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RESEARCH ARTICLE

Impact of National Debt and Cost of Governance on Nigeria's GDP: 1999– 2021

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ABSTRACT

This study examined the impact of Nigeria's huge national debt and the cost of governance on her GDP using some macroeconomic indices as proxies for the period 1999 – 2021. The specific objectives are to investigate the impact of debt servicing costs on GDP in Nigeria for the period, 1999 – 2021and to examine the impact of cost of governance on GDP in Nigeria within the same period. In this study, we reviewed the theoretical and empirical literature in order to understand all the issues, challenges and consequences of maintaining such huge national debt portfolio in the face of our burgeoning cost of governance on our deteriorating GDP since the commencement of this democratic dispensation in 1999. We used ex-post facto type of research design to gather all the relevant data from the Debt Management Office(DMO), National Bureau of Statistics (NBS) and Central Bank of Nigeria (CBN) websites and adopted the ADF econometric model to address the unit root issues associated with time series econometric data gathering and then deployed the dynamic ARDL regression model to regress the dependent variable (Gross Domestic Product (GDP)), on the two independent variables (debt servicing costs (DSC) and cost of governance (COG)) which were used as proxies for measuring their impact on the GDP of Nigeria. Furthermore, we used the Ramsey regression error specification model to determine whether there is a functional form misspecification in the ARDL model used and found that the model was correctly specified. From our study, we found that while debt servicing costs had a negative and less significance impact on the GDP, cost of governance had a positive and significant impact on the GDP over the period of study. Based on this finding, we recommended several governance costs cutting measures, among other alternative debt financing options and suggested appropriate remediation policies for government to tackle this monstrous twin evil of a burgeoning debt servicing cost and cost of governance in Nigeria.

Keywords: *National Debt; Debt Servicing Cost; Cost of Governance; Corruption*

Introduction

As at 1999 when Nigeria commenced its recent democratic dispensation, we have a total of 36 states, with a Federal Capital Territory (FCT) located in Abuja and 774 Local Government Areas (LGAs). Our governance structure is comprised of 3 tiers, namely the federal, state and local governments. Every government, be it federal, state or local government, is established with a view to providing social services that would improve the general well-being of its citizenry. For every government, therefore, to achieve its objectives, it is required to adopt measures which would ensure effective revenue generation, as well as judicious utilization of resources at its disposal. The Nigerian public service used to have a cherished history of committed, dedicated and valuable service until few decades ago, when reckless misrule created a spiralling decline and systemic and institutional decomposition. The service came to be characterized by lack of professionalism, excessive partisanship, endemic corruption, sluggishness, ineptitude and inefficiency, crass selfishness and greed. The tenets of public service, which includes honesty, integrity, loyalty, probity, accountability, transparency, impartiality, discipline, commitment, diligence, expertise and competence, among others, have not only been violated by public officials but have also been eroded by political office holders (Hamid, 2008).These have paved the way for the enrichment of a few individuals who are in power and in turn gave rise to the impoverishment of the majority of the citizens who are subjected to poverty, squalor, insecurity and violence.

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Public governance may be defined as the use of political authority to promote and enhance societal values which are economic as well as non-economic issues that are sought by individuals and groups. On the other hand, revenue assurance is about improving revenues and cash flows and eliminating leakages, excesses, abuses and fraud, as well as, minimizing operating cost. Therefore, in public governance revenue assurance is meant to reduce the excessive share of the budget being allocated to personnel costs, debt service costs, overhead costs and cost of governance in general; improve resource management by curtailing wasteful expenditure and increasing the level of productivity and efficiency to engender budget discipline (adherence to limits). There is a wide consensus that good governance must lead to broad-based inclusive economic growth and social development. It must enable the state, the civil society and the private sector to enhance the well-being of a large segment of the population. (Hamid, 2008). Usually, the difference between a nation's budgeted revenue and its projected expenditure is termed the budget deficit when the expenditure is more than revenue. Specifically, *Investopedia,* an online financial dictionary*,* states that a national budget deficit occurs when budgeted expenses exceed projected revenue and this can be used to indicate the financial health of that country. The government generally uses the term budget deficit when referring to its spending, rather than for businesses or individuals. Such deficits are mostly financed by borrowing either externally or from the domestic economy. A nation wishing to correct its budget deficit may need to cut back on certain expenditures, increase revenue-generating activities, or employ a combination of the two (Barone, 2021).

For sure, there is nothing wrong in borrowing. Individuals, corporate organizations and governments across the world do borrow. For instance, the United States of America (US) has been cited several times as one of the greatest debtors in the World. However, the US is very credit worthy because of her economic fundamentals. She is an industrialized nation with high level of innovations which make her one of the top 20 economies of the World. On the flip side, Nigeria, though, the acclaimed biggest economy in Africa has very weak economic fundamentals. The country is neither an industrialized nation nor is it high in innovation or technology. We are a consumptive and not a productive economy. That's what makes the difference between us and many of the top 20 economies of the World.

According to the Debt Management Office (DMO), the Federal Government of Nigeria (FGN) generated about N10.02 trillion revenue to finance its 2020 budget of about N16.6trillion meaning that the budget deficit for that year was N6.59 trillion (40.17%) of the 2020 Gross Domestic Product (GDP) and this was partly financed through domestic borrowing of N2.06trillion and external borrowing of about N4.53trillion. In 2019, the FGN generated a total of N4.18 trillion (about 2.9%) through external borrowing to finance its 2019's GDP. In 2018, a total of N3.48 trillion excluding other funding sources was generated to fund that year's deficit budget. For that year, total spending was N7.51trillion, a decrease of about N1.61trillion from the previous year's budget of N5.9trillion. This meant a budget deficit of N3.65trillion (2.85%of the 2018 GDP), which was financed to the tune of N2.50 trillion through foreign borrowing and N1.17 trillion through domestic borrowing. According to the DMO, the implementation of the 2017 budget was affected by poor revenue inflows as oil production and exports remained below the budget estimates while the performance of the economy continued to impact negatively on non-oil revenue. The office said a total of N2.38 trillion national debt, excluding other funding sources was generated to fund the nation's budget deficits in 2017 (Jaiyeola, 2021).

In 2016, the FGN generated N2.95 trillion external debts to fund that year's budget deficits. For that year, total government spending was N5.36 trillion, an expenditure of the budget estimate of N6.06trillion for the period. Budget deficit was N2.41trillion (2.37% of the GDP) financed through borrowing. In her budget presentation for 2015, the then Coordinating Minister for the Economy and Minister of Finance, Ngozi Okonjo-Iweala, disclosed that the budget deficit for that year was going to be N755billion (or 0.79% of the GDP). She added that the budget deficit for 2014 was N994billion (or 1.24% of GDP). According to her, there was a need to keep the deficit under 3% of GDP because of the Fiscal Responsibility Act, 2007 and in accordance with international norms (Jaiyeola, 2021). Recently, the Minister of Finance, Budget and National Planning, Zainab Ahmed, disclosed that the FG was going to borrow to fund its N6.25trillion deficit in the proposed 2022 budget.

