

SELECTED MACROECONOMIC DETERMINANTS OF NON-PROFIT HOUSEHOLDS CONSUMPTION EXPENDITURE IN NIGERIA

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Abstract

This study considers the impact of selected macroeconomic variables of final consumption expenditure of general government, changes in investment, net taxes on production and gross capital formation on the final consumption expenditure of non-profit households using quarterly time series data on household consumption from 2010q1 to 2015q4 obtained the CBN statistical bulletin. Stata 15 was employed in the regression analysis. The result shows among others that less than 28% of the variation of the target variable is accounted for by the predictor variables with an R-squared of 0.4039 which suggests a positive but moderate relationship between the dependent variable FCENPH and the explanatory variables was found. In addition, only Cil (Changes in Investment) and NToP (Net Taxes on Production) as expected are statistically significant at the 5% level of significance. The result indicates that FCEGG and GCF do not necessarily determine non-profit households' final consumption pattern in Nigeria. There is therefore the need to strengthen fiscal measures targeted at household to make it more inclusive and also streamline government spending to be more effective on households the study suggests.

Keywords: Macroeconomic variables, non-profit households, general government, fiscal measures

Introduction

Nigeria presents a very good example of government's inability and market failure in the provision of social amenities to communities and households (particularly in rural and sub urban communities). As a result, Non-Profit organisations have stepped in-the gap staffed with employees who mainly reside in houses owned and managed by their employers (the non – profits). Given the growing importance of non-profit organisations in the provision of social services, much exist in the literature on the impact of these agencies on community development and in the provision of social and economic services to the people especially in areas where there are noticeable or perceived government/ market failures in the rendering of these services. For example, the Metador Network (2017) reports that the International Rescue Committee (IRC) has an aspect of its organization known as the Emergency Response team with 17 specialists that can be readily deployed within 72 hours to respond to a crisis, such as the flooding in Pakistan in 2010 and the tsunami in Japan earlier 2018 in which 200 people allegedly died. It also reports that the BOMA project carries out an economic empowerment programme in northern Kenya known as the Rural Entrepreneur Access Project (REAP) through which it provides a seed capital grant, mentored business skills training, and a savings program to groups of people who establish an income generating business. It can therefore be argued that non-profits have become the main service providers in countries where the government is unable to fulfil its traditional role in certain areas. In the education sector for example, many NGOs have moved beyond 'gap-filling' initiatives into capacity building activities (Ulleberg, 2009/10). Their role is therefore too enormous to be ignored.

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In Nigeria, a striking upsurge has taken the wave in organizing voluntary activity and the creation of private, non-profit or non-governmental organizations. People are forming associations, foundations and similar institutions to deliver human services, promote grassroots economic development, prevent environmental degradation, protect civil rights and pursue a thousand other objectives formerly unattended or left by the state. (Togbolo, 2005). While most studies such as (Fouladi, 2010; Ulleberg, 2009; Togbolo, 2005; OECD, 2003) conclude that non-profit organisations make positive contributions to development, others such as the ones by Jane (2007) and Lisa (2005) accuse Non-profits of inaccurate accounting, corruption and diversion of funds by managers, interference in political activities among others. According to Lisa (2005), NGOs are being asked three types of accountability questions by a variety of factors: effectiveness question; question of organizational reliability and legitimacy questions. Above all, non-profit organizations tend to largely avoid/ invade government's fiscal policy strategies in developing Countries and thus neutralise fiscal policy strategies on household's spending. In other words, the government suffers serious setbacks in trying to use fiscal policy measures to control or redistribute income to in order to achieve pre-set fiscal targets. This is one aspect that has remained largely untouched by previous researches on the subject partly due to unavailability of data and lack of political will by government to implement policies and programmes in that direction.

