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Government Expenditure and Agricultural Sector Output in Nigeria

Utifon Morgan Ukpong^{1*}, Akpabio Uduak¹, Ekere S A¹, Akpan E O¹

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ABSTRACT

The purpose of this study is to determine how government spending affects the output of the agricultural sector in Nigeria. This study deals with Nigeria's government spending and agricultural sector output (1990-2020). Data for the study was sourced through the Central Bank of Nigeria (CBN) statistical bulletin 2020 as a secondary means. This study adopted the Ordinary Least Square (OLS) multiple regression method to analyze the data. Real gross domestic product was used as the dependent variable. At the same time, government expenditure on administration, government expenditure on social and community services, and government expenditure on economic services formed the independent variables. From the findings, it was discovered that the variables were positively insignificant to agricultural sector output at a 5% level of significance. Therefore, we conclude that government expenditure does not affect the agricultural sector output in Nigeria. Hence, it was recommended that the federal government of Nigeria through the Central Bank, should strengthen the banking sector to ensure an improved and efficient credit flow to the agricultural sectors because of its strategic importance in stimulating the growth and development of an economy.

INTRODUCTION

The role of agriculture in developing any economy can never be over-emphasized. Agriculture provides food for the citizens, raw materials for the industries, employment, and income for the farmers, and enhances society's well-being (Edeh et al., 2020). Agriculture is the science or practice of farming, including the cultivation of the soil for growing crops and the rearing of animals to provide food, raw materials, and other products. Simply, it is the science and art of cultivating plants and livestock.

Before the discovery of crude oil in Nigeria and even before the civil war in the late 1960s, the Nigerian economy was predominantly agricultural. The revenue from crude oil was so huge that political leaders began to shift emphasis from agriculture to mining and quarrying. Despite the neglect of the agriculture sector, agriculture remains the mainstay of the Nigerian economy; directly in terms of the volume of employment opportunities it offers, as the sector provides for a significant proportion of the country's employed labor force; and indirectly, through the essential linkages, it provides with the rest of the economy (Udoh, 2011). Government can directly influence activities in the agricultural sector, using both capital expenditure and recurrent expenditure directly and indirectly. Capital expenditure involves spending on the building of feeder roads in rural areas, silos, tractors, and other equipment for farmers, resulting in increased output and well-being of people in those areas. Provision of loan facilities, subsidizing farm inputs, and financial support to farmers would make the agricultural sector more attractive and raise entrepreneurship in agricultural business, thereby leading to positive external effects on other sectors of the economy. Over the years, the trend of agricultural output has been on the increase over the

last four decades. The average annual agricultural output between the years 1981-1991 was N54.86. Between the years 1992-2002, agricultural output in Nigeria has risen to N1321.84 in agricultural output. The average figure for agricultural value added between 2003 and 2018 was N13,972.92 billion (CBN, 2018). However, despite these increases in Agricultural output, the problem of food insecurity and poverty continue to bemoan Nigerians. The United Nations World Poverty Clock (2018) reported that 46 percent of Nigerians live in extreme poverty. By July 2020, this figure has increased to 50 percent. This poor outcome has been attributed to erratic and inefficient public expenditure on agriculture. The trend of government expenditure on agriculture has been erratic and fluctuating over the past three decades; between 1981 and 1990, the average capital expenditure by the Federal Government on agriculture was N0.938 billion. This trend increased to N6.103 billion between 1991 and 2000. The average capital expenditure on agriculture for the period 2001 to 2010 was N 71.14 billion. The average capital expenditure figure from 2011 to 2018 was N72.06 billion (CBN, 2018). On the other hand, government expenditure arose in Nigeria as a result of the inability of the private sector to effectively provide certain resources for the masses at a subsidized or reduced price and without any incidents of Monopoly. Agricultural holdings are generally small and scattered. Agriculture provided 41% of Nigeria's total gross domestic product (GDP) in 1999. This percentage represented a decrease of 24.7% from its contribution of 65.7% to the GDP in 1957. The decrease continued because as economic development occurs, the relative size of the agricultural sector usually decreases. The decline in agricultural production in Nigeria began with the advent

¹ Department of Banking and Finance, Akwa Ibom State Polytechnic, Ikot Osurua, Nigeria

* Corresponding author's e-mail: morgansoul87@gmail.com

of the petroleum boom in the early 1970s (Eze, 2010). The boom in the oil sector brought about a distortion of the labor market. The distortion, in turn, produced adverse effects on the production levels of both food and cash crops. Governments had paid farmers low prices over the years on food for the domestic market to satisfy urban demands for cheap basic food products.