Statement of the Problem

Between 2015 and 2020, the FGN had borrowed and spent a total of over N34trillion. *Business Day's* analysis of these numbers show that recurrent expenditure accounted for the bulk with 82.35% while capital expenditure, which is critical for a developing country with gaping infrastructure deficit like Nigeria, accounted for a mere 17.65%. In the period under review, the government spent N28trillion on recurrent expenditure, which includes personnel, overhead, and debt servicing costs. Personnel costs alone accounted for the single largest expenditure item under

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recurrent expenditure bringing into perspective the ever-contentious issue of Nigeria's high cost of governance which has drawn the ire of several Nigerians. After spending so much on personnel costs and debt servicing, the FG could only spend N6.22trillion in the same period on capital expenditure. Borrowing is not bad in itself; it is the purpose of the borrowing that matters, says Abiola Rasaq, a financial analyst. The reality of Nigeria borrowing to fund recurrent expenditure is just not sustainable (Agu, 2013).

While justifying the borrowing spree of this regime, the *Business Day's* analysis of the budget office expenditure showed that the FGN retained revenue stood at N12.79trillion while aggregate expenditure stood at N28.14trillion for the period, 2015 – 2020. The major sources of government revenue include oil revenue and non-oil revenue comprising of revenue from value added tax, companies' income tax, stamp duty and others. A breakdown of the figures showed that in the second half (H2) of 2018, the FG generated N1.78trillion as revenue and spent a total of N3.75trillion, resulting in a fiscal deficit of about N1.97trillion. For the 2019 fiscal period, aggregate revenue generated in the first half (H1) of the year stood at N2.78trillion but fell to N2.74trillion in the second half (H2). Meanwhile, the expenditure incurred was N3.67trillion in H1 2019 and N4.9trillion in H2 creating a fiscal deficit of N89 billion and N2.44trillion in both halves of the year respectively. Further analysis revealed that the FG in 2020 earned N3.53trillion as aggregate revenue and spent N10trillion creating a fiscal deficit of N6.52trillion. The N3.53trillion revenue generated in 2020 comprised of N1.76trillion recorded in H1 and N1.77trillion in H2. Aggregate expenditure of N10billion showed that N4.69trillion was incurred in H1 while N5.31trillion was spent in the H2. The inability of the government to raise the much-needed revenue to finance its operations resulted in a deficit of N1.37trillion in the first quarter (Q1) while the second, third and fourth quarter deficits were put at N1.54trillion, N1.74trillion and N1.86trillion respectively. Economists who spoke on the development called on the government to shore up its revenues by cutting the cost of governance and expanding the tax net. However, President, Muhammadu Buhari, during the budget presentation of the 2022 appropriation bill to a joint session of lawmakers at the National Assembly, Abuja confessed that Nigeria is in so much debt due to borrowing to survive the two economic recessions within the period of this administration. (Popoola, 2021)

But is it not a national embarrassment that Nigeria with a population of a little over 200million people should be borrowing from countries like China with a population of over 1.3billion people? (Jaiyeola, 2021). Also, stakeholders in the financial sector of the economy have expressed concerns that Nigeria's public debt in the last five years had increased at an average of 21.02% while the economic growth figure averaged only 0.15%. One of such stakeholders, the Fiscal Policy Partner and Africa Tax Leader at PricewaterhouseCoopers (PwC), Taiwo Oyedele, who recently spoke in his paper titled "Nigeria's Rising Debt Profile: Issues and Implications for Sustainable Economic Development" at the 2021 Fellowship Investiture programme of the Chartered Institute of Bankers of Nigeria (CIBN), held in Lagos on Saturday, October 30, 2021, said that our national revenue, on the other hand, has only expanded by an average of 5.19%. According to him, by implication, the rate of expansion in public debt in Nigeria is fast outweighing the revenue mobilisation capacity of the government, adding that this consequently expands the debt-to-Gross Domestic Product (GDP) ratio from 20.32% in 2015 to 34.98% in 2020. An economic expert and seasoned academic at Pan Atlantic University, Dr Olusegun Vincent, explained that the moment there was a debt obligation in the nation's GDP, it becomes a first line charge in revenue, irrespective of other priorities whether education, agriculture, or defence. When the cost of governance is very high, expenditure will be higher than revenues resulting in deficits that have to be financed by borrowing. (Orimisan, 2021), (Chiedu, 2012). It is in the light of the foregoing that this study seeks examine the impact of National Debt and cost of Governance on Nigeria's Gross Domestic Product (GDP) from 1999 to 2021.

Research Objectives

The main objective of this study is to empirically investigate the impact of our huge national debt and the cost of governance on Nigeria's GDP using some macroeconomic indices as proxies for the period 1999 – 2021. The specific objectives are:

I. to investigate the impact of debts servicing costs on the GDP in Nigeria for the period, 1999 – 2021.
II. to examine the impact of cost of governance on the GDP in Nigeria for the period, 1999 – 2021.

Research Hypotheses

In order to achieve our above stated research objectives and to answer the research questions raised the following research hypotheses will be tested in the null form only:

H_1: Debts Servicing Cost (DSC) does not have a significant and positive impact on the gross domestic product (GDP) of Nigerians for the period, 1999 – 2021.
H_2: Cost of Governance (COG) does not have a significant and positive impact on the gross domestic product (GDP) of Nigerians for the period, 1999 – 2021.

Review of Related Literature

Probably, the most important issue that we first have to reach a consensus about is: why is Nigeria continuing to borrow? Are we borrowing to finance infrastructural projects, for consumption or to finance our over bloated cost of governance? Are there viable alternatives to these debts and what are the acceptable definitions of all the other concepts associated with this study?

Conceptual Review

The global trend towards poverty and misery index eradication, especially, in Nigeria which has recently been dubbed the poverty capital of the world is a quite daunting task. Therefore, the expanse of relevant literature on this topic is by no means conclusive.

National Debt

National debt is the total outstanding borrowings of a central government, comprising of both internal debt (Owings to indigenous creditors) and external debt (Owings to foreign creditors), incurred in financing its annual expenditure or national budget. National debt is generally divided into three categories: (*Investopedia, 2021.*)

I. Floating Debt: These are short-term borrowings such as: Treasury Bills and borrowing from the Central Bank of Nigeria (CBN).
II. Funded Debt: These are short-term debts converted into long-term debts, mostly borrowed from indigenous creditors.
III. Unfunded Debt: These are debt instruments usually traded in the money market of the stock exchange (NSE) such as: national savings certificates, savings bonds, premium bonds, and securities repayable in foreign exchange.

