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The Effect Of Public Debt On Budget Performance In Osun State, Nigeria

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ABSTRACT

This study examined the effects of public debt on budget performance in Osun state from 2011 to 2015. Secondary data were obtained from Osun State's report of the Accountant-General with the financial statements of the relevant years, budget summary of the state for the relevant years, debt sustainability report for the relevant years as provided by Debt Management Office of Nigeria Also, primary data were obtained through the administration of questionnaire to officers involved in the budget process of the state. Descriptive and inferential statistics were employed in this study. Also, chi square test was used to analyze the impact of public debt on budget performance from 2011-2015. It was found that settlement of accumulation of arrears, employment generation, investment boosting and promotion of macroeconomic stability have low public borrowing index of 3.18, 3.08, 3.06 and 2.86 respectively with negative deviations from the mean. It is concluded that there is negative significant effect of public debt on budget performance in Osun state. The study recommended that Osun state government should set systems to identify the problems affecting budget implementation and feedback systems for monitoring the progress of programmes, this will, in essence, enhance effort of the government to review and modify programmes.

Key words; Public Debt; Budget Performance; Osun State

INTRODUCTION

Background to the Study

A developing economy is one with less developed industrial base and a low human development index in relation to other countries (Wikipedia). Nigeria, without doubt, is a developing economy as she is characterized by heavy dependence on few agricultural and mineral resources. Also, her manufacturing sector is mostly at the infant stage and relies heavily on imported inputs from developed economy (Ajayi, 1984). Therefore, the nation and all of its component states have to harness all possible sources to mobilize sufficient financial resources for the implementation of its economic development. One of the major instruments available for resource mobilization is public borrowing (Economics Discussion.net, 2015). Over the years, most of the states in Nigeria, in a bid to finance productive investment which is expected to generate additional productive capacity in the economy, has resulted to the use of public borrowings to augment whatever resources is available. The topic of public borrowing and budget performance is very important as it directly concerns current taxpayers, future generations and can affect expectations about the future of the economy (Boris, 2012). Public debt is the total outstanding debt obligations or accumulated borrowing of the national government. In every modern economy, the Central Bank keeps the finances and accounts of the nation, and it is involved in raising money for the execution of government programs. The need to borrow money arises when the total government expenditure exceeds its receipts.

Public debt is usually contracted to bridge budgetary gap. Public debt is in different forms: Marketable debts (are those, which can be bought and sold in the financial market) and Non-marketable debts (are those that have been issued in favor of specified debt holders and cannot be sold to others.).Funded debt (is a long-term debt for a definite period.) and Unfunded debt (or floating debt on the other hand, is for a short period of less than a year.). Reproductive debt (or productive debt, is expected to create asset that will yield sufficient income to pay off the principal as well as the interest on loan) and Deadweight debt(or unproductive debt is debt that does not increase the productive capacity of the economy because it is not backed by any existing asset.). Internal debt (is that which the country owes to its citizens.) and External debt (on the other hand, refers to debt owed to foreign individuals, governments, international organizations, World Bank Groups' (ICAN PSAF Pack,2013).

There are several reasons for raising public loans. Some of these reasons include, but are not limited to huge and persistent budget deficit, rapid expansion of the public sector, implementation of development programs, war time borrowings, natural disaster, fluctuating government revenue, economic instability, debt servicing and balance of repayments disequilibrium. Soludo (2003), opined that countries borrow for two broad categories: macroeconomic reasons [higher investment, higher consumption (education and health)] or to finance transitory balance of payments deficits [to lower nominal interest rates abroad, lack of domestic long-term credit, or to circumvent hard budget constraints]. Government has several policies to implement in the overall task of performing its functions to meet the objectives of social and economic growth. For implementing these policies, it has to spend huge amount of funds on defense, administration, development, welfare projects and various other relief operations. It is therefore necessary to find out all possible sources of getting funds so that sufficient revenue can be generated to meet the mounting expenditure. The planning process of assessing revenue and expenditure is termed Budget.

