



Fiscal Policy and Economic Development in Nigeria: A Study of the Economic Recovery and Growth Plan (ERGP) 2014 – 2019

NKECHI EDITH OGBUAGU

University of Benin, Benin City, Nigeria

CHINYEAKA JUSTINE IGBOKWE-IBETO

Nnamdi Azikiwe University, Awka, Nigeria

Abstract. There is an implicit assumption in most policy studies that once a policy has been formulated the policy will be implemented. However, this is not often the case most especially in developing countries where governments tend to formulate broad, sweeping policies, and government bureaucracies often lack the capacity for their implementation. Within the framework of systems theory, this paper examined the impact of implementing fiscal policy on economic development with specific reference to the Economic Recovery and Growth Plan (ERGP) 2014-20-19. This study utilised qualitative research design to gain an insight into the impact of implementing fiscal policy on economic development. The researchers also consulted different sources to ensure quality of the paper. Subsequently, relevant sources of this research were fairly and professionally scrutinized, understood and tested with the available literature for the purpose of this research. This paper argues that it is not enough to make public policies; implementation is the key, because it is by implementing policies that economic development can be achieved in a country. This study discovers that, the implementation of the ERGP was the major factor that brought Nigeria out from recession. Though, the targets of the ERGP have not fully been met but it was able to contribute positively to the country's economy. It concludes that, the implementation of fiscal policy can bring about economic development in a country. Therefore, the ERGP plan should be revised and extended for more years in order to bring more positive impact on the Nigeria economy.

Keywords: Economy, Governance, Management, Recovery, Sustainability

1. Introduction

There is an implicit assumption in most policy studies that once a policy has been formulated the policy will be implemented (Khan, 2016). This assumption however, cannot be said to be valid for policies formulated in many Third World countries. Third World governments tend to formulate broad, sweeping policies, and governmental bureaucracies often lack the capacity for implementation (smith, 2009). Research studies have it that public policy analysis is a specialized field that has traditionally tended to favour the study of the policy making process by concentrating on the participants and their interests; compromise through bargaining and negotiation; expertise in policy making and the role of analysis (Paki & Ebiefa, 2011). However, the observation is made that public policy making and its ramifications, are not the only significant aspects of the public policy process but also and most importantly the way policy is implemented (Marume, Mutongi & Madziyire, 2016). A policy is but a wishful thinking until it is implemented. Ebiefa and Paki (2013) argued that policies play crucial role in the development and underdevelopment of a given state. However, there have been no lacks of public policies in Nigeria since independence. The paradox of public policy implementation has continued to militate against the realization of public objectives in the country. The reason being that most governmental policies either end prematurely only at the formulation stage; or are purposely designed not to be religiously implemented (Nnajofofor, Ifeakor & Mgbemena, 2013). This paper focuses on the importance of the implementation of fiscal policy on

economic development: a study of the Economic Recovery and Growth Plan (ERGP).

Fiscal policy is largely based on the ideas of a British economist John Maynard Keynes (1883-1946), who argued that economic recessions are due to a deficiency in the consumption spending and business investment components of aggregate demand. Keynes believed that governments could stabilize the business cycle and regulate economic output by adjusting spending and tax policies to make up for the shortfalls of the private sector (Hayles & Boyles 2021). Fiscal policy is the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions, including aggregate demand for goods and services, employment, inflation, and economic development. The paper argued that it is not enough to make policies but also and most importantly to implement them. It is by implementing policies that it can be able to bring about economic development. It is based on this assertion that this study investigated the impact of the implementation of fiscal policy on the Nigeria economy by examining the ERGP.