National debt can be issued by different levels of government from federal to municipal and other countries. The former is termed domestic debts while the later constitute foreign borrowings or external debts. However, for the purpose of this write up, we shall be concentrating on the external debts of the country for the period stated in our scope of the review. (Investopedia, 2021)

National Debt Measures and Statistics

There are various measures of national debt that are reported by organizations like the International Monetary Finance (IMF) and the Debt Management Office (DMO). Some examples are:

I. Central Government Debt: The stock of debt issued by the central government of a country. It is reported either as an absolute amount or as a percentage of GDP. In this presentation, this measure is adopted in accounting for the national debt reported and analysed here.
II. General Government Debt: The stock of debt issued by all levels of government in a country, which includes states and municipal debt.
III. Non-Financial Public Sector Debt: This is the amount of debt that non-financial public sector corporations hold. The debt is often guaranteed or considered to be guaranteed by the government.
IV. Financial Public Sector Debt: The amount of debt issued by government-owned financial institutions like public sector banks.

Nigeria has contracted a number of debt obligations from other external sources, some of which are;

I. Paris Club of Creditors: The Paris Club of Creditors is an informal group of official money lenders formed in 1956 with its secretariat in Paris. It was created to find coordinated and lasting solutions to the payment difficulties experienced by countries that owed its member countries. It is a voluntary gathering of creditor countries willing to treat in a coordinated way, the debt due to them by developing countries. Others include:(Malpas, 2021)

II. London Club of Creditors
III. Multilateral Creditors
IV. Promissory Note Creditors, which are the refinanced uninsured trade arrears
V. Bilateral and Private Sector Creditors.

Nigeria's Debt Relief

Nigeria's first loan from the Paris Club of Creditor Nations was a $13.1million loan taken from the Italian government in 1964 for the building of the Niger Dam. From that time till the end of the decade, Nigeria's borrowing from foreign lenders was generally insignificant. However, the oil boom of 1971-1981 introduced the era of big borrowing in Nigeria. Loans were acquired by various tiers of government as Nigeria embarked on major development and reconstruction projects in the wake of the civil war. The borrowing continued well into the civilian era, as the FG embarked on the guaranteeing of many unviable loans taken by private banks, state governments and parastatals. In 1982, when oil prices crashed, Nigeria was unable to pay off the loans it borrowed. Interest payments spiked, penalties rose, the crisis had begun. This pattern continued well into the military regimes of 1985-1993 and 1993-1998, when Nigeria stopped paying its debts to the Paris Club altogether, refused to substantially reduce Nigeria's debt. With the return to civilian rule in 1999, Nigeria embarked on a relentless campaign for debt relief. Nigeria's debt, which stood at US$36 billion in December 2004 was unsustainable, President Obasanjo campaigned. Nigeria spent more on interest payments than it did on health care and education. Given this debt level, Nigeria could not achieve the Millennium Development Goals (MDG). This debt relief effort yielded fruit on June 29, 2005, when the Paris Club and Nigeria agreed on an US$18 billion debt relief package (*Investopedia, 2021*). So many factors have contributed to the increased size of Nigeria's external debt which by the end of 2000, stood at $29billion. The major factors include the rapid growth of public expenditure, particularly, that of capital projects, borrowing from the international community at non-concessional interest rates, decline in oil earnings from the late 1970s and the dependence on imports, which contributed to the emergence of trade arrears. By 1986, short and medium-term loans constituted about 85% of the total debt stock in Nigeria. The above developments resulted in the bunching of debt service, thus compounding the debt situation in Nigeria. (*Investopedia, 2021.*).

Debt Servicing Cost

This is the agreed cost of repaying a loan facility usually, captured as the interest rate. When the cost of servicing a nation's external debt is increasing in the face of decreasing or stagnant productivity, it tells you that, there is a problem somewhere. Every other government borrows to fund infrastructure that can repay its debts in future but Nigeria, in some cases**,** is borrowing to finance recurrent expenditure and pay salaries that can never translate to economic growth. Every Nigerian budget since at least 2016 has prioritised capital expenditure over recurrent expenditure in terms of allocation but data reveals that the actual sums usually end up even lower due to unrealistic revenue targets, which forces the government to cut down on its capital expenditure and concentrate on the recurrent expenditure. Nigeria's flailing revenues is the reason Economists continue to urge government to cut down the size of government and downsize the recurrent budget but that counsel has fallen on deaf ears. Nigeria has spent more than 70% of its total revenues on recurrent expenditure, on the average since 2016 while infrastructure investment or capital expenditure has accounted for only 30%. In that period, oil revenues which used to be the bulk of the budget have tanked and the government has resorted to borrowing. That has shot up the debt servicing component of the government's recurrent expenditure. (Orijiude, 2021), (Aluko, 2010).

Cost of Governance

In implementing a national budget, the cost of governance is the money spent on administrative processes; it is also known as administrative expenditure which can be broadly classified into recurrent and administrative expenses. In other words, these are costs incurred by the government in running its affairs. Fluvian (2006) defined cost of governance as any expenditure incurred in maintaining government administrative structures. He also equates cost of governance to total administrative expenditure, which is a part of total FG expenditure in Nigeria. He also postulated that, there are specific factors responsible for the rising cost of governance in Africa generally and Nigeria in particular. First, there is the issue of inflation which is currently estimated as hitting 19% as of Q2, 2021 (NBS, 2021) and public project costs, which are unduly inflated by corrupt Politicians. In a similar vein, the issue of misuse of public funds is another cause of the rising cost of governance in Nigeria (Warimen, 2007), (Adewole and Osabuohien, 2007).

Political leaders inflate the costs of public projects to embellish themselves. Furthermore, there is population explosion issue. An increase in population implies that there is pressure on the limited available resources which imply that there will be an increase demand for public goods and services, such as education, health services, housing, etc. The need to give every ethnic group adequate representation in government is another reason for the increase in cost of governance. Next, is the extra-large civil service population which has been described as an institutional factor by Afolugbo, et al. (2004), (Abasiekong and Ottoabasi, 2021)

According to Drucker (2007), cost of governance is government budget allocated to recurrent expenditure on maintaining government administrative structures, which appears to be very enormous in Africa. The question of efficiency in cost of governanceis, therefore, to ensure that public funds are spent judiciously, while public goods and services aresufficiently provided. The distribution of public goods and services in Nigeria is generally based on the principle of equity. Cost of governance, according to Afolugbo (2004), is the cost incurred in running the government. It is the cost of performing official duties and discharging civil services to the public. However, this is unlike the Nigerian situation where most of our Politicians are corrupt, selfish and passive. They specialize in looting the public treasury; consequently, we have pronounced poverty as a key feature of corruption in the cost of governance. For there to be growth and development in our country, our resources must be channelled towards production and not merely consumption. (Drucker, 2007).