Thus, this study contributes to knowledge and advance the literature by studying the relationship between the Final Consumption Expenditure of Non-Profit Households (FCENPH) as distinct from the final consumption expenditure of all households and the Final Consumption Expenditure of General Government (FCEGG), Changes in Investment (CiI), Net Taxes on Production (NToP) and Gross Capital Formation (GCF) which to the best of my knowledge has not been done by any other study in the Country. It also contributes further by paying attention to the issue of data

by employing recent quarterly time data obtained from the Statistical Bulletin of the Central Bank of Nigeria (CBN) which will be regressed via ordinary Least Square (OLS) to overcome the problem of non-availability of data cited by most researchers as one of the major reasons why not much have been done on the subject in developing Countries.

The rest of this paper will be organised as follows: In section two, related literature is reviewed and the theoretical framework underlying the study discussed. Section three presents the methodology employed in the analysis and specification of the model as well as definition and description of variables. Results are discussed in section four after some summary statistics are shown while the study is concluded in section five with some recommendations and the need for further study.

Literature Review

Government failure and Non-profit organisation

The non-profit sector often associated with concepts such as the “social economy”, “third sector” and “third system is a growing social and economic force all over the world and a key element in employment and social policies in most OECD countries (OECD, 2003). In Kenya, another aspect of the BOMA Project is to help Kenyan women pay for school, food and healthcare. Since 2009, 8,481 women have enrolled with the BOMA Project to successfully launch 2,651 businesses. In total, women who have enrolled with the BOMA Project have been able to provide care for over 42,250 dependent children. As development actors, NGOs (Non-profits) have become the main service providers in countries where the government is unable to fulfil its traditional role. The scope and scale of this phenomenon is immense. Non Profit organizations in Nigeria such as the Amukoko Community Partners for Health; Association for Adolescent Reproductive Health and Action or Child Health Organization and the AIDS Must Go Group are good examples of non-profit organisations rendering free education, counselling and awareness campaigns to people.

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While these agencies are celebrated for their good works and sometimes criticised for their misdeeds, the decisions and choices of the households (those behind the machines) are seldom remembered. While the incomes of Non-profit organisations (Charities, NGOs, Civil Society groups, Religious organisations etc) are not subject to taxation, those of their employees are of course subjected to tax. However, most non-profits employees hide under the cover of their employers to avoid and some in some cases completely evade payment of taxes thus creating revenue losses to the government as well rendering government-households fiscal policy strategies nearly ineffective.

Theoretical Framework

Macroeconomic policy variables such as government expenditure and taxes have been traditionally known to influence and affect household spending or expenditure power. For instance, the lowering or raising of the tax rate will have the ability of increasing or decreasing the disposable income of consumers (households, etc.). Also, general investment expenditure, depending on its direction and magnitude will equally have similar impact on consumers' final consumption expenditure given the link between saving and investment. Hence, using the appropriate monetary or/and fiscal instruments, these variables can be tinkered with by the government in order to achieve a pre-set desired policy objective.

The concept of monetary interflows between the household sector, the business sector (firms) and the government sector as well as the foreign sector with their resultant effects on households and general consumption has extensively been illustrated with the concept of the Circular Flow of Income (CFI) developed by Richard Cantillon (1680s-1734) and further expanded by other scholars. Government expenditures are amongst the most significant instruments of fiscal policies and the interaction of these expenditure with other economic variables has been a subject of long debate (Fouladi, 2010). For example, Household Final Consumption

Expenditure (HFCE) is not an exhaustive measure of the goods and services consumed by households. In addition, with the growing importance of the role of Non – Profit organisations (Charities, NGOs, Religious organisations, Civil Society groups etc) in development, particularly in developing Countries with employees living mainly in houses and buildings owned by these organisations, we posit that Final Consumption Expenditure by General Government (FCEGG) and Changes in Investment (CiI), may not have any significant influence on the Final Consumption Expenditure of Non-Profit Households as opposed to profit-oriented Households. By using Nigeria as the case, where most Non-profits organizations are tax-free and employees allegedly invade personal income and other tax forms, which may result to loss of revenue to the government, we intend to explore this proposition by isolating Non-Profit households as our variable of interest.