This policy, in turn, progressively made agriculture unattractive and enhanced the lure of the cities for farm workers. Collectively, these developments worsened the low productivity both per unit of land and per worker due to several factors: inadequate technology, acts of nature such as drought, poor transportation and infrastructure, and trade restrictions. Although the government had taken several measures to facilitate the flow of credit to agriculture, administrative delays often cause credit to reach many farmers after the planting seasons hence providing an opportunity for loan diversion to unproductive activities and leading to eventual poor repayment. It is not surprising, therefore, that the problem of insufficient supply of agricultural inputs such as fertilizer, agricultural chemicals, and improved seeds has continued to slow down the total agricultural output as measured by the aggregate index of production, which declined in the pre-SAP era. For example, the high rate of total output decline recorded was -15.0, -6.1, -5.5, -0.2, and -1.5 percent for the years 1975 to 1979, respectively. The production also dropped by -0.5 percentage points from 1982 to 1983 (Ukpong et al., 1993).

Also, in 1970, the production of significant export crops such as cocoa, rubber, and groundnuts fell by 43%, 65% and 64% and respectively (Olomola, 1998). Despite decades of public sector contribution to agriculture, there was evidence of unstable or fluctuating trends in the sector's output. Based on the forgoing relationship between Government Expenditure and the Agricultural sector, a study such as this is necessary. This study, therefore, was designed to investigate the effect of government capital expenditure on the agricultural sector output of the Nigerian economy.

LITERATURE REVIEW

Relationship between Government Expenditure and Agricultural sector Output in Nigeria. This literature review is classified into three categories based on conceptual, theoretical, and empirical reviews.

Conceptual Review

Government spending refers to money spent by the public sector on the acquisition of goods and provision of services such as education, healthcare, social protection, and defense (Okeke, 2002). Government spending is financed primarily through two sources - Tax collections by the government, which could be Direct or Indirect taxes, and Government borrowing (borrowing money from its citizens or borrowing money from foreigners) Public spending enables governments to produce goods and services or purchase goods and services needed to

fulfill the government's economic objectives. Government spending could be current or capital spending. Current spending is for the short term and includes expenditure on wages and raw materials, while Capital spending is for the long term and does not need to be renewed each year.

Theoretical Review

Musgrave Theory of Public Expenditure Growth (1997)

Hagemann, (2021) citing Musgrave. (2007) argued that what matters most for government spending is how effective it is. If the so-called "productive" category of government spending is not effective, it can have a negative impact on growth. The direction of this theory correlates with this work in that it emphasizes the importance of effective government spending in impacting economic growth, which is also the focus of this work.

The Wagner's Law

This theory made three postulations, and one of them is that; the rise in public expenditure will lead to a more than proportional increase in national income and will thus result in a relative expansion of the public sector. This theory correlates with the focus of this study in that; this study also emphasizes the need for public expenditure to increase the output of the agricultural sector, with this output used to refer to agriculture's contribution to national income. Wagner's law. (2022).

The Theory of Maximum Social Advantage

The principle here is derived from the principle of equal-marginal utility. The law states that *ceteris paribus*, a rational individual will distribute his money income on two or more goods, say expenditure and income, such that the marginal utility of the last money spent on either of those goods is the same, meaning that public expenditure leads to economic growth when expenditure and taxation are carried out in a way that the benefits derived from expenditure equal the sacrifice imposed by taxation. Ngerebo (2009). This correlates with this study because it could be translated to mean that the ratio of government expenditure on agriculture to agriculture's contribution to national income should be the same, but data shows that this ratio is much uninformed.

Bowen's Model of Public Expenditure

An important point for this model is that social goods are not equally available to all. According to Bowen, since social goods are consumed by all the individuals in the state, they should all contribute to these social goods. He also mentioned that different individuals enjoy these social goods in different capacities so they are expected to contribute different amounts. UKEssays (2018). Therefore, the government should produce a number of social goods equal to the marginal cost of supplying that good to be equal to the marginal utilities received by the state. It can be explained by saying that the government should allocate resources to sectors based on the income

derived from such sectors. This theory correlates with this study by explaining why the government should allocate resources based on how important the sector is to the national GDP, as contained in the problems of this study.