Causes of Nigeria's Rising Cost of Governance

Numerous factors are responsible for the current rising cost of governance in Nigeria, some of the factors include: (Popoola and Olatunji, 2021)

I. Most Nigerian Politicians are corrupt, selfish and passive. They specialize in looting the public treasury, consequently, increasing the cost of governance in the country.
II. The issue of inflation – which makes our government, spend too much money on too few goods. Political leaders inflate the cost of projects to embellish themselves.
III. Provision of security for the people now constitutes a huge expenditure emanating from the resurgent activities of criminals, bandits, kidnappers and unknown gunmen.
IV. Over bloated Civil Service in which, jobs that could hitherto be handled by 1 staff are now being performed by 5 Officers, many of whom are practically redundant.
V. Our population seems to be exploding with our figures exceeding over 200million people as of December, 2020 which has attracted the increased expenditure on health, education, housing and other social services.
VI. The need to give every ethnic nationality representation and clannish minorities a role in governance structure.
VII. Our affinity for external borrowing with its attendant high debt service rates

Corruption

All the data providing sources of corruption in Nigeria, *Corruption Perception Index* (CPI), generally agree to the definition of corruption such as the misuse of public funds and power for private benefits, such as: bribing of public officials, kickbacks in public procurement, or embezzlement of public funds (Lambsdorff, 1999). A detailed investigation by Fafowora (2011) has revealed that the main problem in Nigeria is not just the corrupt by Politicians at the National Assembly or the Governors and Chairmen of the Local Government Councils (LGCs) that are looting their states blind but the civil service which provides the foundation for corruption and bad governance. Some Civil Servants who prepare the budget estimates and implement the Appropriation Act are the ones who reveal the loopholes in the system to Political appointees and help them to stash away public money. They frustrate the achievement of the budget implementation milestones and when the budget fails, they mop up the unspent funds into their pockets and set-up the books to ensure compliance to due process procedures. (Fafowora, 2011). They are the ones who sabotage every attempt to introduce financial best practices into the system to plug the loopholes through which they cart away our money. Any meaningful reform in the economy towards curbing the incidence of corruption should therefore begin with the civil service. Successful governments and organizations are known for being frugal, prudent and efficient in their management of revenue and by extension, the cost of governance. But our own national government is seen to be unwieldy, reckless and too wasteful.

World Bank reports have shown that public expenditure in Nigeria as a share of total expenditure, or the GDP has consistently been the highest in Africa, (Fafowora, 2011) yet, our governments do not necessarily translate this huge expenditure to good or effective governance. On the contrary, there is overwhelming evidence that the bigger the government budget the higher the probability of wasteful spending and the larger the scale of public corruption. For instance, in 2003, during President Olusegun Obasanjo's administration, a staff audit conducted at the national secretariat showed that there were about 1.2million federal civil servants, 1,500 Political office holders, 470 Federal legislators and over 1.500 Judicial Officers. (Sanusi, 2021)

As part of his cost of governance cost cutting measures, the administration reduced the number of Federal Ministries from 22 to 16 by merging some of the Ministries. But his successor in office, President Musa Yar'Adua again increased the number of Ministries from 16 to 29 to further the nest of inert corruption in Nigeria. In August 2011, President Goodluck Jonathan set up a presidential committee on rationalization and restructuring of the Federal Government Parastatals, Commissions and Agencies headed by former Head of Service, Stephen Orosanye who submitted his report recommending that the cost of governance in Nigeria was too high and should be brought down. Out of the 263 statutory agencies, the panel recommended a reduction to 161, 38 agencies were to be out rightly abolished, 52 to be merged and 14 others to be reverted to departments in various ministries. The agencies and parastatals were employing approximately over 30,000 staff, nationwide. (Okeke and Eme, 2015).

All these efforts have been largely viewed as unsuccessful for reasons ranging from a lack of commitment on the part of the successive FG and their apathy to the practical difficulties of achieving the objective. A more holistic and comprehensive approach involving all the stake holders, including the states, is necessary to fully address this complex problem of rising costs of governance in the general administration of the nation. The biggest challenge facing Nigeria today is not lack of funds or resources but misappropriation of the resources. Corruption is still plaguing the country while the country's wastefulness is second to none. This regime has continued to blame previous administration of borrowing to line their pockets. Just last Monday, September 20, 2021, Special Adviser to the President on Media and Publicity, Femi Adesina, said that the difference between the Buhari regime and other administrations is that the other governments were borrowing to steal (corruption), to pocket and to squander instead of borrowing for developmental purposes. Eternal vigilance as the saying goes is the price for liberty. (Oladesu, 2012), (CPI Report, 2021).

Theoretical Review

The use of national debt comes with consequences for economic policymaking. Two theoretical arguments define the impact of national debt on the economy and whether it should be sustained;

Ricardian Equivalence Theory

Ricardian equivalence refers to the equivalence in the use of debt or taxes to meet the financing needs of the government. The argument is as follows – if the people know that using debt today will translate to paying more taxes in the future, then there is no difference in using sustained external debt to improve their welfare or imposing higher taxes in future in order to generate the desired increase in revenues to be used for the developmental purposes. The policy assumes that the use of debt in managing an economy has the same long-term effect as the present day increase in taxes. The problem here is that the degree to which people realized this fact is unknown and hence, the Ricardian equivalence theory cannot be used to decide the most appropriate mix between national debt and taxes in an economy. (*Investopedia, 2021*), (Agi, 1983).

Crowding Out Effect

The crowding out effect is the impact of increased government spending using debt. The argument is as follows – when the government issues more debt, it uses monetary resources that could've been used for private investment as collateral the debts. The practice increases the interest rate for other borrowers and hence, reduces the investment done by the private sector. It runs counter to the idea that government spending can be used to stimulate and grow the economy. Therefore, there is a possibility that the use of excessive debt can harm the economy. (Udoette, 2011).

Business leaders in Africa's biggest economy have been raising red flags over the government's incessant recourse to borrowing to finance overheads and personnel costs. For instance, the government plans to spend just as much as it did in the whole of 2016 on overheads and personnel costs alone in 2022, having budgeted as much as N6.83trillion as non-debt recurrent expenditure. Debt service costs will gulp N3.61trillion, taking the total recurrent expenditure to N10.44trillion. That falls short of the government's revenue target of N10.13trillion, which analysts say is even unrealistic going by past trends of revenue collection. (*DMO Reports, 2021*).