Budget is most important information document of the government. One part of the government's budget is similar to company's annual report. This part presents the overall picture of the financial performance of the government. The second part of the budget presents government's financial plans for the period up to its next budget. Therefore, every citizen of a nation from the common person to the politician is eager to know about the budget, as everyone would like to have an idea of the financial performance of the government over the past one year, financial programs and policies of the government for the next one year and the manner in which the standard of living will be affected. Given that the issue of relationship between public debt and budget performance is yet to be resolved in the literature, it is therefore, pertinent to examine the bond between the two variables. In addition, there is dearth of evidence on the causal relationship between each of the components of public debt and government budget. This is important in order to suggest appropriate mix of domestic and external debt in financing budget deficit in the overall macroeconomic context. The focus of the project, therefore, is to examine the relationship between budget performance and public debt using Osun state as the case study.

Statement of the Problem

In recent times, the debt profile of most states in Nigeria has increased drastically due to the wide variance between revenue and expenditure projections. In Osun state, for instance, the state's budget plan estimated expenditure of N88.14bn in 2011, despite estimated Revenue for the fiscal year being at N54.8bn. It followed the same trajectory in 2012, 2013 and 2014, with estimated expenditure projected at N150.13bn, N234bn, and N216bn, as against estimated revenues of N55.97 bn, N61.89bn and N57.16bn respectively.Notably, again, Osun'sbudget plan in 2015 called for an expenditure plan of N201bn, while revenue projection did not move above N63bn.Such wide tangents between annual budgets and actual spending are the first signals of a financial disaster certain to happen and calls for timely intervention.It is at this point that the state incurs public debt in order to bridge budgetary gap. However, the state government has to pay interest and repay the loan (principal) in full consonance with the agreed terms and conditions. The repayments for all these debts incurred run concurrently, and deductions are made out of whatever revenue is to accrue to Osun State. Also, the choice of public debt (either domestic or external) as source of financing deficit may generate larger deficit as allocation has to be made for servicing the debt in the subsequent fiscal year thus resulting in perpetual deficit as in the case with the Nigeria economy (Adedotun, 1997). This is an indication that public debt may be a promotional cause of budget deficit in the state.As at 31^{st} December 2014, Osun state, ranked 11^{th} most indebted state in Nigeria with total stock debt of N52.56bn (Budg IT Co. 2015). It was discovered that taking these loans did nothing to improve Internally Generated Revenue amid large overhead costs; this means the bulk of the State's existing revenue is diverted into debt repayment.

Economic theory suggests that reasonable levels of borrowing by a developing economy are likely to enhance its economic growth (Pattillo, Ricci, and Poirson 2002). In other words, there is a limit to public borrowing, which can be considered safe. Furthermore, a rising debt burden may constrain the ability of government to undertake more productive investment programs in infrastructure, education, and public health as well as the ability to settle workers' remuneration. To avoid such a situation, it is imperative that the quantum and structure of the nation's debt be carefully managed in a manner that is consistent with the country's growth and development aspirations. (Sanusi, 2003).

The experience in Nigeria has shown that the external and domestic borrowings at the state level are components of the country's total public debt. More generally, implementation of budgets, in the best situation, has not exceeded 60 percent over time, it means the borrowings to support government capital are not delivering expected values right from the year of appropriation. The soft analysis of the growing public debt however, raises concerns about sound fiscal policy, ineffective plugs to leakages, ineffective economic diversification policy implementation and low loan utilization as evidenced by poor budget performance over the period of time. Apart from the general belief that development is horizontally induced, issues of corruption as well as wastage through inflated contracts, the politicization of ethnicity and the behavior pattern of the elite in the use, misuse and abuse of public office have aggregated to unproductive capital projects (John, 2007).

In recognition of the fact that debt is never going to go away as it has become an integral part of public finance which is often motivated by the need to cover budgetary gaps and hasten the development process faster than government revenues from taxes and mineral resources exploitation will allow. It is therefore pertinent to investigate the relationship between public debt and budget performance.

Research Objectives

This study examined the effects of public debt on budget performance in Osun state from 2011 to 2015. The **Specific objectives are to:**

i. identify and assess the factors that encourage borrowings by the state government,
ii. examine factors that enhanced the budget performance of the state, and
iii. assess the impacts of public debt on budget performance in the state.

LITERATURE REVIEW

Public debt

By public debt, we mean government IOUs issued to individuals, organizations and other governments. From the ancient to the contemporary world, governments have been indebted to their citizens. Governments, like individuals, borrow from willing creditors to finance their long and short-term pressing financial needs that cannot be financed from other sources (Shaibu, 2003). A country becomes indebted when she borrows money to meet deficit as a result of shortfall in revenue to meet earmarked expenditures. However, government borrows to finance wars, to fight economic crisis such as depression or inflation or to finance economic reconstruction and development. Ocampo (2004) proclaimed that the external debt situation for a number of low income countries, mostly in Africa, has become extremely difficult. For these countries, even the use of traditional mechanism of rescheduling and re-sectioning of debt together with sound economic policies may not be sufficient to attain sustainable external debt levels.

