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EFFECT OF FISCAL DISCIPLINE ON PUBLIC EXPENDITURE ALLOCATION: EMPIRICAL EVIDENCE FROM KOGI STATE, NIGERIA

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ABSTRACT

This study provides an empirical investigation into the relationship between fiscal discipline and the allocation of public expenditure in Kogi State, Nigeria, during the period 2007-2017. Against a backdrop of widespread fiscal mismanagement and poor human development outcomes in many Nigerian states, this research quantifies how key fiscal variables (specifically the fiscal deficit, internally generated revenue (IGR), and federal allocations) influence capital expenditures directed towards social sectors. Utilizing secondary data sourced from the Kogi State Annual Reports and the Office of the Auditor-General, an Ordinary Least Squares (OLS) regression model was employed for analysis. The results demonstrate a statistically significant negative impact of fiscal deficits on capital expenditure allocations, indicating that deficit financing crowds out public investment. Conversely, both IGR and federal allocations exhibited positive and significant effects, though the latter underscores a dependency on external funds. The study concludes that entrenched fiscal indiscipline, characterized by persistent deficits, is a primary constraint on Kogi State's ability to fund human development initiatives transparently and accountably. We recommend the *stringent enforcement of fiscal responsibility legislation, a deliberate strategy for IGR diversification beyond the oil sector, and the institutionalization of robust public access to information protocols to ensure the accountable use of all public funds.*

Keywords: Fiscal Discipline, Public Financial Management, Capital Expenditure, Fiscal Deficit, Internally Generated Revenue

INTRODUCTION

Fiscal discipline which is the institutional commitment to sustainable public finances through controlled expenditures, efficient revenue mobilization, and prudent debt management, is a non-negotiable pillar of macroeconomic stability and sustainable development (Okafor, 2019; World Bank, 2022). In the Nigerian federation, the sub-national tier of government presents a acute case study of the perils of fiscal indiscipline. Many states grapple with chronic fiscal deficits, unsustainable debt profiles, and a profound misallocation of scarce public resources, leading to collapsed social infrastructure and escalating poverty despite substantial monthly transfers from the federal account (National Bureau of Statistics [NBS], 2018).

Kogi State exemplifies this paradox, despite receiving cumulative federal allocations exceeding N1.2 trillion between 2007 and 2017 and being endowed with significant mineral and agricultural resources, the state consistently ranked among Nigeria's poorest. Over 70% of its population lived below the national poverty line, with social infrastructure in a state of acute decay (Kogi State Annual Report, 2017; NBS, 2018). The selected timeframe (2007-2017) is critically relevant for this analysis. It encapsulates a complete political cycle, coincides with periods of extreme volatility in global oil prices (which directly determine federal revenue shares), and represents an era where fiscal crises in several Nigerian states brought issues of fiscal governance to the forefront of national policy discourse.

The central problem Is a public financial management (PFM) system weakened by a lack of transparency and accountability. Prior studies, such as Ishola et al. (2022), have identified a generalized over-dependence on federal transfers and weak IGR mechanisms in Nigeria's North-Central region. However, a salient gap exists in empirical, state-specific research that quantitatively links discrete fiscal discipline variables (deficits, IGR, and allocations) to tangible budgetary outcomes in Kogi State. This study seeks to fill that void. It moves beyond general commentary to provide robust econometric evidence on how fiscal indiscipline directly erodes the state's capacity to allocate resources to human development priorities. By applying regression analysis to a decade of financial data, this research offers a quantified assessment of fiscal impacts, thereby contributing to the discourse on governance and development with actionable, evidence-based insights for policymakers in Kogi State and other similarly situated sub-national entities in Nigeria.

LITERATURE REVIEW

Conceptual Review

Fiscal Discipline

Fiscal discipline extends beyond a simple balanced budget rule to encompass a legal and institutional framework that ensures long-term fiscal sustainability and intergenerational equity. For this study, it is operationalized through three measurable indicators:

Fiscal Deficit: Calculated as Total Expenditure minus Total Revenue. A rising deficit ratio is a primary indicator of weakening fiscal discipline and unsustainable practices.

Internally Generated Revenue: Total revenue collected from state-owned sources (taxes, fees, fines). A higher IGR ratio indicates reduced fiscal dependence on the federal center and stronger local fiscal effort and autonomy (Adegboye et al., 2021).

Federal Allocation: Statutory transfers received from the Federation Account. While a legitimate revenue source, an excessive reliance on it is a symptom of weak internal fiscal capacity and effort.

Transparency and Accountability in PFM

Transparency is defined as the accessible, timely, and comprehensive disclosure of fiscal information to the public. Accountability is the obligation of public officials to answer for the use of public resources and be held responsible for their fiscal decisions (Heald, 2006). Operationally, these principles are assessed through:

***Audit Report Availability*:** The time lag between the end of the fiscal year and the public release of audited financial statements by the Office of the Auditor-General.