The Keynesian Theory on Government Expenditure

Keynesians believe that because prices are somewhat rigid, fluctuations in any component of spending consumption, investment, or government expenditures cause output to change. If government spending increases, for example, and all other spending components remain constant, then the output will increase. Keynesians regard public expenditure as an exogenous factor that can be utilized as a policy instrument to enhance output. UKEssays. (2018).

Empirical Review

Studies have shown the effect of government expenditure on long-term economic growth through spending in the agricultural sector. Ewubare & Eyiotope (2017) identified the effects of government spending on the agricultural sector in Nigeria. They used the analysis's ordinary least squares of multiple regressions, the Johansson co-integration techniques, and the error correction model. The results showed that the coefficient of determination is 0.9468, and the coefficient of the ECM appeared with a negative sign and was statistically significant. The lag two and three forms of the explanatory variable, GEA, were positive and statistically significant. Based on the above findings, the study recommends an increase in funding for the agricultural sector in Nigeria. FAO (2016) reported that in terms of capital allocation to agriculture in Nigeria, it averaged 4.74 percent from 1985-1999. However, from 2000-2005, it rose to 7.00 percent, and 10 percent from 20010-2015; though revealing an increase, but still falls short of the Food and Agricultural Organization (FAO) recommendation that 25 percent of the government capital budget be assigned to the agricultural development capital budget. Francis (2015) examined the impact of the Federal Government's expenditure on the agricultural sector. He used a Simple regression to analyze the data, which indicated the impact of agricultural expenditure on its output from 1991 to 2011. The R2 was 1%, indicating a weak relationship between the variables as a result of inadequate funding. He recommended that government should reinforce its budgetary allocations to the agricultural sector, ensure proper release of funds, monitor agricultural inputs distribution to farmers, and create commodity markets. The study carried out by Yusuf (2013) on the effectiveness of government annual budgetary allocation to agriculture and the role of monetary policy instruments in the growth of agricultural GDP in Nigeria. They used the OLS technique, which shows that the Agricultural Credit Guarantee Scheme Fund, the previous year's GDP, and the Consumer Price Index contributed positively to the growth of agricultural GDP. Other variables of interest, like the interest rate, exchange rate, and government expenditure on agriculture, contributed

negatively to agricultural GDP growth. Therefore, the study recommended that the government increase its spending on the agricultural sector, monitor the allocated funds, and provide the necessary infrastructural facilities like good road networks, electricity, health, and water for the rural populace. Analyzing the relationship between Nigeria's government expenditure on the agricultural sector and its contribution to economic growth, Ihugba, (2013) employed the Engle-Granger two-step modeling (EGM) procedure to co-integration based on unrestricted Error Correction Model and Pairwise Granger Causality tests. They found that agricultural contribution to GDP (Gross Domestic Product) and total government expenditure on agriculture are co-integrated. The speed of adjustment to equilibrium was 88% within a year when the variables wandered away from their equilibrium values. Based on the result of granger causality, the paper concludes that a very weak causality exists between the two variables used in this study and that any reduction in government expenditure on agriculture would negatively affect economic growth in Nigeria.

METHODOLOGY

The study relied on past data from secondary sources - Central Bank of Nigeria Statistical Bulletin, 2020. The variables of concern include; Agricultural output (AO), Government expenditure on administration (GEA), Government expenditure on social & community services (GES), and Government expenditure on economic services (GEE) for the periods 1990 – 2020. The quasi-experimental research design was adopted in the study. A modification was made to the econometric model based on the results. The study adopted the Ordinary Least Square (OLS) regression method to analyze the data collected. The ordinary least square (OLS) method is adopted due to its properties of being BLUE (Blest, Linear, Unbiased Estimators).

Model Specification

The functional model of the study is thus;

$$AO = F(GEA, GES, GEE)$$

Where:

AO = Agricultural Output

GEA= Government expenditure on administration

GES = Government expenditure on social and community services

GEE = Government expenditure on economic services

The equation model is presented as follows:

$$AO = \beta_0 + \beta_1GEAt + \beta_2GES t + \beta_3GEE t + \mu t$$

Where;

a0 = constant term,

b1, b2, b3 = coefficients of explanatory variables,

GEA, GES and GEE are explanatory variables,

μt = error term.