Asley (2002) opined that high level of external debt in developing countries negatively impact their trade capacities and performance. Debt overhang affects economic reforms and stable monetary policies, export promotion and a reduction in certain trade barrier that will make the economy more market friendly and this enhances trade performance. However, debt decreases a governments' ability to invest in producing and marketing exports, building infrastructure, and establishing a skilled labor force. Muhtar (2004) also stated that, the service of these debt have direct negative impact on economic development. To him, debt services encroach on resources needed for socio-economic development and poverty reduction. It also contributed to negative net resources flow.

Ojo (1989) was of the belief that it is no exaggeration to claim that Nigeria's huge external debt is one of the hard knots of the Structural Adjustment Programme (SAP) introduced in 1986 to put the economy on a sustainable path of recovery. The corollary of this statement is that if only the level of debt service payment could be reduced significantly, Nigeria would be in a position to finance larger volume of domestic investment, which would enhance growth and development, but more often than not, a debtor has limited room to manage debt crisis to advantage.

Furthermore, debts are classified into two which are reproductive debt and deadweight debt. A loan obtained to enable the state or nation to purchase some sort of assets, for instance, money borrowed for acquiring factories, generating electricity, setting up refineries etc., is said to be productive. However, debt undertaken to finance war and expenses on current expenditure are deadweight debt (Eaton, 1993). When a country obtains loan from abroad, it means that the country can import from abroad, goods and services to the value of the loan without having to export anything in exchange. When capital and interest have to be repaid, the same country will have to get the burden of exporting goods and services. These two types of debt however require that the borrowers' futures saving must cover the interest and principles payment (Debt Servicing). Therefore, debt-financed investment need to be productive and well managed in order to earn a return higher than the cost of debt servicing.

Budget performance

The main financial document that reflects the state policy regarding the set up and the use of public resources is the budget (Attila, 2010). Budget can be used as a benchmark, as a control system, that allows managers to compare actual performance with estimated or desired performance (Silva and Jayamaha, 2012). Budget performance is operationally defined as a comparison between estimated revenues and expenditures and actual revenues and expenditures resulting into either a deficit (where aggregate expenditures of the government is greater or more than its total revenues collected within a given period), a surplus (where government expenditures is less than its revenues) or an equilibrium/balanced budget (where total revenues of the government equal the total expenditures) (KCL, 2012).

As stated earlier, budget is one of the common financial tool used to manage a government's finance; performance reports often relate to an assessment of specific functions in an environment. Budgets allow governments to plan future expenditures. These plans allow for the necessary amount of inputs needed to generate capital for funding the project. Governments may also adjust future expenditures based on past budget performance. Reviewing historical budgets helps the government understand how and why they are spending money in discharging their primary objectives as well as responsibilities. Budgets may also be used to secure external financing for expanding the reach of their responsibilities.

Furthermore, the government often track spending variances through the use budgets. While most financial budget processes are completed on an annual basis, tracking budget variances typically is done monthly. A monthly spending variance review helps the government to understand where money was spent each month compared to the income generated on financial statements. Excessive budget variances may require the government to completely review their budget process to ensure they have accurately forecast any financial needs.

Governments often use performance reports in addition to budgets to provide residents, business owners and companies within their jurisdiction with additional information relating to budgets variances. This additional information may relate to financial or non-financial issues that can cause the budget to go outside its allowable range. Resource costs increases or other additional costs are common financial budget increases. Non-financial increases may result from inferior resources needing to be replaced.

Lastly, governments may use an automated computer software program for tracking accounting or financial information relating to the budget process. Many computer software packages also include a budgeting module that allows the local government to funnel information electronically into a pre-set budget format. Computerized budgets limit the company's time and money spent during the development or planning phase of the budget. The local government may also be able to link these budgets to specific financial accounts and track information in a real-time format.

