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Government Budgeting For Human Capital Development: A Review of Educational Sector Financing in Nigeria

[1]Yunus Kayode ADEIGBE
kayordeadeigbe@yahoo.com
&
[2]Joshua Adewale ADEJUWON
adejuwonwj@yahoo.com
1&2: Faculty of Social and Management Sciences
Lead City University, Ibadan

Abstract

Human capital development aims at enhancing the potentials of people by expanding the scope of their capabilities and empowerment. This study looks at the extent to which Nigerian government has, over the past ten years, been allocating funds to finance quality education in the country as compared to internationally acceptable standards. Historical and descriptive approach was used in data collection. Secondary source of data was used, and data analyzed by simple percentages. The study revealed that the Federal government has been grossly underfunding the education sector, allocating an average of mere 8% of the Federal budgets to the sector, contrary to the world standard of 26% as recommended by the United Nations Educational Scientific and Cultural Organization (UNESCO). This has resulted in the poor performance of the sector. It was recommended that the government should urgently improve the quality of education by increasing the proportion of annual budgets to that sector.

Keywords: Government Budgeting, Human Capital Development, Quality Education, Investment, Capital Output Growth, Appropriation.

Introduction

One of the major investments on human capital development is education and that is why Schultz (1961) and many other American economists in the early 60s found that investment on education is one of the significant factors responsible for the swift growth of the American economy. They pointed out that a dollar investment on education brings greater increase in their country's Gross Domestic Product (GDP) relative to a dollar expenditure on physical capital like dams, road, and street light. Galbraith (1996) emphasized that the larger part of their country's industrial growth is from investment in men and improvement brought about by improved men, not from more capital investment. One can invest on human capital via education, training, and medical treatment. Over the years, one of the budgetary heads in the Nigerian annual financial framework has been allocation to the education sector. The question however is whether the Federal Government of Nigeria has been providing adequate measure of budgetary allocation to the education sector. This has been a matter of concern for many people and for quite some time.

Literature Review

Adams (2013) defined budget as a future plan of action for the whole organization or a section thereof. It is a financial and or quantitative statement prepared and approved prior to a defined period of time, of the policies to be pursued by the organization in order to achieve organizational goals and objectives. Adeniji (2013) defined a budget as a detailed commitment to a plan of action. Warren, Reeve and Fess (2004) defined budget as an accounting device used to plan and control resources of operational departments and divisions.

A budget, according to the Chartered Institute of Management Accountants (CIMA), is a quantified plan expressed in monetary terms which is prepared and approved for a defined future period of time, showing how much income is expected for the period and how much expenditure is to be incurred during the period as well as the capital to be employed to achieve a given objective. It is a financial and/or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective. It is a forecast of expenditures and revenue for a specific period of time, usually a year. It is a financial plan that serves as a basis for expenditure, decision making and consequent control of expenditure. A budget enables business, government, private organizations and households to set their priorities and monitor progress towards selected goals.

A government budget shows authorized appropriations and estimated revenue. It is used to plan, control and estimate the amount to be received and spent during a specified fiscal period. In all government units, the executive arm prepares the budget and submits same to the legislative arm for review, modifications and approval. The approved budget serves as a basis for the activities of that government unit for the fiscal period under focus. Government budget is an instrument of economic and monetary policy to control the economy. Budgets help in the determination of governmental activities to satisfy preferences of the people. It helps the government to attain greater efficiency in the use of resources. The budget is an authority for government action and it aids making of political decisions. Budgets can also be used to fight inflation and recession.

A budget is also an accounting instrument by which officials are held accountable for what government does and what it does not manage to accomplish. A government budget is a legal document that is often passed by the legislature, and approved by the president or the governor. This implies that no public expenditure can take place without it being in an appropriately approved budget that gives the legal backing.

Government budgets serve four main purposes (Adams, 2013): It is an economic and financial document, highlighting government policies which are designed to promote economic growth, full employment and enhance quality of life of the citizenry. It is a useful guide for the allocation of scarce resources. Through the legislature, the executive arm uses the budget as a means of financial accountability for the money earlier entrusted and appropriations newly made. The budget stands for the request of the executive arm of government which the legislature must approve before funds can be disbursed.

A government budget can be deficit, surplus or balance. In a deficit budget, the aggregate expenditure of government is greater than total revenue collected within the period. It results into more money in circulation. A surplus budget is a situation where government expenditure is less than its revenue. It attracts more taxes and levies on public and firms with less government expenditure in the economy. In a balanced budget, the total revenue of government is equal to the total expenditure. This is an ideal situation.