Other Econometric Tests

The coefficient of determination (R) and the Adjusted \bar{R}^2 This explains the degree of relationship that exists

between the dependent variable and the independent variables. It shows how adequate, significant, and reliable a model is. It is also known as a test for goodness of fit.

T-test

The T-test is also known as the individual test. Based on the formulated hypotheses, the T-test would individually test how the government expenditure variables individually affect the agricultural sector output in Nigeria. The decision of the individual test is drawn based on the values of the table values and the calculated

values at a certain significant level, say 5%.

F-test

This test is known as the joint test. It involves testing whether the explanatory variables jointly affect the dependent variable significantly or not. It is done using the Analysis of Variance (ANOVA).

DESCRIPTIVE RESULTS

The data for the variables needed for the analysis of the multiple regression models is presented in Table 1 below.

Table 1: Array of variables data from 1990 to 2019

| YEARS | RGDP (N Billion) | GEA (N Billion) | GES (N Billion) | GEE (N Billion) |
|-------|------------------|-----------------|-----------------|-----------------|
| 1990 | 19305.63 | 6.54 | 3.4 | 1.61 |
| 1991 | 19199.06 | 6.95 | 2.68 | 1.3 |
| 1992 | 19620.19 | 8.68 | 1.34 | 3.08 |
| 1993 | 19927.99 | 30.57 | 14.66 | 7.75 |
| 1994 | 19979.12 | 20.54 | 10.09 | 3.91 |
| 1995 | 20353.2 | 28.76 | 13.82 | 5.92 |
| 1996 | 21177.92 | 46.55 | 15.99 | 4.75 |
| 1997 | 21789.1 | 56.18 | 22.06 | 6.2 |
| 1998 | 22332.87 | 50.68 | 21.44 | 11.57 |
| 1999 | 22449.41 | 183.64 | 71.37 | 87.08 |
| 2000 | 23688.28 | 144.53 | 84.79 | 28.59 |
| 2001 | 25267.54 | 180.8 | 79.63 | 53.01 |
| 2002 | 28957.71 | 266.61 | 152.19 | 52.95 |
| 2003 | 31709.45 | 307.97 | 102.61 | 96.07 |
| 2004 | 35020.55 | 306.77 | 134.39 | 58.78 |
| 2005 | 37474.95 | 434.67 | 151.65 | 64.31 |
| 2006 | 35020.55 | 522.2 | 194.17 | 79.69 |
| 2007 | 39995.5 | 626.36 | 256.67 | 179.07 |
| 2008 | 42922.41 | 731.02 | 332.93 | 313.75 |
| 2009 | 46012.52 | 714.42 | 354.19 | 423.61 |
| 2010 | 54612.26 | 1117.44 | 550.9 | 562.75 |
| 2011 | 57511.01 | 1262.4 | 785.44 | 310.5 |
| 2012 | 59929.89 | 1159.4 | 790.06 | 230.1 |
| 2013 | 63218.72 | 1111.82 | 844.07 | 291.23 |
| 2014 | 67152.79 | 992.84 | 774.77 | 266.4 |
| 2015 | 69023.93 | 1228.99 | 807.59 | 275.36 |
| 2016 | 67931.24 | 1277 | 775.55 | 255.78 |
| 2017 | 68490.98 | 1324.3 | 931.68 | 334.89 |
| 2018 | 69799.94 | 1584.06 | 1083.73 | 372.55 |
| 2019 | 71367.83 | 2105.2 | 1393.56 | 479.03 |
| 2020 | 69322.78 | 1503.9 | 998.42 | 276.52 |

Source: Central Bank of Nigeria Statistical Bulletin, 2020

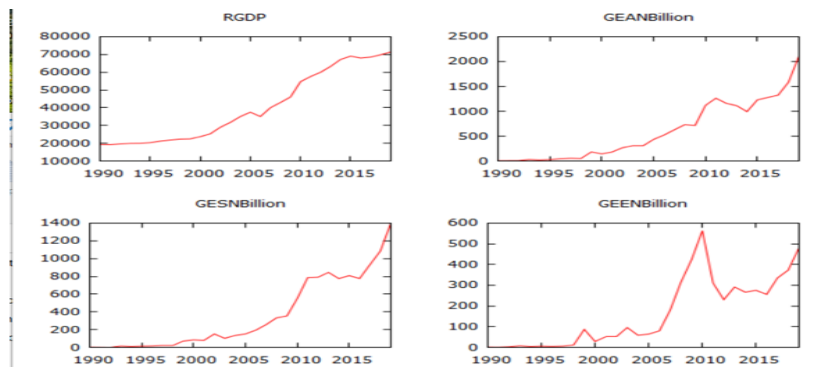


Figure 1: The graphical presentation of the variables

Data Estimations

The coefficient of Government expenditure on the administration and agricultural sector indicates that a 1% increase in Government expenditure on the administration and agricultural sector increases Nigeria's real gross domestic product by 13.75.

