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Public Debt And Fiscal Federalism In Nigeria

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ABSTRACT
This study investigated public debt and fiscal federalism in Nigeria. Utilizing the systems approach as its theoretical framework, the research employed a survey design that gathered both primary data (through questionnaires and interviews) and secondary data. Data analysis involved simple percentage methods. The secondary source of method of data collection and analysis was adopted. The classical theory by Adam Smith was adopted as the theoretical framework. Findings revealed among others that government involvement in the management of public debt was poor, weak and uncoordinated approaches and behaviour, unreliable databases, weak policy and misplacement of funds met for high standard, profit-oriented projects. Huge budget deficits, overdependence on oil revenue, rise in interest rate on loans, embezzlement of funds, misplace priority, intention or inordinate ambition to acquire wealth and executive and legislative wickedness were reliable causes of excessive loan taking which now pledges the high debt rate in fiscal federalism. The study among others recommended that the government should lay down well considered guideline for external loans to avoid misapplication of fund through corrupt practices. Also, government should constantly invest in entrepreneurial development to boost trade and investment without necessarily committing a high debt loan.
Keywords: Debt, Public Debt, Federalism, Loans, Budget and Fiscal Federalism.

INTRODUCTION

Within Nigeria there has been a tremendous increase in the number of uncompleted projects by government. This development is as a result of diversion of loan facilities required for a special project. This has left the main project which was to be funded by the acquired loan facility uncompleted, and also the other projects whose the fund was diverted could not be completed as well; due to the fact that the fund has been divided among so many projects as such it cannot carry the project to completion stage (David and Onwa, 2016). This will bring about tremendous increase in government abandon projects which in a way affect development in Nigeria. Thus, efforts will be made to identify problems and prospects associated with debt management in Nigeria.

The Debt Management Office (DMO) was established on 4th October, 2000 to centrally coordinate the management of Nigeria's debt, which was hitherto being done by a myriad of establishment in an uncoordinated fashion. This diffused debt management strategy created fundamental problems among which are operational inefficiency and poor coordination, inadequate debt data recording system and poor information flow across agencies with consequent inaccurate and incomplete debt records, extreme difficulty in the verification of creditors' claims due to conflicting figures from the various bodies handling the debt management function, complicated and inefficient debt service arrangement which created protracted payment procedure and often led to the relatively autonomous debt management office. However, component unit debt makes up the biggest part of vermont liabilities, but state officials do not

include it in the debt capacity analysis (DMO, 2017). The debt and its servicing are draining away resources which can be used to finance development. This is because some of the loans were contracted on commercial terms, and the interest rates have tended to move with the market rate. The problem is that debt repayments as well as the service charges in recent years have contributed a significant proportion of total earnings which reduces the ability of the government to undertake certain vital projects necessary for development. Apart from the exercise undertaken by the present government of Nigeria by settling the state accrued debts, subsequent exercise has been characterized by inability to service debt as at when due and negotiating for more loans to finance some sector projects. The area of interest is not necessary because of the loan but our inability to manage prudently the previous loan facilities (John, 2007) which has been a major problem in our state. In the light of the problems highlighted, this study intends to examine the impact of public debt management strategies for enhancement of development in Nigeria. This study also aims to identifying measures to ameliorate the debt burden to Nigeria through effective public debt management strategies. Based on the above discussion, the study investigated government involvement in the management of public debt in fiscal federalism in Nigeria.

THEORETICAL FRAMEWORK

Classical Theory: The classical theory of public debt is closely associated with Adam Smith, Thomas Malthus, David Ricardo and J.B. Say amongst others. This theory believes in "Laissez-faire" given that state intervention in the economy is assumed to be minimal and the government had to maintain only internal law and order, defend the country from external aggression build diplomatic relations and look after some public works. The accumulation of debt by the state government is therefore regarded as unnecessary. Based on the classical school of thought that resources are managed more wastefully in the public sector compared to the private one. The state's indebtedness is further considered by the classical economists as a distortion to private capital which reduces its productivity, thus impair the growth and development of the economy.

Smith (1937) opposed the accumulation of debt by the state, arguing that the indebtedness of the public sector obstructs the natural progress at a nation towards wealth and prosperity since it allows for diversion of productive private resources by the state into unproductive expenditures. The perception of public debt by the classics is generally considered as pessimistic given that government borrowing from the classical viewpoint is invariably wasteful. In response to the wasteful of public debt, Smith proposed balanced budgets, where all government expenditures are financed by taxation. He further explained that budget deficits can be justified only in emergencies, especially during outbreak of wars or natural disasters. In such circumstances, Smith argues that the method of financing public expenditure through either taxation or issue of public bonds is crucial for capital accumulation to stimulate growth (Tsoulfids, 2007).