The budgeting exercise at the federal level in Nigeria is strongly governed by the provisions of the 1999 constitution. This involves the required process through which the budget must undergo before becoming an appropriation act of parliament, which is a form of law abiding on and guiding the Executive in terms of the implementation of the budget provisions and executing the intending projects and programmes. At the state level, budgeting is also governed to some extent by the constitution as well as the financial regulations. The situation is different at the local government level where the local governments in Nigeria are strictly under the regulation of the State Houses of Assembly which regulate their administrative and financial operations. Thus the budgeting process at the local government is largely regulated by the Executive as well as the State Houses of Assembly.

Human capital refers to the stock of competencies, skills, knowledge and personalities attribute embodied in individuals which facilitate their ability to perform labour for the creation of personal, economic and social vale (OECD, 2001). It is one of the major factors that are responsible for the wealth of nations. According to Smith (1776), human capital refers to the acquired and useful abilities of all the inhabitants or members of the society. It is the human resources of any nation, rather than its physical, capital and material resources, which ultimately determine the character and pace of its economic and social development. Human Capital is an integral part of any country's development and economic growth. A poor country is a country, which never invested sufficiently in its human capital development and the citizens who are supposed to be at the centre of the economic growth would be poverty stricken. Recent United States of America research shows that geographic regions that invest in human capital and economic advancement of immigrants who are already living in their jurisdiction help boost their short and long term economic growth, (Brookings Institution, (2012).

According to Mba, Mba, Ogbuabor and Ikpegbu (2013), human capital is a means of production into which additional investment yields additional output. They deduced that there is a strong positive relationship between human capital development and economic growth. Oluwatobi and Ogunrinola (2011) noted that human capital has been recognized globally as one major factor that is responsible for the wealth of nations. They posited that economic growth, in the long run, depends on human capital among other things. They further found out that physical capital and government recurrent expenditure on human capital are positively correlated with the level of real output, while there exists a negative relationship between government capital expenditure in human capital and the level of real output. Transparency International, (2011) attributed this negative relationship to the much reported corruption and misappropriation of public funds allocated for capital projects such as the installation of educational and health infrastructure in Nigeria. As at 2014, Transparency International scored Nigeria 27 out of 100 in terms of transparency and the country made a position of 136 out of 174 in the world. Nigeria also ranked the 3rd most corrupt country in West Africa, after Guinea and Guinea Bissau (Transparency International, 2014).

Human capital development is an indispensable component of the development process (Ibok and Ibanga, 2014). According to (Babalola, 2003) the rationale behind investment in human capital is based on the following arguments; that the new generation must be given appropriate part of knowledge which has already been accumulated by previous generation, that the new generation should be taught how existing knowledge should be used to develop new product to introduce new process and production methods and social services, the people must be encouraged to develop entirely new idea, product processes and methods through creative approaches. Human capital theory suggests that education or training raises productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings. Ojo, Oladeji and Oshikoya (1995) in their study found that literacy rate is positively related to per capita output growth, using other indices such as school enrolment, they found out that the sign of the coefficients were statistically significant in the Zimbabwean economy, the incorporated human capital variables such as school enrolments into the standard growth model and found a very strong long run relationship between human capital, investment and economic growth.

Healthfield (2011) defined human capital development as the framework for helping employees develop their personal skills, knowledge and ability. According to her, human capital development includes such opportunities as employee training, employee career development, performance management and coaching, mentoring, succession planning, key employees identification, tuition assistance and organization development. She further suggests that the shortage of skilled people can act as a limiting factor on individual organization and on economy as a whole. There is also strong evidence that organizations that possess and cultivate their human capital outperform other organizations lacking human capital (Crook, Todd, Combs, Woehr, and Ketchen, 2011). It is in the interest of the individual organization and the nation to maximize its human resource by investing in the skills of its work force.