The ability of an economy to support a defined level of economic production and minimal fluctuations in the macro-economy is a function of the policies of the government and actions of its Central Bank (Akinyede & Elumah, 2017). The Nigerian government periodically sets policies as corrective measures for the volatile economy. The Federal Government and the Central Bank of Nigeria are taxed with setting policies to fit all aspect of government, ministries and industries with important economic component. Despite these efforts, the Nigeria economy has faced the problem of excess liquidity, slow growth in gross domestic product (GDP), unpredictable inflation rate, periodic variation in external reserves, exchange rate inconsistency, yearly budget deficit and untapped revenue sources aside revenue from crude oil, causing different system of monetary and fiscal policies to evolve in Nigeria (Musasa, 2012). Nigeria economy dropped into recession in 2016 showing negative economic shocks, conflicting economic policies, and security problems (African Economic Outlook 2017).

Flowing from the foregoing, the paper argues that making fiscal policies is not enough to achieve economic development but also and most importantly is the implementation. The ERGP was examined to explain the importance of fiscal policy implementation on the Nigeria economy. In order to guide the motive of this paper, the researcher intended to find answers to: why was the ERGP adopted? What are the targets of the ERGP? What is the impact of the implementation of the ERGP on the Nigeria economy?

To address the issues raised, this article is divided into five parts. Aside introduction, the first part explores the conceptual and theoretical framework. The second examines the factors that led to the adoption of the ERGP. The third provides an overview of targets of the ERGP. The fourth discussed the impacts of the implementation of the ERGP on the economic development of Nigeria. The fifth and last part of this work makes conclusion and recommendations on how the government can improve economic development in Nigeria.

2. Methodology

This study, which is theoretical in nature, drew its arguments mostly from secondary data, which included, textbooks, journal publications and internet sources. Subsequently, relevant sources of this research were fairly and professionally scrutinized, understood and tested with the available literature for the purpose of the research. It included scan-reading, comprehensive and critical reading and writing down ideas. Authoritative scholarly sources were reviewed, during a desktop study. The purpose was to identify the relevant publications and apply them in the research.

3. Conceptual and Theoretical Clarifications

Fiscal policy is the means by which a government adjusts its level of spending to monitor and influence a nation's economy. It is used along with the monetary policy, which the central bank uses to influence money supply in a nation. These two policies are used to achieve macroeconomic goals in a nation. These goals include price stability, full employment, reduction of poverty levels, high and sustainable economic growth, favorable balance of payment, and reduction in a nation's debt (Reem as cited in Agu, Okwo & Ugwunta, 2015).

The term "policy implementation" has been defined by many scholars from various perspectives. It means the execution of the law in which various stakeholders, organisations, procedures, and techniques work together to put polices into effect with a view to attaining policy goals (Khan, 2016). Even the very best policy is of little worth if it is not implemented successfully or properly. Implementation studies, therefore, place emphasis on understanding the success or failure of public policy by elaborating on factors that affect it. The concept of implementation helps to draw the attention of policy makers and implementers to study the processes that influence and establish the outcome of public policy (Bempah, 2012). This paper argued that it is not enough to make public policies, but also very

important to implement it in order to bring about economic development.

Economic development is a process of targeted activities and programs that work to improve the economic wellbeing and quality of life of a community by building local wealth, diversifying the economy, creating and retaining jobs, and building the local taxes (Romer, 2016). Hill (2020) went further to express that economic development is often defined based on what it is trying to accomplish.

Gross Domestic Product (GDP) refers to the total market value of goods and services produced by a country’s economy during a specific period of time (Bondarenko, 2020). That is to say GDP is the sum of consumption, investment, government spending and net exports. It is used throughout the world as the main measure of output and economic activity.

4. Theoretical Framework

This paper adopted the systems theory which is generally traced to the work of English sociologist and philosopher Herbert Spencer who argued for a unitary form of the social system (Spencer, 1872). Also, a French social scientist Émile Durkheim believed that society is a complex system of interrelated and interdependent parts that work together to maintain stability (Durkheim 1893). Systems analysis was further influenced by Bertalanffy (1950) and Parsons (1970), who gave a broad description of systems theory. Their theory explained how the various parts and levels of a political system interact with each other. The central

idea of systems analysis is based on an analogy with biology: just as the heart, lungs, and blood function as a whole, so do the components of social and political systems. When one component changes or comes under stress, the other components will adjust to compensate. Moreso, Griffiths & Tabery (2013) explained that systems theory identifies processes that explain how a system retains its functions while continuing to integrate new information from the environment and adjoining systems.