Empirical Review
Budget Deficits

According to *Investopedia*, a budget deficit occurs when expenses exceed revenue and this term is usually used to indicate the financial health of a country. Budget deficit has risen to N20.64trillion under the President, Muhammadu Buhari from 2016 to 2020. According to the budget office, more than N7.97trillion was borrowed from foreign and domestic sources to fund these deficits. It said total government spending for the year was N10.02trillion, 0.43% above the N9.97trillion budgeted. Hence, the budget deficit for the year was N6.59trillion (14.17% of the 2020 GDP) and this was partly financed through domestic borrowing of N2.06tn. (Lambsdorff, 1999)

In 2019, the Federal Government (FG) generated a total of N4.12tn to fund the budget. For the year, total expenditure was N8.29tn, a decrease of N618.14bn (6.93 per cent) from the annual projection. Budget deficit stood at N4.18tn (2.9 per cent of 2019's GDP), and was partly financed through domestic borrowing of N912.82bn. In 2018, a total of N3.48tn, excluding other funding sources, was generated in revenue to fund the year's budget. For the year, total spending was N7.51tn, a decrease of N1.61tn from the budget. This meant a budget deficit of N3.65tn (2.85 per cent of the 2018 GDP), which was financed to the tune of N2.50tn through foreign borrowing of N1.17tn and domestic borrowing of N1.34tn. The budget office said the FG generated revenues of N3.42trillion to fund the nation's budget in 2020. (Ujah, 2021)

According to the budget office, the implementation of the 2017 budget was affected by poor revenue outturn as oil production and exports remained below the budget estimates while the performance of the economy continued to impact negatively on non-oil revenue. In a recent interview with *PUNCH,* the CEO, Financial Derivatives Company, Bismarck Rewane said the only way to finance a budget deficit was by borrowing. In April 2021, the Edo State government accused the FG of printing money indiscriminately to be able to meet up with some of its obligations. *The PUNCH* report showed that the FG's total borrowing from the CBN through ways and means advances had ballooned to N15.51trillion under the Buhari administration. Ways and Means Advances is a loan facility used by the Central Bank to finance the government in periods of temporary budget shortfalls subject to limits imposed by law as provided in S.38 of the CBN Act, 2007. While the FG had borrowed N7.97trillion from domestic and foreign sources to finance its N20.64trillion budget deficit in the period under review, the shortfall of about N12.67trillion may have been financed by the CBN. (Popoola and Olatunji, 2021)

In June 2021, a London-based Capital Economist, in a report titled 'the *Perils of deficit monetisation in Nigeria*' disclosed that the FG had been turning to the CBN to plug its budget deficits. They added that this move would deepen some of Nigeria's existing economic woes, including high inflation, downward pressure on the naira and weak economic growth. The organisation also stated that the authorities in Nigeria have routinely relied on the CBN to help finance budget deficits in recent years. This was the case even before the onset of the COVID-19 pandemic and has also occurred irrespective of whether the budget shortfall was in line with official projections or not – Nigeria has a pretty poor track record of sticking to its budget plans. Over the past six years, on average, around 55% of annual budget shortfalls had been financed by the CBN.

Issues Compounding the Cost of Governance Burden in Nigeria

There are quite a lot of issues compounding the cost of governance burden in Nigeria, some of the issues are;

I. The number of airplanes in the presidential air fleet is too many, above 6. A maximum of 3 would have been ideal.
II. The number of vehicles in the Presidential and State Governors' convoy is too many and not reflective of the austere times that the nation is facing.
III. Monies budgeted for travels, entertainment, welfare, medical tourism by the MDAs at the Federal, States and Local Governments levels are outrageous and do not reflect the parlous state of our economy.
IV. Since April 2020, there has been a Presidential directive for the implementation of the 2011 Steve Oronsanye's committee report which recommended that the cost of governance in Nigeria was too high and should be brought down. That out of the 263 statutory agencies, the panel recommended a reduction to 161, 38 to be out rightly abolished, 52 to be merged and 14 others to be reverted to departments in various ministries but nothing has happened thus far.

V. Borrowing to fix the ailing refineries in Nigeria which had previously gulped over $25billion in turn around maintenance (TAM) without anything to show for it, is very wasteful.
VI. Many of the thousands of uncompleted federal and state projects across the country should be properly evaluated and those considered being white elephant projects should be sold off to interested buyers. Proceeds from these sales should be ploughed back to finance the other viable ones.
VII. Removal of the petroleum subsidy regime which has been enmeshed in a lot of fraudulent manipulations and implementations. The estimated N1.8trillion in the 2022 budget being used to subsidise refined petroleum costs can actually be used to bridge the country's infrastructural gap.

Economists who have recently spoken on the implications of government's external debt burden have called on the FG to shore up its revenues and ensure the cutting of cost of governance while expanding the tax net. When the cost of governance is very high, expenditure will be higher than revenues resulting in budget deficits that have to be financed by borrowing. The Chairman, Foundation for Economic Research and Training and a former D-G, West African Institute for Economic Management, Prof. Akpan Ekpo has recommended: (Tunji, 2022).

Methodology

Various definitions of external debts and its measurements, statistics, perceptions and relationship with the burgeoning cost of governance in Nigeria as seen in section one and two above have shown that Nigeria is not heading in the right direction towards alleviating our individual wellbeing. This is in line with the general saying that all nations borrow or incur debts but what are the debts channeled into?. Based on the above and the nature of this study, we employed simple econometric models like Augmented Dicker-Fuller (ADF) test, Auto-regressive Distributive Lag (ARDL) test and the Ramsey Reset test to empirically investigate the impact debt servicing costs and cost of governance on the GDP in Nigeria for the period 1999 – 2021.

The ex post facto type of research design is adopted in this study since all the data used for analysis have been published by the Debt Management Office (DMO), Budget Office, Central Bank of Nigeria (CBN), World Data Indicators, Corruption Perception Index (CPI), Transparency International (TI) and National Bureau of Statistics (NBS) websites and there is no attempt to manipulate or control these variables, obviously, because these variables cannot be manipulated. The dependent or response variable (Y) for this study is the Gross Domestic Product (GDP)figures while the independent variables which proxy Debt Servicing Costs (DSC) and Cost of Governance (COG)are cost of servicing the external debts denoted as (X1) and the cost of all administrative and support services costs of government, denoted as (X2) while U the intervening or moderating variable is the Corruption perception Index ranking of Nigeria, denoted as U.

Model Specification

Multiple regression equation can always be used in describing the impact of relationship that exists between the dependent and independent variables by expressing the relationship in a mathematical form. Again, when an intervening variable is included in the mathematical equation, then we can appropriately formulate and interpret the results of our regression model. The multiple regression model to be adopted in this study is as stated below:

$Y = \alpha_0 + b_1X1 + b_2X2 + U_t$
Where:
Y = Dependent variable, proxy by GDP figures (GDP)
a_0 = Constant of the regression model
$b_{1,}$ = Coefficient of the independent variable, Debt Servicing Costs (DCS).
b_2 = Coefficient of the other independent variable, Cost of Governance (COG).
U_t = Intervening/Moderating variable/error term, Ranking of Corruption in the CPI (CORR).
t = time series (1999 – 2020).
Theoretically, the coefficients of the dependent and independent variables will take the following a priori expectations.