Public Participation: Documented evidence of civil society and citizen engagement in the budget preparation and public hearing processes.

Public Financial Management & Development Outcomes

Effective PFM ensures public resources are allocated efficiently to priority sectors to achieve development goals. For this study, the outcome variable is proxied by:

Capital Expenditure Allocation (Y): The annual budgetary allocation to capital projects in critical social sectors (education, health and infrastructure). This is a direct, quantifiable measure of the government's commitment to tangible human development outcomes over recurrent consumption (Gupta et al., 2002).

Theoretical Review

This study is anchored on two complementary theoretical paradigms: Public Choice Theory (Buchanan & Tullock, 1962) and the Agency Theory (Jensen & Meckling, 1976).

Public Choice theory provides a lens through which to view the behavior of politicians and bureaucrats. It posits that these actors, often driven by self-interest (e.g., desire for re-election, budget maximization), may prioritize short-term political gains such as inflating recurrent expenditures (salaries, emoluments) over long-term fiscal sustainability and productive capital investments that have a delayed payoff.

Agency Theory frames the citizen-government relationship as a classic principal-agent problem. The principals (citizens) delegate the authority to manage public funds to their agents (government officials). However, the interests of these agents may not always align with those of the principals. This divergence creates a demand for mechanisms such as transparency, accountability, and fiscal rules to monitor agents' behavior and align their actions with the principals' goals (i.e., sustainable development). Fiscal discipline acts as a critical institutional constraint on the opportunistic behavior predicted by these theories.

Empirical Review

Empirical literature consistently establishes a positive correlation between fiscal discipline and positive development outcomes. Alesina and Perotti (1996), in a seminal study, demonstrated that formal fiscal consolidation rules led to higher and more stable economic growth in OECD countries. In the Nigerian context, studies like those by Ezejinaka et al. (2020) found a strong negative correlation between rising state-level fiscal deficits and the quality of public infrastructure.

However, a significant gap persists. While studies like Ishola et al. (2022) discuss PFM challenges in broad regional terms, there is a scarcity of empirical, quantitative studies that focus specifically on Kogi State, modeling the precise impact of its fiscal variables on budgetary allocations. This study bridges this gap by providing a state-specific, econometric analysis of how fiscal discipline directly influences the capacity for transparent and accountable resource allocation to human development, thereby contributing a unique case study to the body of knowledge.

METHODOLOGY

This study employed an ex-post facto research design, analyzing historical time-series data from 2007 to 2017. Secondary data was meticulously extracted from the audited financial statements published in the Kogi State Annual Reports and the Reports of the Auditor-General for Kogi State for the relevant years, ensuring reliability and verifiability.

Model Specification:
The multiple linear regression model is specified as: $CEA = \beta_0 + \beta_1 FD_1 + \beta_2 IGR_2 + \beta_3 FA_3 + \mu$
Where:
CEA = Capital Expenditure Allocation (₦ Billion)
FD = Fiscal Deficit (₦ Billion)
IGR = Internally Generated Revenue – IGR (₦ Billion)
FA = Federal Allocation (₦ Billion)
β_0 = Constant Term
β_1-β_3 = Coefficients of the independent variables
μ = Error term

Data analysis was performed using EViews 9.5. The Ordinary Least Squares (OLS) technique was employed to estimate the model parameters. Descriptive statistics were used to summarize the data, and the statistical significance of the explanatory variables was tested at a 5% significance level using the t-test.

RESULTS AND DISCUSSION

The data for this study, as presented in Appendix I captures fiscal discipline indicators and poverty reduction metrics in Kogi State from 2007 to 2017. These variables include fiscal deficit, internally generated revenue (IGR) and federal allocations as proxies for fiscal discipline (independent variables). Poverty reduction is proxied by budgetary allocations to social and poverty-alleviation programs.

Regression Results

Table 1: OLS Regression Results

Variables	Coefficient	Std. Error	t-statistics	Prob
C	3224.21	1234.21	2.6124	0.0922
FD	-0.6423	0.0215	29.858	0.0000
IGR	0.4551	0.0323	14.094	0.0041
FA	0.5357	0.0518	10.324	0.0272
R-squared	0.9779	Adj R-squared	0.8837	

F-stats	55.7983	Prob (F-stats)	0.0000

Discussion of Findings

The regression results reveal a compelling and statistically robust narrative about fiscal management in Kogi State.