Nigeria seemed to be running a mono-economic system where the major focus was on oil. Oil revenue was the major source of virtually all public expenditure until the price dropped worldwide. This brought the country into recession in 2016. It was at this point that the government had to think outside the box to look at other sectors of the Nigeria economy. The ERGP appeared to be the best option to make up for the stress in the oil sector. This study therefore intends to find out the impact of implementing the ERGP on economic growth in Nigeria.

5. Factors that led to the adoption of the ERGP

There was a rapid growth in the Nigerian economy between the year 2000 and 2013 in terms of Gross Domestic Product at an average rate of 8% (IBRD, 2014). Also, the per capita income rapidly increased from US\$646 to US\$2,937, nearly tripling the initial growth rate. This is shown in the table below:

Table 1: Nigeria’s GDP growth rate for years 2004, 2010 and 2013.

Macro-Economic Context	Growth Rates for years 2004, 2010 and 2013		
	2004	2010	2013
GDP (\$ billion)	87.8	369	509.9
GDP Growth Rate	10.3%	7.8%	7.3%
GDP per Capita (\$)	646	2.311	2.937

(Source: IBRD, (Report No PAD927, 2014)

This rapid growth in GDP however, did not transform the structure of the economy of Nigeria. The level of poverty and unemployment worsened in the same period (IBRD, 2014), which goes against the conventional economic thinking that expects a positive effect of the GDP on the people’s standard of living. The reasons for this contradiction were explained by Kazeem (2017) as follows:

Firstly, a significant part of the propulsion for growth emanated from the oil sector. Between 2004 and 2013 the sector accounted for about 25% of GDP and over 90% of export revenues. Despite this achievement, no domestic petro-chemical industry was developed, thereby limiting employment

opportunities. Secondly, the post-structural adjustment naira devaluation and the wrong fiscal policies after 1990 which was characterized by the continuation of the long-term trends of both de-industrialization and the weakening of primary exports, generated unemployment and sowed the seeds for subsequent fall in GDP growth. Thirdly, underdeveloped infrastructure such as bad roads, poor power generation and distribution inhibited structural development of the Nigerian economy. Fourthly, the Micro, Small, and Medium Enterprises (MSMEs) sector was substantially underdeveloped. This sector has perhaps the highest potential for generating jobs and also for promoting equitable

growth. In 2014, the oil sector contributed about 52% of GDP and employed 82% of Nigeria's workforce (CBN, 2018). In terms of access to credit for development though less than 5% of credit from financial institutions went to MSMEs, leaving about 89% of the 37 million enterprises in this sector without access to credit from the formal financial sector. This severely limited their capacity to grow, increase value addition, modernize processes and technology and boost employment creation (Development Bank of Nigeria, 2017). The fifth reason is inadequate educational system in both quality and quantity has not sufficiently developed in content and structure to suit the evolving market needs (Kazeem, 2017).

These are indicative factors explaining the specific characters of development in Nigeria. It helps to explain the circumstances under which the Buhari administration took over power in May 2015 and thereby the imperatives of economic policy needed to address the challenges encountered. The challenges became clearer when the normalisation of monetary policy in the United States and the over 60 per cent drop in crude oil prices between 2014 and 2016, showed significant adverse consequences on the Nigeria economy. Given Nigeria's dependence on crude oil revenues for close to 86 per cent of the foreign exchange earnings and over 60 per cent of government expenditure, the drop in oil prices led to heightened inflationary pressures, depreciation of the exchange rate, significant drop in the external reserves, and eventually, a recession set in during the second quarter of 2016 (Financial Inclusion Newsletter, 2017).