Public debt and Budget Performance

Public debt will arise where the actual expenditure exceeds actual revenue thereby making it necessary to source for means of financing the excessive expenditure. According to Ndan, 2009, it is important to draw from savings set aside or to borrow from outside sources in order to meet budgetary objectives. Dalton in KCL (2012) confirms this by asserting that "If over a period of time expenditure exceeds revenue, the budget is said to be unbalanced". Deficit budget is one where the estimated government expenditure is more than expected revenue. Such deficit amount is generally covered through public borrowings or withdrawing resources from the accumulated reserve surplus. Consequently, a deficit budget is a liability to the government as it creates a burden of debt or it reduces the stock of reserves of the government.

Causes of Debt

Ajayi (1984) reflected the causes of debt problem as related to both the nature of the economy and the economic policies put in place by the government. He articulated that the developing economies are characterized by heavy dependence on one or few agricultural and mineral commodities. Also, the manufacturing sector is mostly at the infant stage and relies heavily on imported inputs. To him, they are dependent on the developed countries for supply of other input and finance needed for economic development, which made them vulnerable to external shocks.

The grand cause of the debt crisis is that, in most cases, the loan is not used for development purposes. The loan process is done in and shrouded with secrecy. The loan is obtained for personal interest and sectarian purposes. It is usually tied to party politics, patronage and elevation of primordial interest rather than the promotion of national interest and overall socio-economic development. In some cases, loans were contracted without regard to viability of projects they were meant to finance (Richard, 1991). Corruption, political factors and personal gains of government officials who negotiated such contracts seemed to be the major factor in contracting certain loans rather than the soundness of the projects to be financed with the loans.

Method of Data collection

This study uses both primary and secondary data. The relevant data for the study were obtained from Osun State's report of the Accountant-General with the financial statements of the relevant years, budget summary of the state for the relevant years, debt sustainability report for the relevant years as provided by Debt Management Office of Nigeria. Also, primary data were obtained through the administration of questionnaire to officers involved in the budget process of the state. Descriptive and inferential statistics were employed in this study. Also, chi square test was used to analyze the impact of public debt on budget performance from 2011-2015.

RESULTS AND DISCUSSION

Factors Encouraging Public Borrowing by Osun State Government

To establish the validity of the factors that encourage public borrowing in the study area, the degree of these factors as rated in the questionnaire was examined. The responses of the respondents were rated into five groups to determine the Public Borrowing Index (PBI). Seven (7) variables were used in the determination of the factors that encourage public borrowing as opined by the respondents. Each of the factors were rated in respect to Likert Scale as "strongly agree", "agree", "disagree", "strongly disagree", "undecided", to indicate and each of the rating were assigned a weight value of 5,4,3,2 and 1 respectively. The ranking had a decreasing order of relevance from 5 to 1.Therefore, to determine the PBI of each variable, the calculated weight value was summed up and thereafter divided by the total number of respondents.

The Factor Weighted Value (FWV) was carried out by adding the products of the numbers of responses to each of the identified variables and the weight attached to each rating e.g., $(a \times 5) + (b \times 4) + (c \times 3) + (d \times 2) + (e \times 1)$.

The mean of the PBI distribution was achieved by dividing the total Level Weight Value (LWV) by the total number of questionnaires. The deviation about the mean was compared for each variable. Also, calculated were the standard deviation (S.D) to measure the extent to which each factors fluctuates above or below the mean.

Provision of social amenities has the highest public borrowing index of 3.94 with a positive deviation of 0.60 from the mean, closely followed by the need to finance budget deficit with an index of 3.65 and a deviation of 0.31 from the mean in the positive axis. Also, the need to facilitate growth of the state's economy has an index of 3.59 with a positive deviation of 0.25 from the mean. However, settlement of accumulation of arrears, provision of employment opportunities, investment boosting and promotion of macroeconomic stability have low public borrowing index of 3.18, 3.08, 3.06 and 2.86 respectively with negative deviations from the mean.

Table 1: Factors Encouraging Public Debt in Osun State.