A 1% increase in Government expenditure on social and community services increases the real gross domestic product of Nigeria by 23.56. Finally, a 1% increase in Government expenditure on economic services increases the real gross domestic product of Nigeria by 10.02.

Table 2: Descriptive Statistics

| | Mean | Std. Deviation | N |
|------|------------|----------------|----|
| RGDP | 40985.9781 | 19896.54085 | 31 |
| GEA | 623.9287 | 597.06438 | 31 |
| GES | 379.2206 | 411.06668 | 31 |
| GEE | 165.7455 | 164.90280 | 31 |

Table 3: Correlations

| | | RGDP | GEA | GES | GEE |
|---------------------|------|-------|-------|-------|-------|
| Pearson Correlation | RGDP | 1.000 | .966 | .963 | .850 |
| | GEA | .966 | 1.000 | .984 | .880 |
| | GES | .963 | .984 | 1.000 | .828 |
| | GEE | .850 | .880 | .828 | 1.000 |
| Sig. (1-tailed) | RGDP | . | .000 | .000 | .000 |
| | GEA | .000 | . | .000 | .000 |
| | GES | .000 | .000 | . | .000 |
| | GEE | .000 | .000 | .000 | . |
| N | RGDP | 31 | 31 | 31 | 31 |
| | GEA | 31 | 31 | 31 | 31 |
| | GES | 31 | 31 | 31 | 31 |
| | GEE | 31 | 31 | 31 | 31 |

Table 4: Variables Entered/Removed

| Model | Variables Entered | Variables Removed | Method |
|-------|----------------------------|-------------------|--------|
| 1 | GEE, GES, GEA ^b | . | Enter |

a. Dependent Variable: RGDP

b. All requested variables were entered.

Table 5: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
|-------|-------|----------|-------------------|----------------------------|-------------------|----------|-----|-----|---------------|---------------|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change | |
| 1 | .969a | .939 | .932 | 5177.30052 | .939 | 138.689 | 3 | 27 | .000 | 1.511 |

a. Predictors: (Constant), GEE, GES, GEA

b. Dependent Variable: RGDP

Table 6: ANOVA

| Model | Sum of Squares | Df | Mean Square | F | Sig. |
|------------|-----------------|----|----------------|---------|-------|
| Regression | 11152450233.572 | 3 | 3717483411.191 | 138.689 | .000b |
| Residual | 723719897.385 | 27 | 26804440.644 | | |
| Total | 11876170130.956 | 30 | | | |

a. Dependent Variable: RGDP

b. Predictors: (Constant), GEE, GES, GEA

Table 7: Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | 95.0% Confidence Interval for B | | Collinearity Statistics | |
|-------|-----------------------------|------------|---------------------------|-------|------|---------------------------------|-------------|-------------------------|-----------|
| | B | Std. Error | Beta | | | Lower Bound | Upper Bound | Tolerance | VIF |
| | (Constant) | 21786.727 | 1472.658 | | | | 14.794 | .000 | 18765.081 |
| GEA | 13.940 | 11.812 | .418 | 1.180 | .248 | -10.297 | 38.176 | .018 | 55.669 |
| GES | 23.467 | 14.536 | .485 | 1.614 | .118 | -6.360 | 53.293 | .025 | 39.963 |
| GEE | 9.670 | 13.529 | .080 | .715 | .481 | -18.088 | 37.429 | .180 | 5.570 |