GDP>0, DCS, COG, CORR<0, Ut>0

Multiple regression analysis is usually deployed to resolve the problem of predicting the average values of one or more variables when one of the variables is already known. This implies that the values of the independent variables can be estimated or predicted from knowing the value of the dependent variable. R^2 which is the Coefficient of

Determination, tests for the proportion of the variation in the dependent variable that can be attributed to the variations of the independent variables. R^2 therefore, usually lies between 0 and 1; $0 \leq R^2 \leq 1$, meaning that R^2 cannot be zero. The closer it is to 1 the better the goodness of fit.

Data Presentation and Analysis

In this study, our gathered data is analysed with the aid of a statistical package for social sciences (SPSS) software using E-View.

Fig. 1: Corruption Perception Ranking in Nigeria

Ease of Doing Business in Nigeria: 2010 - 2020

		RANKING	NO. OF COUNTRIES SURVEYED	GLOBAL CORRUPTION BAROMETER (GCB)
	Year			(%)
1	Dec-2010	136*	180	0
2	Dec-2011	133	180	0
3	Dec-2012	138	180	0
4	Dec-2013	147	180	0
5	Dec-2014	170	180	0
6	Dec-2015	170	180	0
7	Dec-2016	169	180	0
8	Dec-2017	145	180	0
9	Dec-2018	146	180	0
10	Dec-2019	131	190	37
11	Dec-2020	149	180	42

* = Extrapolated and Estimated Quarterly Rates

Source: DMO and CPI Websites, 2021

Descriptive Statistics of the Data

Our data will be analysed using the SPSS software package adopting the E-View. By this method, relevant ratios that affect our GDP will be computed. Also, coefficient of correlation which gives the explained and unexplained variations of X1 and X2 from Y are noted and deduced in the model produced. The study had adopted time series data to analyse the hypotheses, t-distribution and ANOVA table obtained from the regression analysis to test the hypotheses.

Results of standard deviation which measures the dispersion from the mean values indicate a wide variation from the centre (mean) which implies that the dataset is highly volatile and cannot be easily predicted. The skewness and kurtosis statistics which are measures of the departure from symmetry and peakedness of the distribution respectively show that the data series in all the variables are positively skewed and with excess kurtosis (K>3). The jarque-bera goodness of fit test with probability values less than 0.05 implies that the series do not follow normal distribution. The main technique employed is the Autoregressive Distributed Lag (ARDL) - multiple regressions. This statistical technique is most appropriate in measuring the impact of one or more independent variables on a dependent variable when the data set is considerably large.

Fig. 2: National Debt and Cost of Governance Statistics

National Debt and Cost of Governance in Nigeria: 1999 – 2020

		GDP (BUDGET)	NATIONAL DEBT	DEBT SERV. COST	COST OF GOV.
		Y		X1	X2
	Year	(N'Trn)	(USD'Bn)	(N'Trn)	(USD'Bn)
1	Dec-1999	0.299	28.04	1.852	0.324
2	Dec-2000	0.702	0.00	2.930	0.351
3	Dec-2001	0.894	0.00	3.610	0.386
4	Dec-2002	1.060	0.00	1.654	0.444
5	Dec-2003	1.450	0.00	1.677	0.459
6	Dec-2004	1.190	35.94	1.352	0.980
7	Dec-2005	1.601	20.48	5.410	0.551
8	Dec-2006	1.880	3.54	2.899	0.609
9	Dec-2007	2.394	3.65	0.383	0.674
10	Dec-2008	2.743	3.72	0.213	0.750
11	Dec-2009	3.054	3.95	0.273	0.820
12	Dec-2010	4.400	4.45	0.368	0.902
13	Dec-2011	4.700	5.67	0.137	0.935
14	Dec-2012	4.900	6.50	0.308	1.401
15	Dec-2013	4.990	8.80	0.103	1.551
16	Dec-2014	4.960	9.70	0.860	1.825
17	Dec-2015	4.400	10.75	0.338	2.151
18	Dec-2016	6.061	11.41	0.629	2.257
19	Dec-2017	7.410	18.91	0.969	2.311
20	Dec-2018	9.122	25.27	1.417	2.361
21	Dec-2019	8.922	27.68	1.184	2.511
22	Dec-2020	10.330	33.35	1.330	2.678

Y = Dependent Variable, GDP (N' trn)
X1 = Independent Variable, Debt Services Cost (N')
X2 = Independent Variable, Cost of Governance (USD' bn)
U = Intervening Variable, Corruption Cost (N'bn)
* = Extrapolated and Estimated Quarterly Rates

Source: DMO, World Data Indicators and CPI Websites, 2021

Descriptive Statistics Result

Dependent Variable: Y
Method: Least Squares
Date: 09/18/22 Time: 12:06
Sample: 1999 2020
Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.016378	0.624005	-0.026246	0.9793
X1	-0.082400	0.201894	-0.408137	0.6877
X2	3.315550	0.330971	10.01764	0.0000

R-squared	0.865493	Mean dependent var	3.975545
Adjusted R-squared	0.851334	S.D. dependent var	2.947813
S.E. of regression	1.136594	Akaike info criterion	3.220074
Sum squared resid	24.54509	Schwarz criterion	3.368852
Log likelihood	-32.42081	Hannan-Quinn criter.	3.255121
F-statistic	61.12822	Durbin-Watson stat	0.931446
Prob(F-statistic)	0.000000		

Source: Researcher's computations.

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Interpretation of Data

From the ARDL result above, lag 4 for all the variables were chosen. The ARDL (4, 4, 4, 4) result indicates that controlling for other explanatory variables in the model, LDSC has a coefficient value of -0.0824, t-statistic value of -0.4081 and associated probability value of 0.68 > 0.05 has a negative less significant impact on GDP growth rate. LCOG also has a positive and significant impact on GDP growth rate (coefficient = 3.3155; t-statistic =10.01764, p-value = 0.000<0.05). This indicates that the debt servicing costs has a negative and less significance impact on the GDP of Nigerians but cost of governance had a positive and significant impact on the GDP. The R^2 value of 0.865 indicates that the model is a good one since about 86.5% of the total variations in GDP growth rate in Nigeria are attributable to the costs of governance and the debt servicing costs of the Nation. Only about 14% of the total variations in GDP growth rate are unexplained in the model which may due to other relevant but extraneous variables not included in the model. The Adjusted R-squared value of 0.85133 (85.13%) indicates that the adopted ARDL model is still a good one after adjusting for the relevant degrees of freedom. The *f*-statistic which measures the overall significance of the explanatory variables on the dependent variable taken together still passed the significance test at F-statistic = 61.123 which is significant at 5% level. This means that there is a linear relationship between the dependent and independent variables. The Durbin-Watson statistic value of 2.333611indicates that the model is free from first order autocorrelation problem. Therefore, our multiple regression linear equations using the ARDL bounds test can now be re-stated as:
Y= -0.0163 – 0.082DSC + 3.315COG.