Garba (2002) showed that there are positive correlation between educational attainment and economic growth and development carrying out a cross-country analysis using regressions. Adamu (2003) undertook an empirical investigation to determine the impact of human capital formation on economic growth in Nigeria between 1970 and 2000, using co-integration and error-correlation mechanisms. The result indicated that investment in human capital in form of education and training can lead to economic growth because of its impact on labour productivity. Dauda (2010), in his study on human capital formation and economic growth in Nigeria used the endogenous growth model in his investigation into their relationship, he employed enrolment in the different levels of education, primary, secondary and tertiary as proxies for human capital and found long-run positive relationship between human capital formation and economic growth in Nigeria with a feedback mechanism. Taniguchi (2003) in his work showed that both education and health cause each other and thus contribute to economic growth. Taniguchi (2003) showed that both education and health cause each other and thus contribute to economic growth. Moser and Eliot (2005) asserted that in the long run education increases substantially household income as well as economic growth. Khan and Mohsin (2005) tried to analyze the relationship between human capital and economic growth in 72 developing countries for the period 1980-2002. The study concluded that countries which invested significantly in human capital have achieved higher returns in terms of economic growth. Khan and Rehman (2012) used analytical techniques, which are Ordinary Least Squares and Johansen co-integration to investigate the impact of human capital in economic growth of Pakistan. The result support significant positive association between secondary education and economic growth.

The World Bank (2010) specified that Nigeria has found it difficult to grow her economy in her quest to become a knowledge-based economy because of the challenges faced in the national educational system. According to the report, some major challenges limiting the advancement of Nigeria's education system are low tertiary enrolment level, teaching with obsolete methods, strikes and administrative hiccups, corrupt teachers asking bribes to pass students, frequent absence of teachers during teaching periods, lack of ICT infrastructure and other teaching methods, and poor funding. The organization categorized these problems into poor access to education, poor quality of education and poor funding of education. Odia and Omofonmwan's (2007) reported that the Nigerian education system was constrained by several challenges, which included poor funding, poor educational infrastructure, inadequate classrooms, lack of teaching aids (such as projectors, computers, laboratories and libraries), dearth of quality teachers and unconducive learning environment. Moreover, they pointed out that many social vices, such as examination malpractice, cultism, hooliganism, and corruption, have emerged from the school system. These in addition, compound the problems that impede the nation's ability to cultivate the kinds of people that can serve as tools to facilitate economic improvements.

Another challenge confronting knowledge and skill development in Nigeria is lack of funding, and in the case where there is funding, it is not efficiently allocated. The vision of Nigeria as a leader in Africa has the great potential of being realized to the extent that education is accorded a rightful place in the regime of funding of the education sector (Okebukola, 2003). The National Policy on Education (2004:4) stated explicitly that "Education is an instrument par excellence for affecting national development". Research and Development (R & D), which facilitates the creation of knowledge to drive economic growth, is poorly funded by the government. The World Bank (2010) is of the view that government funding for university research is too low to attract partners in the economic and business work environment into R & D agreements. This is unlike the case in Singapore, Korea and other advanced knowledge economies. Losing out on this partnership is constraining Nigeria's potential in breaking into a lucrative and job-creating economy (World Bank, 2010). The Academic Staff Union of Universities (ASUU) and its counterparts in the polytechnic (ASUP) have called out their members for strike actions for periods ranging between two weeks, and six months. These unions have been consistent with their demands, citing decay of infrastructional facilities in our educational institutions, from primary to tertiary levels, vis-a-vis poor library facilities, empty laboratories, congestion in lecture halls and student hostels, lack of sufficient office space for lecturers, lack of funds to carry out research and organize conferences and seminars, and of course poor pay package for the staff of these institutions (Ekong, 2003).

Research Methodology

This study adopted a historical and descriptive approach in data collection. Secondary data are used. These data were sourced from the Federal Republic of Nigeria Official Gazettes and the various Federal Government official Gazettes which were incorporated in CBN Statistical Bulletin (2007 - 2016). Simple percentages and trend analysis over the ten-year period was used to analyse the data.

Presentation and Analysis of Data

As observed in Appendix I below, the total of Federal Government budget for the ten year period was ₦1.205 trillion. Out of this, only ₦.3 trillion, which represented an average of 8% of the total budget over the years went to the education sector. Whereas following the UNESCO standard, out of the ₦ 41.205 trillion budget, ₦ 10.7133trillion or 26% of the budget should have been allocated to the education sector. This showed a shortfall of ₦ 7.4116 trillion or 18% of the Federal Government budget over the ten-year period.

The trend during the period was observed to be more disturbing. Apart from 2015 and 2014, when budgetary allocation to the education sector climaxed 11.4426% and 10.5117% respectively, the allocation went as low as 5.334% in 2010 and 6.079% in the most recent year, 2016. The implication of the above analysis is that inadequate attention is being placed on financing of high quality education in Nigeria. This is in agreement with Odia and Omofonmwan, (2007) who reported that the Nigerian education system was constrained by several challenges, which included poor funding. Finance is needed to provide the educational infrastructure, classrooms, teaching aids (such as projectors, computers, laboratories and libraries), high quality devoted and committed teachers and conducive learning environment. This has resulted in the abissymally low performance of the sector over the years. Also, agreeing with Mba, Mba, Ogbuabor and Ikpegbu (2013), human capital is a means of production into which additional investment yields additional output. Hence the low output, productivity and per capita income in Nigeria when compared with the developed and even some developing countries of the world.