S/N	Factors	RATINGS					LWV	F (NR)	PBI	$\bar{X}$	$(X - \bar{X})$	d^2
		5	4	3	2	1						
1	Public debt is incurred to finance budget deficit	60	100	18	0	8	186	51	3.65	3.34	0.31	0.0961
2	Public debt is incurred to provide social amenities	90	96	9	0	6	201	51	3.94		0.60	0.3600
3	Public debt is incurred because there is need to boost investment	75	44	18	0	19	156	51	3.06		-0.28	0.0784
4	Public debt is incurred in order to provide employments opportunities	60	44	27	14	12	157	51	3.08		-0.26	0.0676
5	Public debt is encouraged by the need to promote macroeconomic stability	60	36	30	0	20	146	51	2.86		-0.48	0.2304
6	Public debt is incurred in order to settle accumulations of arrears	60	48	27	18	9	162	51	3.18		-0.16	0.0256
7	Public debt is incurred to facilitate growth of the state's economy	105	36	27	6	9	183	51	3.59		0.25	0.0625

Source: Author's Field Survey, 2017

PBI = Public Borrowing Index
LWV = Level Weight Value
NR = Number of Respondents or summation of frequency
$\sum$ (LWV/NR) = PBI
N = Number of factors that encourages public borrowing
$\sum f = 51$, N = 7
Mean **(X) =** $\sum$PBI/N 23.36/7 = 3.34

Factors Enhancing Budget Performance in Osun State

To establish the validity of the factors that encourage public borrowing in the study area, the degree of these factors as rated in the questionnaire was examined. The responses of the respondents were rated into five groups to determine the Budget Performance Index (BPI). Eight (8) variables were used in the determination of the factors that enhanced as opined by the respondents. Each of the factors were rated in respect to Likert Scale as “strongly agree”, “agree”, “disagree”, “strongly disagree”, “undecided” and each of the rating were assigned a weight value of 5,4,3,2 and 1 respectively. The ranking had a decreasing order of relevance from 5 to 1.Therefore, to determine the PBI of each variable; the calculated weight value was summed up and thereafter divided by the total number of respondents.

The Factor Weighted Value (FWV) was carried out by adding the products of the numbers of responses to each of the identified variables and the weight attached to each rating e.g., $(a \times 5) + (b \times 4) + (c \times 3) + (d \times 2) + (e \times 1)$. The mean of the BPI distribution was achieved by dividing the total Level Weight Value (LWV) by the total number of questionnaires. The deviation about the mean was compared for each variable. Also, calculated were the standard deviation (S.D) to measure the extent to which each factors fluctuates above or below the mean.

Table 7 shows that budget performance is highly affected by timely preparation of budgets and approval by the state's House of Assembly before the beginning of the fiscal year as well as provision of relevant information to stakeholders in order to facilitate participatory budgeting. These two factors have BPI of 4.22 and positive deviation of 0.72 from the mean. Also, allocation of resources to programmes on the basis of the state's priorities and programme effectiveness, and transparency and accountability in budget preparation, execution and reporting have BPIs of 3.88 and 3.84 respectively. Availability of a system which identifies the problems affecting budget implementation, availability of a feedback system for monitoring progress of programmes thereby comparing performance with original plan, the ability of the state government to utilize the report derived from these systems to review and modify programmes and overloading of the State’s budget in a way that restricts the absorptive capacity to implement the budget have low BPIs and negative deviations from the mean.

Table 7: Factors enhancing budget performance in Osun state

S/N	Factors	RATINGS					LWV	F(NR)	PBI	$\bar{X}$	$(X - \bar{X})$	d^2
		5	4	3	2	1						
1	Budgets are prepared on timely basis and approved by the state's House of Assembly before the beginning of the fiscal year	120	56	39	0	0	215	51	4.22	3.50	0.72	0.5184
2	Relevant information are made available to various stakeholders at the right time in order to facilitate participatory budgeting	120	80	12	0	3	215	51	4.22		0.72	0.5184
3	Resources are allocated to the programmes on the basis of the state's priorities and programme effectiveness	105	68	18	0	7	198	51	3.88		0.38	0.1444
4	The state's budget is usually overloaded in a way that restricts the absorptive capacity to implement the budget	15	48	18	32	14	127	51	2.49		-1.01	1.0201
5	There is a system used to identify the problems affecting budget implementation.	60	56	27	8	12	163	51	3.19		-0.31	0.0961
6	The feedback system for monitoring progress of programmes thereby comparing performance with original plan.	75	56	9	6	16	162	51	3.18		-0.32	0.1024
7	The state government utilizes the report derived from the systems to review and modify programmes.	75	48	0	6	21	150	51	2.94		-0.56	0.3136
8	There is transparency and accountability in the budget preparation, execution and reporting.	80	92	18	0	6	196	51	3.84		0.34	0.1156