Techniques for Data Analysis

The main regression technique employed in this study is the Autoregressive Distributed Lag (ARDL). This statistical technique is most appropriate in measuring the impact of one or more independent variables on a dependent variable when the data set is considerably large. In this study, we adopted a 22-end point data set comprising the relative annual GDP figures which represent the dependent variable (Y) and the debt servicing cost (DSC) and cost of governance (COG) which proxy the independent variables for the period 1999 – 2020 in Nigeria.

Time Series Econometrics

Most economic time series data like the panel data adopted in this research usually exhibit trend influence, in order words, they trend up and down as economic climate changes. For example, in times of boom, most economic trends like, the National GDP figures will be bloated while during recession there will be a decrease in these trends meaning that most of these economic time series are not stationary. In other words, they suffer from Unit root problems and when we run multiple regression analysis without first resolving the unit root problems, we may jump into erroneous conclusions that all the estimates are significant, whereas, the statistical significance of the variables analysed may not be as a result of any meaningful relationship existing between the variables but just as a result of trend. When we regress non stationary time series variables on other non-stationary time series variables, we often produce spurious regression results whose policy recommendations, if applied to the economy becomes misleading. To avoid spurious regression, it is necessary to first examine the time series properties of these variables, such properties include: Stationary or Unit root test, Co-integration test and Error Correction Model (ECM) test. There are so many procedures for testing for unit root but in this study, we adopted the Augmented Dickey Fuller Test (ADF) model, which involves estimating the equation;

$\Delta Yt = \beta_1 + \beta_2 t + \beta_3 t + \sigma Y_{3-2} + \sigma Y_{2-1} + \sum \alpha \Delta Y_{t-1} + U_t$

Where:

Yt	=	*Time Series Variable.*
t	=	*Time Trend.*
Δ	=	*First Difference Operator.*

The essence of the ADF test is to ensure that none of the hypothesis proposed possess non-stationary variables and the decision rule in analyzing the multiple regression equations will be to reject the null hypothesis if the ADF statistic is greater than the Mackinnon critical value in absolute terms and accept the alternative hypothesis at levels. If all the time series variables are stationary at levels, the series is considered to be stable. The Augmented Dickey-Fuller (ADF) formula was employed to test for stationary or the existence of unit roots in the data. The test results are as presented below:

Augmented Dickey Fuller (ADF) Unit Root Test

Summary of ADF Unit Root Test

Variable	ADF-Stat	C.V @5%	p-value	Order of integration	Inference
L GDP	-5.81	-3.54	0.0002	I (1)	Stationary
L DSC	-5.24	-3.54	0.0007	I (0)	Stationary
L COG	-5.39	-3.54	0.0005	I (0)	Stationary

Source: Researcher's Extract from E-views 9.0 output (See Appendix A)

The ADF Unit root test is established where the series of the variables are stationary. That is, where they have constant mean and variance. From the result, GDP was stationary at first differencing, while DSC and COG were stationary at level. This combination of order of integration of zero and 1 reveals that Ordinary Least Square (OLS) regression model would not have been suitable for the analysis instead Autoregressive Distributed Lag (ARDL) bound test which accommodates all the variables at the same time, at order 0 and 1 was employed. The ADF is a dynamic model while OLS is static model. Results of the ADF Bounds Tests are presented below:

ADF Bound Test Result
Sample: 1999 – 2020; Included observations: 22
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	k
F-statistic	4.752445	3
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Researcher's extract from Eviews result (2021) [See Appendix B]

The ADF bound test result with *f*-statistic = 4.752> Upper bound critical values at 10% 5%, 2.5% and 1% respectively, confirmed that there is a long-run relationship between debts servicing costs and cost of governance in Nigeria for the period 1999 -2021.

Hypothesis Testing

To accept each of the hypotheses postulated in 1.5 above, the regressed value of t-distribution must be greater than the calculated t – value which is the slope of the curve as coefficient of X.
This study used time series data analysed by E-View to test the hypotheses. The t-distribution and ANOVA table already highlighted is adopted to test the hypotheses as stated above. This would enable us determine explicitly whether to accept or reject the null hypothesis stated above. The decision rule is to accept each hypothesis where the regressed value of the X coefficient in the t- distribution is greater than the calculated t – value, which is the slope of the curve and coefficient of X.

Hypothesis 1

In our hypothesis 1, we postulated that:
H_1: Debts Servicing Cost (DSC) does not have a significant and positive impact on the gross domestic product (GDP) of Nigerians for the period, 1999 – 2021.
However, on the basis of the results obtained from the ARDL multiple regression analysis, we found that the LDSC has a coefficient value of -0.0824, t-statistic value of -0.4081 and associated probability value of 0.68 >0.05 which means a negative and less significant impact on GDP. Hence, we rejected the null hypothesis that debt servicing

costs does not have a significant and positive impact on the GDP of Nigerians for the period 1999 – 2021 and accepted the alternate hypothesis which was not measured at all.

Hypothesis 2

In our hypothesis 2, we also postulated that:

H_2: Cost of Governance (COG) does not have a significant and positive impact on the gross domestic product (GDP) of Nigerians for the period, 1999 – 2021.

However, from our analysis, we noted COG had a positive and very significant impact on the GDP (coefficient = 3.315, t-statistic = 10.0176, and prob. = 0.000 < 0.05) Hence, we accepted the null hypothesis that COG does not have a positive and significant impact on the GDP in Nigeria for the period 1999 – 2020. The coefficient of determination, R^2 value of 0.865 indicates that the model is a good one since about 86.5% of the total variations in GDP growth rate in Nigeria are attributable to the poverty incidence rate. Only about 14% of the total variations in GDP are unexplained in the model which may due to other relevant but extraneous variables not included in the model. The Adjusted R-squared value of 0.851 about (85.1%) indicates that the adopted model is still a good one after adjusting for the relevant degrees of freedom.

Ramsey Reset Test

The researcher also performed this test to ascertain whether there is a functional form misspecification in the model. The hypotheses for the Ramsey Reset tests are stated as follows:

Hypothesis: *H_o: The model is correctly specified*
H_1: The model is wrongly specified

Decision Rule: Reject Ho if Probability (F-statistic) ≤ 0.05; otherwise, do not reject

Ramsey RESET Test Result

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.801251	2	0.5225
F-statistic	0.701021	(1, 2)	0.5225

Source: Researcher's Extract from Eviews Result

The RAMSEY Regression Error Specification test with F (1,2) = 0.71021 and associated probability value of 0.5225 > 0.05 indicates that the model is correctly specified which implies that there is no functional form problem in the model. Of which course, the explanatory variables have significant power in explaining the response variable in the regression model.