Summary

The objective of human capital development is to help employees develop their personal skills, knowledge and capability. Investment in human capital development in form of education and training can lead to economic growth because of its impact on labour productivity. The Nigerian government has been allocating fund via the annual budgeting system to finance education in the country. However, the Federal

Government has been underfunding the education sector over the past ten years covered by this study, allocating an average of mere 8% of the Federal annual budget to the sector. This is by far too low, particularly when compared with the UNESCO world standard of 26%. This showed clearly that inadequate attention is being placed on financing of high quality education in Nigeria. Hence, the poor educational infrastructural facilities, dilapidated classrooms, lack of teaching aids, poorly paid teachers and so on. All these result in low output and lack of knowledge to drive economic growth and development.

Conclusion

Human capital development is an indispensable component of the development process. Human capital development is crucial for sustainable economic development. It includes better education at all levels, generous on-the-job training and appropriation of new technologies and ideas. Human capital development through education, training and acquisition of new technologies benefits both the individuals and the economy as a whole. Individuals benefit in form of higher earnings and better employment, while the economy benefits in the form of higher productivity which ultimately results in socio-economic development.

In Nigeria, the annual federal government budget to educational sector (in percentages) is nothing to write home about, and statistics as per Appendix I show that the percentages over the years are not in line with the United Nations Educational Scientific and Cultural Organization's (UNESCO) recommendation of 26.0%. It was discovered that over the ten year period that was reviewed, from 2007 to 2016, the percentage was between 11% and 5% of the total national budget, averaging 8% over the ten-year period. This would definitely have direct negative implications on Research and Development (R&D), which normally facilitates the creation of knowledge to drive economic growth. It would also result into lower earnings and very poor economic and employment opportunities for the citizens. Hence the low output, productivity and per capita income in Nigeria when compared with the developed and even some developing countries of the world.

Recommendations

On the basis of the above findings, the following recommendations are made:

There is urgent need for the federal government to increase its investment in human capital development by increasing its funding of that sector from the crippling average of 8% of total national budget to the UNESCO recommendation of 26% of the national budget. In fact, a state of emergency should be declared in our education sector such that better attention could be placed to the funding of the sector by the government. This would facilitate the creation of knowledge to drive economic growth. It would also result into higher earnings and very good economic and employment opportunities for the citizens. Output, productivity and per capita income in Nigeria would increase when compared with the developed and even some developing countries of the world.

The government should broaden its economic base by diversifying away from the dwindling monolithic economy of petroleum resources into manufacturing and agriculture. This would increase the GDP and the overall national annual budget. Greater amount would also thereby be made available to finance the poorly funded education sector.

The present war against corruption in the land should be accelerated and concretised to ensure that all identified corruption cases are duly prosecuted, loots effectively recovered and substantial amounts thus recovered are invested in the education sector.

The government should ensure the necessary transparency and accountability required for disbursement and utilization of funds for both capital and recurrent expenditure allocations to the education sector. This would make the investments in this sector to be attractive, effective and meaningful.

The government should restructure its educational policies to meet the needs of the changing society so as to be able to cope with the challenges of the 21st century. Thus more effective private sector and non-governmental participation in the sector should be encouraged such that the private sector and non-governmental organizations can increase their investment in human capital development and effectively play their much required roles in the development of the country's educational system.

The government should increase its investment in socio economic infrastructure to enhance general efficiency of labour and increased productivity. This would encourage investors to take advantage of the investment opportunities in the education sector for the development of that sector.

Cost sharing of education between stakeholders/beneficiaries has to be properly worked out. It is expected that government, communities and parents should share the cost of education to avoid inadequacy of funding, such that no one partner is unnecessarily overburdened. One way this can be done is through payment of tuition fees as is done in even rich countries like the USA. Through cost sharing there will be steady flow of adequate funds/resources to the education sector.

The government should mobilise external resources through appropriate bilateral and multilateral agreements between Nigerian government and external agencies/partners in ways that will encourage them to contribute to the funding of education in Nigeria as development partners. The Universities need to seek and legitimately apply for funds for research projects towards advancement of teaching and learning from Non-Governmental Organisations.

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