in Nigeria for a period of 31 years from 1988 -2018. The data collected were analyzed using the Ordinary Least Squares. Diagnostic tests such as Augmented Dickey-Fuller (ADF) unit root test, Johansen co-integration, Vector Error Correction (VEC) techniques of estimation, and Granger Causality tests were all performed. Findings revealed a significant long-run relationship between external debts and the financing of education; external debts have a significant effect ($F=39.07055$, $p<.05$) on the financing of education in Nigeria; external debt stock and external debt service payment have no significant effect on the financing of education; real GDP and Exchange rate have a significant effect on the financing of education in Nigeria respectively.

Onwe (2018) reviewed the implication of external debt financing on Nigeria economic growth (1981 - 2013). An empirical investigation revealed the presence of long-run relationship among the variables. While the Granger causality test showed that there is a bi-directional relationship between external debt and economic growth in Nigeria. The result also revealed that there is a negative relationship between external debt financing and economic growth within the period under review.

Capital Expenditure on Agriculture and External Debt

Mile, Ijirshar, Asom, Sokpo & Fefa (2021) examined the relationship between government agricultural spending and agricultural output in Nigeria using annual time series data from 1981 to 2019. This study used descriptive analytical techniques such as descriptive statistics, Augmented Dickey-Fuller test, VEC Granger Causality/Block Exogeneity Wald test, Johansen co-integration test, vector error correction test, impulse response, and variance decomposition. The study found that all variables were not stationary at level but became stationary at first difference. The study also revealed that there is a positive effect of government agricultural spending on agricultural output in Nigeria, though, significant in the long-run only. The study also showed that there is a bidirectional relationship between government agricultural spending and agricultural output in Nigeria at 10% level of significance and that agricultural output would respond positively to shocks in government agricultural spending in Nigeria during the forecast period. Therefore, the study recommends that government expenditure on agriculture should be improved upon the funds allocated to the sector and should be made available to real farmers through the provision of fertilizers, improved seedlings and grant aiding to farmers through farmers cooperatives while farmers in Nigeria should form farmers' cooperatives to be able to easily access credit facilities from banks as well as enhancing their easy access to farm inputs provided by the government. Furthermore, Nigerian government should also increase the budgetary allocation to the agricultural sector to boost food production, alleviate poverty as well as meet up with the international standard.

Edeh, Ogbodo & Onyekwelu (2020) assessed the impact of government expenditure on agricultural sector output in Nigeria from 1981 to 2018 using annual time series data. Utilizing the ARDL Bounds test cointegration approach, the study found that capital expenditure positively influences agricultural output while recurrent expenditure has a negative and insignificant influence on agricultural output in Nigeria. The study has disaggregated the effect of capital and recurrent expenditure on agricultural output, unlike this study that has aggregated the expenditure by the government to the agricultural sector.

3 Expenditure on Health care and External Debt

Ma, Hu & Zafar (2022) carried out research on the impact of FDI and external debt on health

outcome in emerging Asian economies from 1991 to 2019. To that end, we have collected data for seven economies: Bangladesh, Malaysia, Philippines, Thailand, Sri Lanka, China, and India. We have relied on the panel ARDL (PARDL) method for empirical analysis. The study's findings confirmed that the debt has increased infant mortality and decreased life expectancy in emerging Asian economies in the long run. On the other side, the FDI causes infant mortality to fall and life expectancy to rise in the long run in emerging Asian economies. Similarly, the health expenditures also reduced the infant mortality rate, though the impact is insignificant, and improved the life expectancy in emerging Asian economies. The causal analysis confirmed the two-way causality between health expenditure, infant mortality, and health expenditure and debt.

Umeh, Ochuba & Ihezie (2021) assessed the impact of government deficits on the public sector output over a period of thirty-nine years from 1980 to 2018. It specifically examined of government budget deficits on the public health sector and the impact of external borrowing on the public health sector in Nigeria. The methods of data analysis range from Augment Fuller Unit Root test, Johansen Co-integration test and Error Correction Method. The results show that government budget deficits have positive insignificant impact on public health sector output in Nigeria. It also reveals that external borrowing of financing budget deficit has negative insignificant impact on health sector output in Nigeria.

Bahuli & Bala (2020) reviewed the impact of External Debt Servicing on Health Outcomes in Nigeria 1995– 2017. Health Outcome (HOC) proxy by life expectancy at birth, Government Expenditure on Health (GEH), External Debt Service (EXDS) and Real Gross Domestic Product (RGDP) sourced from World Bank online Database 2018. Augmented Dickey Fuller Unit Root Test was employed to check the stationary of the variables and the results shows that all variables are stationary at first difference except External Debt Service (EXDS) that was stationary at level. LM residual diagnostic result shows the absence of serial correlation at 10% level of significant with p-value less than 0.10. Autoregressive Distributive Lag (ARDL) Bound test were conducted and show the existence of long run relationship between external debt service and health outcome with f-statistics 31.8661 greater than 10% critical value for the upper bound 3.2. However, Error Correction test was conducted the result show that about 5.2% of the disequilibrium error is being corrected each year and. However, VAR Granger Causality test was employed to determine the directions of causality among the variables and the result shows that Health Outcome (HOC) and Real Gross Domestic Product (RGDP) granger cause External Debt Service (EXDS). Similarly, Government Expenditure on Health (GEH) and Health Outcome (HOC) granger causes Real Gross Domestic Product (RGDP). Finally, the study recommends that the government should; enhance it expenditure on public health sector, negotiate with foreign creditors on fixed interest rate to make external debt service to be easier.