The theory is therefore relevant to our study via its assertion that the indebtedness of the public sector obstructs the natural progress of a nation towards wealth and prosperity since it allows for diversion of productive private resources by the state into unproductive expenditures. The classical economists also assert or considered the indebtedness of a state as a distortion to private capital which reduces it's productivity, thus, impair the growth and development of the economy, this means that, there is a need for the state to manage her debt efficiently to meets its objectives. This informs the use of classical theory in the study.

Concept of Public Debt

By debt, we mean a condition whereby a country or state has accumulated so much debt that it can no longer sustain the management of the debt, resulting in severe distortion and contradictions in the domestic political economy. This has been the African condition for decades, so much so that the struggle for debt cancellation for Africa has been in the forefront of the public discourse on the matter since the 1990s (Adedayo,1990). Mimiko (1997) defined debt crisis as a situation whereby "a country or state is heavily eternally indebted and is unable to pay the principal of this debt. It is also a situation where a

country or State uses a high proportion of its foreign exchange earnings to service this debt and still scouts for more loans to enable it meet urgent and pressing domestic obligations".

Following the traditional approach which supports external finance to support public expenditure and economic development, coupled with declining income from export and refusal of the developed world to meet their moral financial obligations to the Third World Countries, the latter have to resort to external loans from the Western Financial Institutions (Aluko and Arowolo, 2010). Countries or states entrapped in foreign debt have some perceptible symptoms. Representatives of the creditor institutions take over strategic financial institution of a country such as the central bank and the finance ministry to mention a few. This is done to monitor and ensure that no resources are misappropriated or diverted to anything other than servicing the external loans. Ajayi (1990) avers that countries or states experiencing debt crisis have been caught in "very tight rope debt trap". This is the predicament which many of the Third World Countries have found themselves. No doubt this development has mortgaged the future of generation yet unborn in developing countries. The campaign against the debt bomb has been waged on different fronts. Africans has made spirited effort to get Africa's debt cancelled, repudiated or reduced but to no avail. Development on the other hand, is a multi-dimensional concept that involves the organization and re-orientation of the entire economic, political and social institution (Olaleye, 1997). A varied body of literature exists on this concept, yet no consensus has been reached on its scope and actual definition. The concept has been considered from various viewpoints, bringing forth various derivations. Seer (1969) observes that development involves not only economic growth, but also a condition in which people in a country or state have adequate food and jobs and the income inequality among them is greatly reduced.

Mabogunje (1995) however suggested that two ideas underlined the notion of development. The first is that development is about wealth creation of the use of the citizens and the second is that every society succeeds best when in this direction if it is able to adapt and transform its own institutions as well as its mores and the general attitude of its people towards the attainment of these goals. It is important to note that the first notion of development in Mabogunje's view is more relevant to this discourse. However, of great importance is that development is seen as a product of human efforts. This is because human beings manipulates the resources available and ensure it serves the goal of achieving the standard and integrity of the people. Chilivumbo (1978) argues that development as a concept is amorphous and rather difficult to articulate.

But the fact still that development is a process involving the reduction or eradication of inequality, absolute poverty, unemployment and slavery or apartheid institutional changes and economic growth. Development is thus deemed to have started only when man's life sustaining needs, self-esteem, freedom and protection are provided for and can be maintained for as long as many lives. Therefore, for a country or state to be said to be developed, there has to be a transformation in that country's or state's institutions, socio-cultural rules and general attitudes of the people so as to create an enabling environment for the country or state to be responsive to desired and attained modern changes and enhance development.

Concept of Fiscal Federalism

Fiscal federalism is a byproduct of federalism. Federalism is a political concept in which power to govern is shared between national, and subnational governments creating what is often called a federation (Arowolo 2011). Federalism is a political concept in which the power to govern is shared between national, states and local governments, creating what is often called a federation. It is a political theory that is divergent in concept, varied in ecology and dynamic in practice (Arowolo, 2011). According to Vincent (2001), the concept of federalism implies that each tier of government is coordinate and independent in its delimited sphere of authority and should also have appropriate taxing powers to exploit its independent sources of revenue.

Wheare (1963) noted that fiscal federalism demands that each level of government should have adequate resources to perform its functions without appealing to the other level of government for financial assistance. He stressed that if state authorities, for example, find that the services allotted them are too expensive for them to perform, and if they call upon the federal authority for grants and subsidies to assist

them, they are no longer coordinate with the federal government but subordinate to it. Financial subordination makes an end of federalism in fact, no matter how carefully the legal forms may be preserved. It follows therefore that both state and federal authorities in a federation must be given the power in the constitution each to have access to and to control, its own sufficient financial resources. Each must have a power to tax and to borrow for the financing of its own services by itself.