Methodology

Ordinary Least Square (OLS) Regression analysis shall be employed for this study. Apart from its simplicity and the nature of variables, it is premised on the fact that relevant pre-test have been carried out on the variables and they conform with the basic and applicable assumptions of OLS.

Definition and description of variables

The following variables shall be employed for this study:

Dependent Variable

FCENPH = Final Consumption Expenditure of Non-Profit Households as distinct from all households. It represents what households (Consumers) spend to fulfil everyday needs which includes spending on both goods and services. This is the variable of interest and it consists of private consumption expenditure incurred for the direct satisfaction of individual or collective needs by private households of non-profit institutions serving

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households (such as religious societies, sports and other clubs, political parties, etc.).

Independent Variables

The explanatory variables for this study include the following:

FCEGG = Final Consumption Expenditure of General Government

This represents government expenditure on goods and services that are used for the direct satisfaction of individual needs (individual consumption) or collective needs of members of the community (collective consumption).

CiL = Changes in Investment – This is based on the belief that increase in investment leads to even more increase in income that might result to increase in Savings and hence, increases in investment and vice versa

NToP= Net Taxes on Production – This is premised on the assumption that businesses produce goods and services and in the process of doing so, incomes are generated for factors of production (land, labour, capital and enterprise)

GCF= Gross Capital Formation measures the net increase in fixed capital (net investment). A rise in investment should contribute towards higher aggregate demand (AD) and also increase productive capacity. Increasing investment should lead to higher economic growth in the long-term. Households can only save less disposable income before they can invest

e= the disturbance or stochastic error term which captures every other factor that influences our variable of interest not expressly included in the model

Model Specification

$$FCENPH = \alpha_0 + \alpha_1 FCEGG + \alpha_2 CiL + \alpha_3 NToP + \alpha_4 GCF + e$$

On apriori theoretical expectations, it is hoped that $\alpha_1, \alpha_2, \& \alpha_4$ will be ≥ 0 & $\alpha_3 \leq 0$

Presentation and discussion of results

Before the regression results are discussed, it is important to provide a statistical description of the variables that were used in the analysis. It is believed that the descriptive statistics are extremely informative in revealing the relationship between non-profit households' consumption trend and the explanatory variables in Nigeria.

Summary and descriptive statistics

This section provides the descriptive statistics of the variables, which are used in the regression analysis.

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Variable	Obs	Mean	Std. Dev.	Min	Max
PERIOD	24	20127.5	17.48291	20101	20154
FCENPH	24	58.34583	10.2482	41.73	78.38
FCEGG	24	1424.431	185.1423	899.81	1686.43
Cil	24	135.6571	24.98281	98.41	172.23
NTOP	24	123.4346	35.80458	71.07	193.88
CCF	24	2856.18	512.7571	2019.37	3747.17

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Correlation Matrix

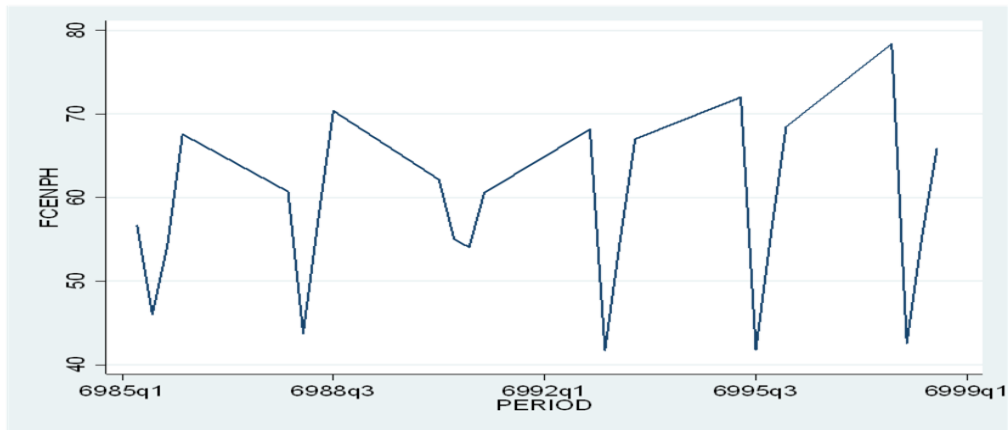
	FCENPH	FCEGG	Ci I	NToP	GCF
FCENPH	1.0000				
FCEGG	0.2321 0.2752	1.0000			
Ci I	0.0141 0.9479	0.6059* 0.0017	1.0000		
NToP	0.2633 0.2139	0.6157* 0.0014	0.9110* 0.0000	1.0000	
GCF	0.1241 0.5634	0.5508* 0.0053	0.8565* 0.0000	0.8838* 0.0000	1.0000