. Methodology

The design for this study will be ex-post factor research design. This is appropriate for the study because data will be collected after the events under investigation had taken place**.** Data for the study is secondary data. Data for capital expenditure on Education, capital expenditure on agriculture, capital expenditure on health care, capital expenditure on power sector, capital expenditure on transport sector and external debt profile will be collected from Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics (NBS) Report and Debt Management Office (DMO). Data will be analyzed using correlation analysis model.

Correlation Analysis is a statistical method that identifies the strength of a relationship between two or more variables**4.2: Data Analysis**

Diagnostic Tests

Table 3: Collinearity Statistics

Variable	VIF	1/VIF
CEHC	2.02	0.496128
CEE	1.86	0.536905
CEA	1.18	0.844920
	Mean VIF | 1.68	

From the table above, the TV ranges from 0.496128 to 0.844920 which suggests non multi-collinearity feature. The VIF which is simply the reciprocal of TV ranges from 2.02 to 1.18 also indicates non multi-collinearity feature.

Breusch Pagan/Cook Weisberg Heteroskedasticity for the Model

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Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of EXTD
chi2(1) = 0.23
Prob>chi2 = 0.6317

The above result was obtained from the test for heteroskedasticity. The probability value of 0.6317 resulting from the test for heteroskedasticity implies that the model is free from the presence of unequal variance. Thus implies that our probability values for drawing inference on the level of significance are reliable and valid. The absence of heteroskedasticity validates the regression model results, which means there is no need for robust or weighted least square regression.

Test of Hypotheses

Table 4: Correlations

		CEE	CEA	CEHC	EXTD
CEE	Pearson Correlation	1	-.045	.643*	.239
	Sig. (2-tailed)		.923	.045	.507
	N	10	10	10	10
CEA	Pearson Correlation	-.035	1	.278	-.278
	Sig. (2-tailed)	.923		.437	.437
	N	10	10	10	10
CEHC	Pearson Correlation	.643*	.278	1	-.026
	Sig. (2-tailed)	.045	.437		.944
	N	10	10	10	10
EXTD	Pearson Correlation	.239	-.278	-.026	1
	Sig. (2-tailed)	.507	.437	.944	
	N	10	10	10	10

Correlation is significant at the 0.05 level (2-tailed).

Discussion of Findings

The result of the analysis of the study using Pearson Coefficient of Correlation is expressed as follows:

H_{01}: There is no strong relationship between Capital Expenditure on Education and Nigeria's external debt.

In view of the above analysis as shown on table 4, the result shows that there is a weak positive and insignificant relationship between capital expenditure on education and Nigeria's external debt. With a P-value of 0.507, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of 0.239% which indicates that increase in capital expenditure on education weakly increases nation's external debt by 23.9%. Based on this, we rejected the alternate hypothesis and accepted the null hypothesis which contends that there is no strong relationship between Capital Expenditure on Education and Nigeria's external debt.

The outcome of the analysis is in accordance with the results of Uremadu, Ariwa, Uremadu (2018) and Muendiruth (2014) but varies with the findings of Ekaette, Owan and Agbo (2019)

H_{02}: Capital Expenditure on Agriculture does not have a strong relationship with Nigeria's external debt.

In view of the above analysis as shown on table 4, the result shows that there is an insignificant and weak negative relationship between capital expenditure on agriculture and Nigeria's external debt. With a P-value of 0.437, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of -0.278% which indicates that increase in capital expenditure on agriculture decreases Nigeria's external debt by -27.8%. Based on this, we rejected the alternate hypothesis and accepted the null hypothesis which contends that capital expenditure on agriculture does not have a strong relationship with Nigeria's external debt.

The result of the analysis is in line with the findings Ndubuaku, Okoro, Bellow, Alozie (2019); and Mathew and Mordecai (2016) but contradict Mile, Ijirsha, Asom, Sokpo and Fefa (2021); Edeh, Ogbodo and Onyekwelu (2020); Aina and Omojola (2017).

H_{03}: There is no strong relationship between Capital Expenditure on Health care and Nigeria's external debt.

In view of the above analysis as shown on table 4, the result shows that there is an insignificant and weak negative relationship between capital expenditure on health care and Nigeria's external debt. With a P-value of 0.944, the test is considered statistically insignificant at 5% level. This could be verified with the coefficient of correlation of -0.026% which indicates that increase in capital expenditure on health care decreases Nigeria's external debt by -2.6%. Based on this, we rejected the alternate hypothesis and accepted the null hypothesis which contends that there is no strong relationship between Capital Expenditure on Health care and Nigeria's external debt.

The outcome of the findings disagrees with the results of Bahuri and Bala (2020); and Yemisi (2017).

Conclusion

From the statistical analysis of the study, it was noted that public investment has no significant effect on the nation's external debt. Thus, it was concluded that Nigeria's public investment with exception to capital expenditure on education weakly and negatively relate to external debt in Nigeria.

Recommendations

Nigeria's external debt profile is fast rising but without much infrastructural development hence the researcher makes the following recommendations:

1. Government at all levels should only seek external borrowing when vital priority projects are being considered and should equally place a limit on external borrowing.

2. Nigerian government should ensure that borrowed funds are channeled only to the projects for which loans were taken.

3. Debt Management office (DMO) should therefore make policies which will ensure that borrowed funds are properly invested and monitored for accountability and transparency and also ensure implementation of such policies

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