Fiscal Deficit: The coefficient of -0.64 is negative and highly statistically significant (p=0.000 < 0.05). This indicates that a N1 billion increase in the fiscal deficit leads to a N0.64 billion decrease in capital expenditure allocation. This finding starkly illustrates the phenomenon of "crowding out," where recurrent expenditures, often driven by political considerations as predicted by Public Choice theory consume fiscal space, directly suffocating vital investments in human development infrastructure. It is the most potent evidence of how fiscal indiscipline cripples development-oriented PFM.

IGR: The coefficient of 0.46 is positive and significant (p=0.0041 < 0.05). This implies that a N1 billion increase in IGR results in a N0.46 billion increase in capital spending. This supports the argument that domestically generated revenue, being more difficult to collect and thus more "costly," is treated with greater fiscal responsibility and is more likely to be channeled into productive investments that promote long-term growth and accountability.

Federal Allocation: The coefficient of 0.54 is positive and significant (p=0.0272 < 0.05). A N1 billion increase in federal transfers leads to a N0.54 billion increase in capital expenditure. While this appears positive, it also highlights the state's heavy and potentially unhealthy dependence on external funds for development. The challenge, as shown in the literature, is ensuring these windfall funds are managed with utmost transparency and are not simply absorbed into the recurrent budget or lost to inefficiency.

The high R-squared value (0.98) indicates that the model explains 98% of the variations in capital expenditure, confirming that these three fiscal discipline variables are the predominant determinants of development spending in Kogi State during the period under review.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study has conclusively demonstrated that fiscal discipline is a critical determinant of effective public financial management in Kogi State. The significant negative impact of fiscal deficits on capital expenditure confirms that the state's inability to control its spending and live within its means is the primary obstacle to funding human development. While IGR and federal allocations contribute positively to the capital budget, the overarching problem of deficit financing cripples the state's capacity for transparent, accountable, and development-oriented resource allocation. The findings underscore that without institutionalizing fiscal discipline, efforts to improve transparency and accountability will remain superficial and human development outcomes will continue to stagnate.

Recommendations

Based on the empirical findings, the following recommendations are proposed:

Strengthening Fiscal Controls

The Kogi State government should implement measures to control and reduce fiscal deficits. This can be achieved through prudent expenditure management, debt restructuring, and the adoption of fiscal rules that limit deficit spending. By operating within its means, the state can ensure that resources are allocated efficiently to human development initiatives.

Enhancing Internally Generated Revenue (IGR)

The state should prioritize efforts to improve its revenue generation capacity. This can be achieved by broadening the tax base, improving tax collection mechanisms, and leveraging technology to enhance revenue administration. A sustainable IGR framework will provide the state with the resources needed to fund critical development projects without over-reliance on federal allocations.

Promoting Transparency and Accountability

The government should ensure the transparent and accountable utilization of public funds, particularly federal allocations. This can be achieved by strengthening oversight institutions, such as the Office of the Auditor General, and promoting citizen participation in budget processes. Public access to financial information and regular audits can also enhance accountability and reduce the risk of mismanagement.

Capacity Building and Institutional Reforms

The state should invest in capacity building for public officials and institutions involved in financial management. Training programs on fiscal discipline, transparency, and accountability can improve the skills and knowledge of personnel, leading to better financial management outcomes. Additionally, institutional reforms that promote good governance and reduce corruption are essential for achieving sustainable development.

Leveraging Technology for Financial Management

The adoption of digital tools and platforms for financial management can enhance transparency and accountability. For example, the use of e-procurement systems and digital payment platforms can reduce leakages and ensure that public funds are utilized efficiently.

By adopting these measures, Kogi State can enhance its fiscal discipline, promote transparency and accountability in public financial management, and achieve sustainable progress in human development. The study's findings and recommendations provide a roadmap for policymakers and stakeholders seeking to address the challenges of public financial management in Kogi State and beyond

The study's findings and recommendations provide a roadmap for policymakers and stakeholders seeking to address the challenges of public financial management in Kogi State and beyond.

Suggestions for Further Research

Future studies could (1) employ a comparative analysis between Kogi State and a fiscally disciplined state like Lagos to identify best practices; (2) incorporate qualitative methods, such as interviews with key policymakers, to understand the political economy and governance factors behind fiscal indiscipline; and (3) expand the econometric model to include more variables like corruption indices, debt servicing costs, or a transparency index to provide a more holistic understanding of PFM.

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APPENDIX I
Fiscal Profile of Kogi State (2007-2017)

Year	Budgetary allocation to capital expenditure Y	Fiscal deficit X1	State internal generate revenu X2
2007	44,505,102,366.42	29,316,726.80	10,934,50
2008	24,861,322,401.34	85,208,072.47	25,767,26
2009	35,650,321,400.42	8,238,373.40	12,491,86
2010	25,715,245,209.26	22,467,237.00	20,501,79
2011	26,739,254,122.07	12,917,724.32	33,244,00