From the pairwise correlation (Matrix), we can deduce that there is some evidence of zero (0) or near (0) to mild positive correlation between the dependent variable FCENPH and the individual explanatory variables and between the independent variables. Hence, pairwise deletion.

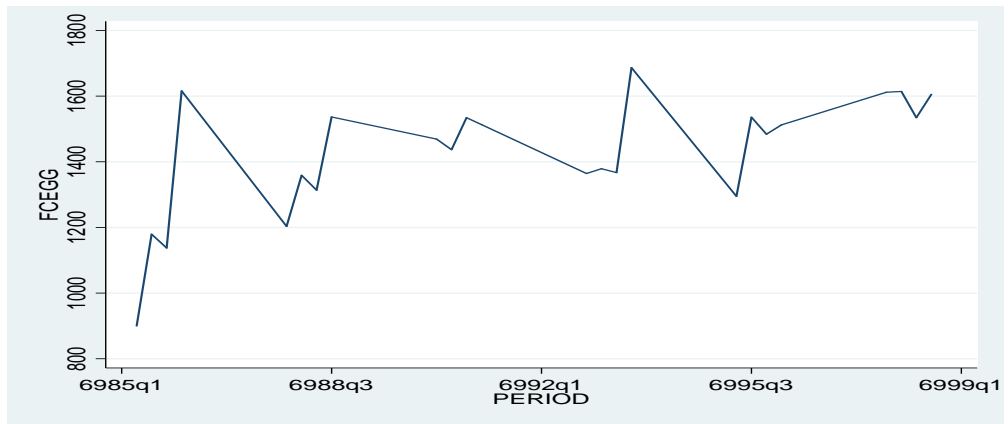
Trend of Variables

The graphs below describe the movement over time of each of the variables used for this study.