Table 8: Collinearity Diagnostics

| Model Dimension | Eigenvalue | Condition Index | Variance Proportions | | | |
|-----------------|------------|-----------------|----------------------|-----|-----|-----|
| | | | (Constant) | GEA | GES | GEE |
| 1 | 3.500 | 1.000 | .02 | .00 | .00 | .01 |
| 2 | .399 | 2.960 | .80 | .00 | .00 | .01 |
| 3 | .096 | 6.044 | .02 | .01 | .04 | .62 |
| 4 | .005 | 26.074 | .16 | .99 | .96 | .36 |

a. Dependent Variable: RGDP

Table 9: Residuals Statistics

| | Minimum | Maximum | Mean | Std. Deviation | N |
|----------------------|--------------|-------------|------------|----------------|----|
| Predicted Value | 21959.0703 | 88467.1953 | 40985.9781 | 19280.77647 | 31 |
| Residual | -17099.36523 | 10768.72070 | .00000 | 4911.61853 | 31 |
| Std. Predicted Value | -.987 | 2.463 | .000 | 1.000 | 31 |
| Std. Residual | -3.303 | 2.080 | .000 | .949 | 31 |

a. Dependent Variable: RGDP

Source: SPSS Output 2022.

DISCUSSION

Co-efficient of Determination R2

The 0.932 adjusted Co-efficient of Determination is an indication that our explanatory variables explained 93% of the total variation in our dependent variable. This implies that the model is plausible and a good fit.

The results, on a general note, showed a significant relationship among the variables on agricultural sector output over the years studied.

If the government cannot expand within its immediate operational environment, the business sector will not grow. Deposits will be limited, and this will hinder the ability of the government to generate income.

Government spending on administration

The coefficient of government expenditure on administration implies that there is an insignificant relationship between government expenditure on administration and gross domestic product as against our apriori expectation. This deviation from expected could result from expenditures spent on consumables and, outside the Nigerian economy by political office holders, in addition to the fact that most of the recorded misappropriation cases were witnessed in this sector. However, this relationship implies that if the reduction in political office holders' salaries, as has been announced by some of them, is done with all circumspection, it will likely spur the economy's growth.

Spending on economic services

Government expenditure on economic services has a coefficient with probability, implying an insignificant positive relationship between expenditures on economic services and gross domestic product. This supports our apriori expectation since; theoretically, an increase in government expenditure will lead to an increase in economic growth, holding other variables constant.

Spending on social and community services

The coefficient of government expenditure on social and community services indicates a positive relationship

between government expenditure on social and community services and gross domestic product, which supports our expectation. Holding other variables constant, a percentage increase in government expenditure on social and community services will bring about an increase in gross domestic product. This is explained by the fact that increases in government spending on productive services will increase the output of the nation following theory; interestingly, it was found to be statistically significant, as evidenced by the probability values.

CONCLUSION AND SUMMARY

Recommendations

The following recommendations are put forward:

1. Through the central bank of Nigeria (CBN), the federal government of Nigeria should strengthen the banking sector to ensure an improved and efficient credit flow to the activity sectors because of its strategic importance in stimulating the growth and development of an economy.

2. The federal government of Nigeria, through the CBN, should ensure the stability of the Nigerian financial system by initiating credit policies and programs that would enhance the growth, operation, and quality of banks in Nigeria.

3. Deposit money Banks should focus not just on the effects of credit on money creation. But as well the interplay between the money market and capital market. This is to avoid a mismatch of liability and assets. Furthermore, the capital market provides more long-term funds than Deposit Money Bank (DMB) funds.

4. Deposit money Banks need to enhance credit allocation to real estate and construction because of its importance in the economy as it relates to the welfare of an average Nigerian.

5. Given that the private sector forms the real sector of any economy, adequate attention should be given to it to enhance the welfare of an average Nigerian and adequately stimulate and sustain the development of the Nigerian economy.

Limitations of the Study

This study is limited to investigate government expenditure on economic growth between the years 1990 - 2019. The main constrain faced by the researcher was difficulty in accessing data that will aid the empirical investigation of the study. One of such data is related to deficit financing. Despite all these hitches and setbacks mentioned above, this work will be completed within the speculated frame

Importance of the Studies

The importance of the studies is several to the global community and researchers in several ways. To the global community, the studies can serve as yardstick in policy making that will positively affect Nigeria. To the researchers, it can serve as our contribution to the body of knowledge and information gathering for those who research on the similar topic.

Suggestions for Further Studies

The researcher believes there is need for further studies in the following areas;

1. The impact of sectorial allocation of banks' credit on economic development using other variables like infrastructure or standard of living as proxy for economic development other than GDP as used in this study.
2. The impact of sectorial allocation of banks' credit on economic development in Nigeria.
3. Banks' credit to Manufacturing sector and economic development in Nigeria.

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