Summary of Findings

In this section, we consider a summary of our research findings which will support the policy recommendations made below to the relevant stakeholders. We summarize that:

I. In our first hypothesis testing of whether Debts Servicing Cost (DSC) have a significant and positive impact on the GDP of Nigerians for the period, 1999 – 2021. We found that the DSC has a coefficient value of -0.0824, t-statistic value of -0.4081 and associated probability value of 0.68 > 0.05 which means a negative and less significant impact on GDP. Hence, we rejected the null hypothesis that debt servicing costs does not have a significant and positive impact on the GDP of Nigerians for the period 1999 – 2021 and accepted the alternate hypothesis that actually there is a negative and less significant impact of DSC on GDP which was not measured at all. This is in agreement with the view of a London-based Economist that deficit monetisation weakens economic growth.

II. In our second hypothesis testing (H_2) of whether the Cost of Governance (COG) have a significant and positive impact on GDP of Nigerians for the period, 1999 – 2021. We found that COG had a positive and very significant impact on the GDP (coefficient = 3.315, t-statistic = 10.0176, and prob. = 0.000 < 0.05) Hence, we accepted the null hypothesis that COG does not have a positive and significant impact on the

GDP in Nigeria for the period 1999 – 2021. This finding agrees with the views of Economists who maintained that cutting cost of governance, shoring up its revenue and expanding the tax net would reduce borrowing and by implication engender economic growth.

III. The R (coefficient of determination) value of 0.865 indicates that the model used (ARDL) is a good one since about 86.5% (approximately 87%) of the total variations in our GDP are attributable to the independent variables measured – DSC and COG in Nigeria.

IV. Only 14% of the total variations are in the GDP are unexplained in the model which may be due to other relevant extraneous variables not included in the model but captured by our inclusion of the stochastic error term U in the model used.

V. The Adjusted R-squared value of 0.851 (85.1%) indicates that there is not much variation in the impact of the independent variables (DSC, COG) on the dependent variable (GDP) after adjusting for the appropriate degrees of freedom.

VI. The F-statistic which measures the overall significance of the explanatory variables on the dependent variable taken together still passed the test of significance with results at F-statistic = 61.128 significance at 5% level. This means that a linear relationship really exists between the dependent and independent variables.

VII. The Durbin-Watson statistic value of 0.931indicates that the model (ARDL) adopted is free from first order autocorrelation problem.

Conclusion

Over the years since the advent of this 4th republic in 1999, succeeding governments have initiated series of policies, infrastructural projects and developmental policies designed to create jobs, reduce the ever-rising poverty and misery index, stem the up-surging unemployment rate, rising inflation rate and grow the nation's economy. Economic models have shown a strong positive correlation between GDP growth rate, huge national debt and cost of governance figures. The pattern and intensity of crimes, insecurity, banditry, kidnapping and corruption in Nigeria seem to have also validated this relationship. Nigeria's poor policy environment, much of which is reactionary, affects the business environment adversely, as do the country's poor currency controls, inability to provide basic infrastructure, diversify the economy and increase its export capacity. Available empirical evidence indicates that these resources have not been judiciously used to meet the needs of the population in terms of human capital development because of high level of corruption in the country. Nigeria has a democratic system of government that is patterned after that of the United States of America (USA).

However, the cost of governance in Nigeria recently attracted several comments from stakeholders in the nation's economy who expressed concerns as regards how best the prevalent wastage by government could be curtailed and translated into generally improved living standards for the citizenry. Nigeria's democracy has been described as the most expensive in the World with minimal evidence in terms of infrastructure development, poverty level and pace of general economic growth.

Policy Recommendations

Unless our constitutional proviso is changed, the President, Muhammadu Buhari cannot unilaterally reduce the size of his cabinet. There is now a broad consensus in the nation that the size and cost of the civil service is unsustainable and that it should be reduced considerably as it represents a major constraint on the nation's economic growth and development. The practice of treating the civil service as some other form of political, ethnic and religious patronage is one that we need to jettison. What we need is a slimmer and more efficient civil service than we now have. There is no reason why public expenditure on the civil service should exceed 10%. But to avoid unnecessary disruptions in the civil service, the process of staff reduction should be gradual and handled fairly. In conclusion, the following measures for reducing both the debt servicing costs and cost of governance in the nation are strongly recommended.

I. The Fiscal Responsibility Act which has been designed to lock in the gains of the economic reforms and prevent a relapse to the past should be complied with.

II. The Law will commit all tiers of government to a set of rules for efficient economic management in terms of standardized planning, as well as control and monitor public borrowing and expenditure.

III. Enhance and strengthen existing guidelines on public borrowing in line with relevant provisions of the DMO Act.

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IV. The Virtual Poverty Fund, which is a framework for monitoring and tracking expenditure related to meeting the Millennium Development Goals (MDGs) as provided in the budget: poverty alleviation, health, education and infrastructure development should be strictly implemented.
V. This monitoring will involve representatives from the civil society, the media and the organized private sector.
VI. Constitutional amendments should be introduced urgently to reduce the size of the Federal cabinet to not more than 18 Ministers to be appointed from the six geopolitical zones.
VII. There should be a limitation on the number of special advisers and special assistants serving in the government. It is estimated that over 300people are currently serving in those capacities now. This number should be drastically reduced.
VIII. There should be a merger of the MDAs to reduce the cost of governance. There is far too much duplication of functions in the federal bureaucracy.

Borrowing is not bad in itself; it is the purpose for which these debts are incurred that matters. The reality of Nigeria borrowing to fund recurrent expenditure is not sustainable. Looking at debt-to-GDP ratio may be misleading; it's more apt to consider other debt financing options and alternatives as recommended below:

I. Printing more money for the economy.
II. Engaging more on Public Private Partnerships (PPP) with stakeholders for infrastructure development.
III. Attracting more Foreign Direct Investments (FDI) into the Country.
IV. Ensuring a strict tax payment structure and expanding the tax base for the nation.
V. Focusing on creating a balanced budget where the projected revenues equal the projected expenditure
VI. Ensuring domestic resource mobilization efforts by ensuring that many Nigerians are brought into the tax net.
VII. Not to increase taxes but to expand the tax base.
VIII. Also, people who have luxury goods like private jets should be properly taxed.
IX. Adopting private sector project financing models.

The nation's external debt stock could hit over $36 billion if the National Assembly approves the $4.054 billion new borrowings requested by Nigeria's government. The country plans to spend 22.5% of its projected revenue in 2022 budget to service debt for the period, but with the fiscal deficit likely to go higher, the government may have to borrow even more.

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