- a. Final Consumption Expenditure of Non-Profit Households

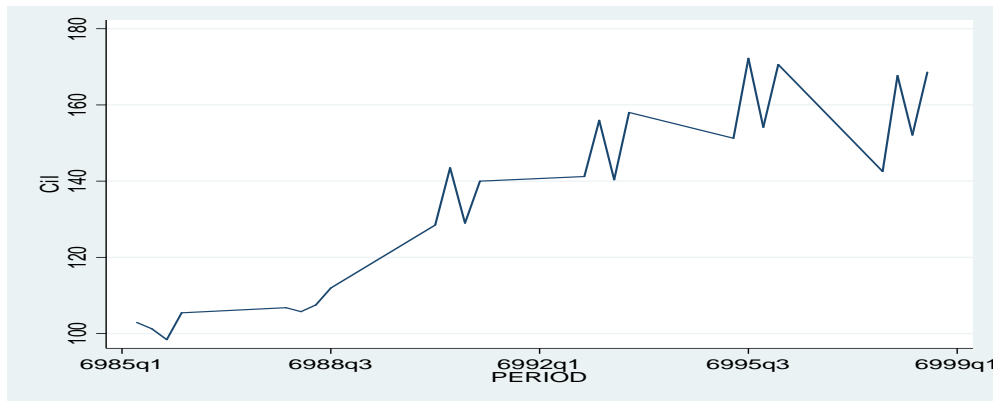


b. Final Consumption Expenditure of General Government

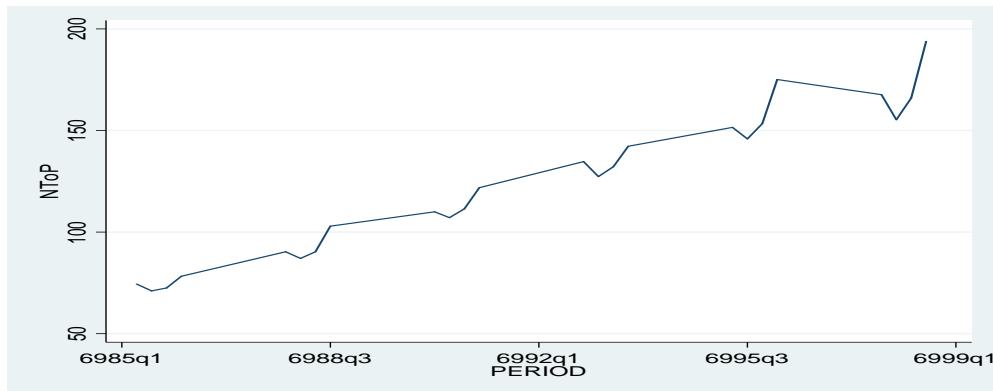


c. Changes in Investment

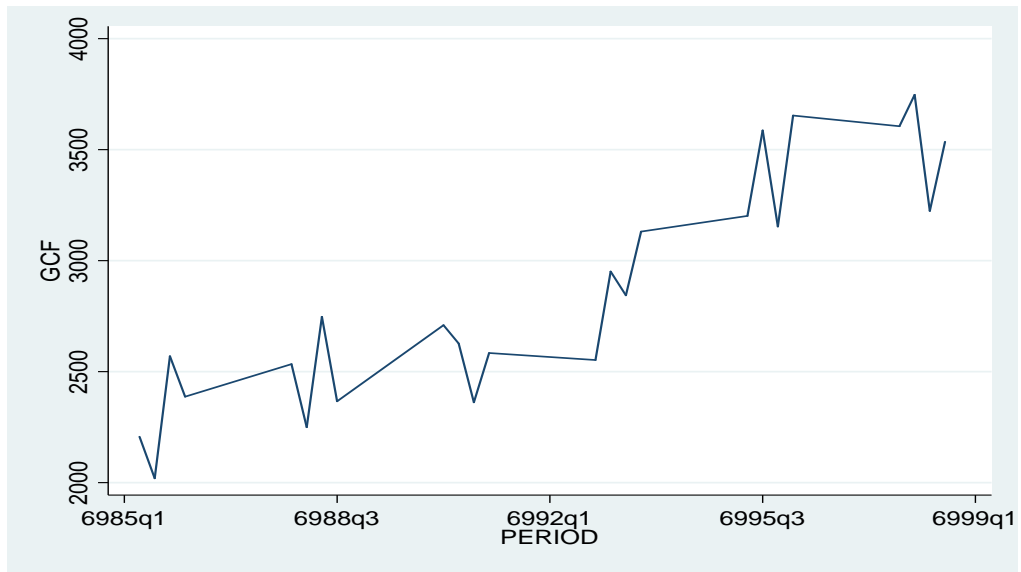
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d. Net Taxes on Production