Source: Author's Field Survey, 2017

BPI = Budget Performance Index
LWV = Level Weight Value
NR = Number of Respondents or summation of frequency
$\sum$ (LWV/NR) = BPI
N = Number of factors that enhances budget performance.
$\sum f = 51$, N = 7
Mean **(X) =** $\sum$BPI/N   27.96/8 = 3.50

Effects of Public Borrowing on Budget Performance

To establish the validity of the effects of public borrowing on budget performance in the study area, the degree of these factors as rated in the questionnaire was examined. The responses of the respondents were rated into five groups to determine the Effect Index (EI). Six (6) variables were used in the determination of the effects of public borrowing on budget performance as opined by the respondents. Each of the factors were rated in respect to Likert

Scale as "strongly agree", "agree", "disagree", "strongly disagree", "undecided", to indicate and each of the rating were assigned a weight value of 5,4,3,2 and 1 respectively. The ranking had a decreasing order of relevance from 5 to 1.Therefore, to determine the EI of each variable, the calculated weight value was summed up and thereafter divided by the total number of respondents.

The Factor Weighted Value (FWV) was carried out by adding the products of the numbers of responses to each of the identified variables and the weight attached to each rating e.g., (a × 5) + (b × 4) + (c × 3) + (d × 2) + (e × 1). The mean of the PBI distribution was achieved by dividing the total Level Weight Value (LWV) by the total number of questionnaires. The deviation about the mean was compared for each variable. Also, calculated were the standard deviation (S.D) to measure the extent to which each factors fluctuates above or below the mean.

Table 8 shows that public debt is a constraining factor on rapid economic growth and development of the state with EI of 4.31 and a positive deviation of 0.66 from the mean. It shows that debt servicing affects budget performance with EI of 4.25 and a positive deviation of 0.60.It also shows that the timing of budget proposals, resolutions, appropriations and implementation is not affected by public debt. that there has not been record of debt crisis in the state which affected budget performance in the state and that public debt does not improve the internally generated revenue of the state by giving low EIs of 3.31, 3,27 and 2.53 respectively and negative deviations from the mean.

Table 8: Effects of Public Borrowing on Budget Performance

S/N	Factors	RATINGS					LWV	F(NR)	PBI	$\bar{X}$	$(X - \bar{X})$	d²
		5	**4**	**3**	**2**	**1**						
1	The timing of budget proposals, resolutions, appropriations and implementation is affected by public debt.	50	80	18	12	9	169	51	3.31	3.65	-0.34	0.1156
2	Public debt improves the internally generated revenue of the state.	0	20	72	30	7	129	51	2.53		-1.12	1.2544
3	The issue of debt servicing has effect on budget performance.	155	48	9	0	5	217	51	4.25		0.60	0.3600
4	Public debt is constraining factor on rapid economic growth and development of the state.	140	68	9	0	3	220	51	4.31		0.60	0.4356
5	There is a relationship between public debt and budget performance.	140	60	6	6	3	215	51	4.22		0.57	0.3249
6	Has there been record of debt crisis in the state which affected budget performance in the state?	130	12	0	6	19	167	51	3.27		-0.38	0.1444

Source: Author's Field Survey, 2017

EI =Effect Index
LWV = Level Weight Value
NR = Number of Respondents or summation of frequency
∑ (LWV/NR) = EI
N = Number of possible effects of public debt on budget performance

$\sum f = 51$, $N = 6$
Mean **(X) =** $\sum EI/N$ 21.89/6 = 3.65

DISCUSSION OF FINDINGS

If P> value is greater than the table value at the appropriate level of significance and degrees of freedom, the null hypothesis will be rejected and alternative accepted but where it is lesser than the value read out of chi-square table, then the null hypothesis is accepted and alternative rejected. P-value is 0.95 is > 0.05. Therefore, the null hypothesis is being rejected and the alternative is actually accepted. That is, there is relationship between public debt and budget performance.

Using chi-square test to analyse the variables, the decision rules stated that; if chi-square value (X_2) is greater than the table value at the appropriate level of significance and degrees of freedom, the null hypothesis will be rejected and alternative accepted but where it is lesser than the value read out of chi-square table, then the null hypothesis is accepted and alternative rejected. The result shows that the accumulated value X_2 is greater than the tabulated value, therefore, the null hypothesis is being rejected and the alternative hypothesis is being accepted.