The fall in oil prices exposed the unsustainable economic growth model of the Nigerian economy. The effect of oil on the Nigerian economy cannot be overemphasised as the effect was clear when oil price dropped thereby reducing its share in the GDP. GDP growth therefore fell from 6.3% in 2014 to 2.11% in 2015 and had further fallen to -1.58% in 2016. The table below shows the GDP growth rate for 2014 to 2016

Table 2: GDP growth rate from 2014 to 2016

Year	GDP growth rate
2014	6.3%
2015	2.11%
2016	-1.58%

(Source: CBN half year report, 2018)

The fall in the GDP growth rate to a negative level brought the country into recession in the second quarter of 2016. Consequently, monetary policy instruments were deployed in 2016-2018 to promote the establishment of a stable and competitive exchange rate, build external reserves, ensure the maintenance of a sound financial system and improve credit availability to the private sector (CBN, 2018). In April, 2017, President Muhammadu Buhari launched the Economic Recovery & Growth Plan (ERGP) as a fiscal policy option for the nation. It is one of the medium-term plan (2017-2020) to achieve economic growth and development in Nigeria.

Targets of implementing the ERGP

The ERGP has three main strategic objectives; to restore economic growth, investing in people, and building a globally competitive economy (Financial Inclusion Newsletter, 2017). Restoring growth is linked to the other two strategic objectives but is specifically deemed to involve two main dimensions: macro-economic stability and economic diversification. Macro-economic stability is needed to create and sustain the right environment and the ERGP believes it will be achieved through the fiscal stimulation of the economy, achieving monetary stability and improving external balance of trade. Economic diversification on the other hand largely focused on promoting the non-oil productive sector, particularly agriculture, energy and MSME-led growth in industry.

Investing in people which is the second strategic objective, mainly focused on the implementation of social investment programme, job creation and youth empowerment programme along with improved investments in health, education and infrastructure. The third strategic objective generally involved the improvement on the ease of doing business in the country in order to attract foreign direct investment and international competitiveness.

To achieve the objectives set out in the ERGP, specific targets were developed. GDP was projected to grow by an average of 4.62% between 2017 and 2020, reaching 7% by 2020, also to attain the growth objective as well as to ensure sustainability, diversification, job creation and social equity. The following table shows the anticipated results of the successful implementation of the ERGP:

Table 3: The anticipated results in the successful implementation of the ERGP

Anticipated results	Anticipated growth rate
Increased real GDP growth	-1.54% to 7%
Reduced inflation	18.55% to 9.90%
Reduced unemployment rate	14.20% to 11.23%

(Source: Financial Inclusion Newsletter, 2017).

In order to kick start the implementation of the ERGP, the National Assembly passed two bills; Collateral Registry Act, 2017 and Credit Reporting Act, 2017 (Vanguard Nigeria, 2017). These bills were signed into law by Professor Yemi Osinbajo who was then the Acting President of Nigeria. The purpose of the bills was to ease the challenges faced by Nigerians to access affordable credit and promote a favorable business environment. The Collateral Registry Act, 2017 seeks to address the major obstacle of accessing Micro Small Medium Enterprises by allowing the citizens to register their movable assets in the National Collateral Registry and use the same as collateral for loan acquisition. While the Credit Reporting Act, 2017 provides the platform for credit information sharing between Credit Bureaus and lenders, enabling the lenders to make viable decisions on whether or not to extend credit to individuals. Together, these two Acts were supposed to drive growth of the private sector development by facilitating the achievement of the goals of Presidential Enabling Business Environment Council (PEBEC) (Otinche, 2018).

In view of the implementation of the ERGP, the Central Bank of Nigeria (CBN) increased the development finance interventions in order to catalyze growth in critical sectors of the economy. This objective was driven by the need to increase investments by MSMEs as well as spur consumer spending, as these factors would have a positive impact on GDP growth and employment. Furthermore, the development finance effort was driven by the need to reduce the country’s reliance on revenues from crude oil (Emefiele, 2019).