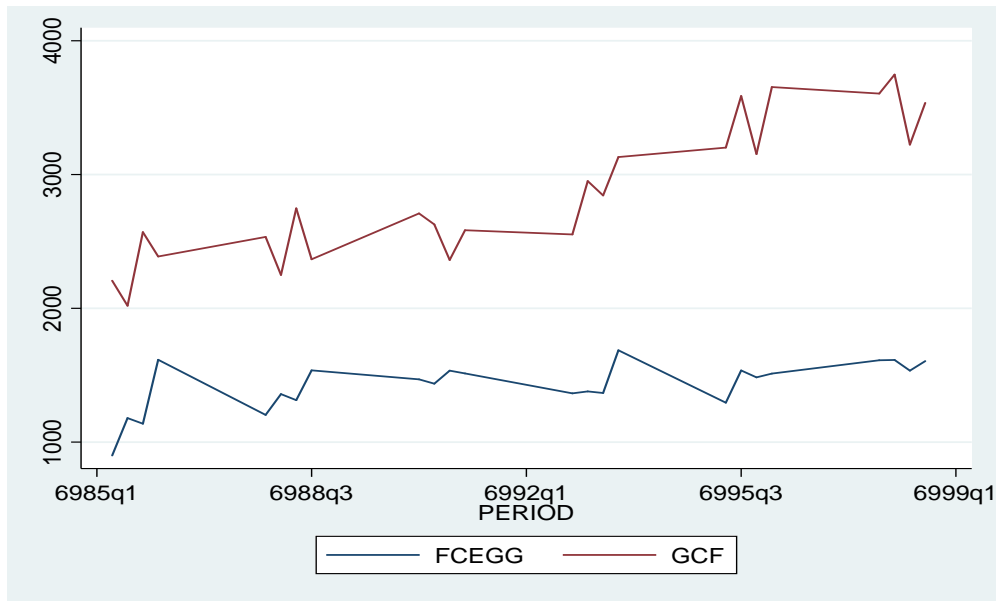


e. Gross Capital Formation



f. FCEGG & GCF Compared

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Regression Result

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. regres FCENPH FCEGG CiI NToP GCF
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Source	SS	df	MS	Number of obs	=	24
				F(4, 19)	=	3.22
Model	975.711737	4	243.927934	Prob > F	=	0.0355
Residual	1439.87585	19	75.7829393	R-squared	=	0.4039
				Adj R-squared	=	0.2784
Total	2415.58758	23	105.025547	Root MSE	=	8.7053

FCENPH	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
FCEGG	.0116735	.0125659	0.93	0.365	-.0146273	.0379742
CiI	-.5435702	.1845474	-2.95	0.008	-.9298323	-.157308
NToP	.4320198	.1429879	3.02	0.007	.1327426	.731297
GCF	-.0038179	.00785	-0.49	0.632	-.0202481	.0126123
_cons	73.03529	18.30222	3.99	0.001	34.72829	111.3423

Discussion of Results

The regression results shows an R-Squared of 0.4039 which suggests a positive but moderate relationship between the dependent FCENPH and the predictor variable of FCEGG, CiI, NToP and GCF while the adjusted R² of 0.2784 suggests that less than 28% of the total change in FCENPH (Final Consumption Expenditure of Non-Profit Households as distinct from all households) can be attributed to the Independent variables.

Among the individual regression slope coefficients which attempt to provide estimates of the unknown population parameters and describe the relationship between the predictor and response variable, only CiI

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(Changes in Investment) with a p-value of 0.008 and NToP (Net Taxes on Production) with a p-value of 0.007 are statistically significant at the 5% level of significance

The insignificance of FCEGG and GCF in the model are not far-fetched; they have no major impact in determining the consumption behaviour of not for profit households. To the government, this should be a serious concern and critically looked into as, if the trend is not reversed could render the realisation of target macro objectives ineffective.

Conclusion

The result indicates that FCEGG and GCF do not necessarily determine or influence non-profit households' final consumption pattern in Nigeria. There is therefore the need to strengthen fiscal measures targeted at non – profit households to make it more inclusive and also streamline government spending to be more effective on households the study suggests. In addition, there is also need for further study in the subject area particularly in developing Countries.

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