SUMMARY AND CONCLUSION

This study examined the effects of public debt on budget performance in Osun state from 2011 to 2015.. The relevant data for the study were obtained from Osun State's report of the Accountant-General with the financial statements of the relevant years, budget summary of the state for the relevant years, debt sustainability report for the relevant years as provided by Debt Management Office of Nigeria Also, primary data were obtained through the administration of questionnaire to officers involved in the budget process of the state. Descriptive and inferential statistics were employed in this study. Descriptive statistical tools such as percentages and frequency distribution were used to describe the socio-economic characteristics of the respondents. Also,chi-square test was used to analyze the impact of public debt on budget performance in the study area.

It was found that Provision of social amenities has the highest public borrowing index of 3.94 with a positive deviation of 0.60 from the mean, closely followed by the need to finance budget deficit with an index of 3.65 and a deviation of 0.31 from the mean in the positive axis. Also, the need to facilitate growth of the state's economy has an index of 3.59 with a positive deviation of 0.25 from the mean. However, settlement of accumulation of arrears, provision of employment opportunities, investment boosting and promotion of macroeconomic stability have low public borrowing index of 3.18, 3.08, 3.06 and 2.86 respectively with negative deviations from the mean.

Similarly, budget performance is highly affected by timely preparation of budgets and approval by the osun state's House of Assembly before the beginning of the fiscal year as well as provision of relevant information to stakeholders in order to facilitate participatory budgeting. These two factors have BPI of 4.22 and positive deviation of 0.72 from the mean. Also, allocation of resources to programmes on the basis of the state's priorities and programme effectiveness, and transparency and accountability in budget preparation, execution and reporting have BPIs of 3.88 and 3.84 respectively. Availability of a system which identifies the problems affecting budget implementation, availability of a feedback system for monitoring progress of programmes thereby comparing performance with original plan, the ability of the state government to utilize the report derived from these systems to review and modify programmes and overloading of the State's budget in a way that restricts the absorptive capacity to implement the budget have low BPIs and negative deviations from the mean.

Also, the finding showed that public debt is a constraining factor on rapid economic growth and development of the state with EI of 4.31 and a positive deviation of 0.66 from the mean. It showed that debt servicing affects budget performance with EI of 4.25 and a positive deviation of 0.60.It also showed that the timing of budget proposals, resolutions, appropriations and implementation is not affected by public debt. that there has not been record of debt crisis in the state which affected budget performance in the state and that public debt does not improve the internally generated revenue of the state by giving low EIs of 3.31, 3,27 and 2.53 respectively and negative deviations from the mean.Also, the null hypothesis is being rejected and the alternative is accepted. That is, there is relationship between public debt and budget performance.

Public debt is incurred majorly to provide social amenities and to finance budget deficit. It is also being incurred to facilitate the growth of the state's economy but rarely to boost investment, provide employment opportunities, provide macroeconomic stability or to settle accumulation of arrears. The state's budget is usually prepared on a timely basis and approved by the state's House of Assembly before the beginning of the fiscal year, relevant information is made available to various stakeholders at the right time in order to facilitate participatory budgeting, resources are allocated to programmes based on the state's priorities and programme effectiveness, the state's budget is not overloaded in a way that restricts the absorptive capacity to implement the budget and that there is transparency and accountability in budget preparation, execution and reporting. It was also realized that there are no systems set to identify the problems affecting budget implementation and there are no feedback systems for monitoring the progress of programmes, this will, in essence, frustrate the effort of the government to review and modify programmes. It was concluded that the timing of budget proposals, resolutions, appropriations and implementation is not affected by public debt and that there has not been record of debt crisis in the state which affected budget performance in the state. The study showed that public debt is a constraining factor on the rapid economic growth and development of the state and that public debt does not improve the internally generated revenue of the state because of the issue of debt servicing.

From the foregoing, it is pertinent to state that there is significant relationship between public debt and budget performance. This relationship is mostly negative because the more the budget of the state goes into deficit, the more the debt burden.

POLICY RECOMMENDATIONS

From the above findings, the following recommendations are made:

1. Osun state government should set systems to identify the problems affecting budget implementation and feedback systems for monitoring the progress of programmes, this will, in essence, enhance effort of the government to review and modify programmes.
2. Government should harness other sources of revenue (e.g. taxes, fines, fees, licenses, grants and financial aids) to finance budget deficit while debt should be incurred to finance state services are legitimate, productive and indispensable to prosperity.
3. Adequate attention should be given to the structure of debt servicing.

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