For any federation to be sustained there must be fiscal decentralization and financial autonomy. Fiscal decentralization means delegating decision-making to lower levels of government instead of concentrating it at the centre. Each level of government, therefore, should be free to take decisions and allocate resources according to its own priorities in its own area of jurisdiction. In addition, the federating units should be able to act independently on matters within their own jurisdiction (Ewetan, 2011).

Fiscal federalism is concerned with "understanding which functions and instruments are best centralized and which are best placed in the sphere of decentralized levels of government" (Oates, 1999). Fiscal federalism is a general normative framework for the assignment of functions to the different levels of government and appropriate fiscal instruments for carrying out these functions (Arowolo, 2011). It is a set of guiding principles or concept that helps in designing financial relations between the national and subnational levels of government, while fiscal decentralisation is the process of applying such principles (Sharma, 2005). It concerns the division of public sector functions and finances among different tiers of government (Ozo-Eson, 2005). Fiscal federalism is characterized by fiscal relations between central and lower levels of government. The fiscal relationships between and among the constituents of the federation is explained in terms of three main theories, namely, the theory of fiscal relation which concerns the functions expected to be performed by each level of government in the fiscal allocation; the theory of interjurisdictional cooperation which refers to areas of shared responsibility by the national, state and local governments, and the theory of multijurisdictional community (Tella, 1999). In this case, each jurisdiction (state, region or zone) will provide services whose benefits will accrue to people within its boundaries, and so, should use only such sources of finance as will internalize the costs.

METHODOLOGY

Secondary data was used in this study. The data where drawn mainly from Central Bank of Nigeria Statistical bulletin and the Debt Management Office. The data were considered adequate and appropriate for the study because the Central Bank of Nigeria (CBN) which collated the data is the apex banking institution with regulatory and supervisory powers in Nigeria. All the banking institutions in the country submit annual report of their operations to the CBN. In like manner, the Debt Management Office is the body statutorily charged with the responsibility to manage Nigeria's public debt on behalf of the Federal government of Nigeria.

DISCUSSION OF FINDINGS

Government involvement in the management of public debt and fiscal federalism: the management of public debt has viewed by some scholars from three major perspectives; modern, symbolic and postmodern. Another traditional distinction present especially in the American academia is between the of "micro" organizational behavior-which refers to individual and group dynamics in an organizational setting and "macro" organizational theory which studies whole organizations; how they adapt to strategies and structures that guides them.

The study identified huge budget deficit, overdependence in oil revenues, misplaced priority, high interest rate in commercial banks, corruption, embezzlement, etc are some of the causes of public debt. This ugly record has spurred the government to establish the Debt Management Office (DMO) in 2000 to investigate the volume of debt and coordinate institutional framework for managing the state's debt. Despite this measure employed by the government, the process was adjudged to be very weak with budget running on deficit. The system still experienced financing of ever-increasing public expenditure which accounted for government borrowing. Thus, the style of debt management adopted is believed to

have a negative effect on the economic growth of the nation. Nigeria huge foreign debt on the other hand has negative effect on infrastructural development of the nation. Other projects negatively affected are health, education and other developmental projects. Onyekpe (2000) noted that lack of coordination among the various agencies involved in contracting and managing public debt have been accused of incompetence; a weak and unreliable database; the lack of skilled debt managers; weak institutional arrangements for managing domestic and sub-national debt; and, a loose legal framework were significant weaknesses of the process.

CONCLUDING REMARKS

In the light of the above, effective public debt management triggers fiscal federalism in a state due to significant nature of financial involvement required for development. Nevertheless, consolidating of public debt has a positive role in developmental strive of the state. Effective public debt management involves primarily seven basic functions: policy, regulatory, resourcing, analytical, controlling and operating functions. The first three functions are part of what can be called executive debt management. The other four functions may be considered to be part of the operational debt management. Executive debt management might be viewed as the establishment of the "rule of the game" by the highest level of government. Operational public debt management may in turn be as being composed of passive and active debt management. It is obvious that passive management will strongly influence active management through the provision of information and analysis, and is equal importance to the development of any state or nations. Based on this, the study recommended that the government should lay down well considered guideline for external loans to avoid misapplication of fund through corrupt practices. The government must define the purpose, duration, moratorium requirements and commitments, negotiation fees etc including the conditions under which the government can approve and guarantee such loans.

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