One important aspect in implementing the ERGP was increasing the focus on Micro, Small and Medium Scale Enterprises (MSMEs), given their central role in employment generation and economic growth (Eke, 2017). The role of the MSME’s on the Nigeria economy especially during the recession cannot be overestimated. The next section emphasized on the impact of the implementation of the ERGP

6. The impacts of the implementation of the ERGP on the economic development of Nigeria

Flowing from the above, the adoption and implementation of the ERGP in 2017 was able to

diversify the economy by focusing on the MSMEs. This also led the rise of the GDP to positive. The table below shows GDP growth rate before and after the adoption of the ERGP up to 2019

Table 4: GDP Growth Rate for 2016 to 2019

Year	GDP growth rate
2016	-1.58%
2017	2.79%
2018	0.82%
2019	1.93%

(Source: Center for Democracy and Development, 2019).

The table shows that the implementation of the ERGP helped to bring the country out from recession by raising the GDP level from negative to positive in 2017. One major strategy of the ERGP was paying more attention on the private sector by investing on Micro Small and Medium-sized Enterprises (MSMEs). This sector contributed immensely to reviving the economy back from recession. However, the growth rates turned positive but have been lower than the stated targets to increase GDP growth rate, reduce inflation and reduction of unemployment rate. As unemployment rate keeps declining while inflation rate keeps rising (CEIC data, 2020). The inability of this single policy to tackle all the issues in perspective can rightly be said to be linked to the factors explained by Kazeem (2017) in the previous section of this study. It can therefore be argued that of the five reasons given by Kazeem (2017), only one of those factors (that is the development of the Micro, Small, and Medium Enterprises (MSMEs) sector) were tackled by the implementation of the ERGP and the result was positive on the Nigeria economy.

The ERGP was therefore able to achieve a fluctuation growth in the GDP, but was not able to tackle the issues of unemployment and inflation. The point here is that even if the target of the ERGP has not been fully met, the implementation of the ERGP was able to bring a positive growth in the country’s economy within a space of one year (2017).

7. Conclusion

The ERGP was a strategic context for the government's fiscal policy towards economic development, it was rightly focused on the right objectives with respect to growth, revenue, output and employment. The implementation of the ERGP

directed fiscal policies to encapsulate the main challenges of the country, ranging from economic recovery and growth (GDP), economic diversification and creation of more employment opportunities. The major focus was the development of the MSMEs to bring about economic development in the country and also lead the country out from recession. The implementation of the ERGP was able to contribute to economic development as it moved the GDP from negative to positive. However, the set targets were not completely met but there was a positive movement.

The paper concludes that the ERGP was a major tool in bringing our economy out from recession within the space of one year because the policy was implemented. It therefore means that when policies are implemented it brings about development as it was proven in the implementation of the Federal Government's fiscal policy (the ERGP). However, it might not tackle all the problems, but can have a positive impact. It can therefore be said that fiscal policies can bring about economic development if properly implemented. On the other hand, a policy can only be proven to be ineffective also when it is implemented. Based on this, this paper made the following recommendations:

8. Recommendations

It was observed earlier in this study that policy making is taken more seriously than policy implementation.

However, this study argued and proved that it is by implementing policies that economic development can be achieved. The issue of policy implementation should therefore be taken more seriously by government just as policy making is a serious business.

In addition to the above, renewed efforts should be made to tackle the challenges highlighted by Kazeem (2017) to ensure total economic development in the country. The government can start by strengthening the MSMEs to partake in businesses that will boost the country's economy. Since the oil sector is already unstable and Nigeria can do little or nothing about international oil prices. Focus should therefore be on how to increase production and local processing as this can contribute to both economic growth and development.

Finally, it was observed that the implementation of the ERGP was able to add positive change to the Nigerian economy, the ERGP should therefore be revised and extended for more years in order to

establish robust institutional arrangements for implementation, monitoring and evaluation.

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