A Qualitative Study of Public Expenditure Management: Case of Misappropriation in the National Budget of Nigeria

Salihu Abdulwaheed Adelabu, PhD1, Garba Ibrahim Tanko2

1Department of Business Administration Faculty of Management and Social Sciences Ibrahim Badamasi Babangida University, Lapai, Nigeria

2Department of Public Administration Faculty of Management Sciences Usmanu Dan Fodio University, Sokoto, Nigeria.

ABSTRACT: Public Expenditure Management (PEM) is a tool designed by the World Bank to ensure effectiveness and efficiency of public resources by various governments of the globe. PEM cannot be used in isolation of financial management; rather it is used to formulate an efficient budget of any given country. The life cycle of the Nigerian budget has ever been in question, necessitating issues regarding when the national budget starts on one hand, and when it ends on the other. Under normal circumstance, the life cycle of the budget supposes to be January to December of every year, but the reverse is the case in Nigeria. The question now is that, why is Nigerian budget not complying with the ethics and integrity of the budget and budgetary system as stated in the life cycle of the budget? This study intends to probe why is the national budget deficient with respect to the elements of PEM in Nigeria? The study is premised on qualitative analysis where content analysis is used to identify issues that are causing hindrances to the effective and efficient workability of the national budget. It is found in the study that there is a need for proactive steps in embracing the use of the PEM approach in designing and implementing budget in Nigeria. These proactive steps may include strict adherence to the fiscal responsibility act, aggregate fiscal discipline, follow the laid down rules and regulations, etc. The adoption of PEM will definitely translate to effective and efficient management of public resources.

Key-words: Aggregate Fiscal Discipline, Allocative Efficiency, Budget Estimates, Public Expenditure Management, Technical Efficiency.

I. Introduction

Public Expenditure Management (PEM) is a mechanism designed by the World Bank to ensure effectiveness of the public resources by various governments. PEM therefore is defined as a new public financial management that encompasses policy formulation, planning and allocation of resources, budgeting and implementation. It is a practice of allocating and managing the public resources in the quest of fiscal discipline, strategic prioritization and value for money (Schick, 1998; The World Bank (WB), 1998). PEM anchors on the augmentation and linking the national priorities and budgeting in planning the sustainability of financial management on one hand, and the creation of the legal plan and institutional agreements for public spending on the other (UNO, 2009). Put differently, Hayashi (2003) sees PEM as an approach to governance that shows a complete way of viewing country’s public expenditure management in such a way that will ensure effective delivery of government goals. According to Schick (1998), PEM becomes a popular financial instrument used by various governments throughout the world. It is on record that the key ideas of PEM emancipated from the idea of New Public Management (NPM). In tandem with the thinking of Schick (1998), Fozzard and Lindelow (2000) posits that governments across the globe realized the importance of PEM as a tool for attaining their objectives.

According to the World Bank (1998) and Schick (1998), the instrumentality of PEM emphasized three broad expenditure management elements, namely, Aggregate Fiscal Discipline (AFD), Allocative Efficiency (AE) and Operational Efficiency (OE). The fundamental principles of PEM include the aggregate long-term fiscal sustainability and control, strategic allocation of resources, operational efficiency, managerial flexibility, accountability and fiscal transparency. The instrument is used to ensure fiscal discipline, increase the resource allocation and ensure effective operational efficiency of public expenditure management of various governments (The World Bank (WB), 2000). With the use of PEM, there is bound to be effective and efficient policy formulation, planning, accurate allocation of resources, workable budgeting system and timely implementation of the budget by governments.
Going from the foregoing, PEM is seen as a tool of state policy. State policy on the other hand asks questions such as ‘what’, ‘where’, ‘when’ are the things to be taken care of in the national budget, while PEM ask ‘how’ are these things to be carried out. According to Allen et al. (2004), PEM is made up of the factors of the country’s budget procedure both “upstream” (preparation and programming) and “downstream” (execution, accounting, control, reporting, monitoring and evaluation), including the legal and organizational structure and arrangements for: (i) forecasting revenues and expenditures, (ii) formulating medium-term expenditure frameworks, (iii) linking the budget to policy-making, (iv) preparing the budget, (v) managing cash and monitoring expenditures, (vi) performing internal control and audits, (vii) accounting and reporting, (viii) procuring public goods and services and managing assets, (ix) evaluating performance, (x) conducting external audits, and (xi) ensuring oversight by the legislature and other bodies.

The bone of contention in this study, therefore, is to investigate the workability of PEM with specific reference to the misappropriation of priorities in the national budget of Nigeria.

1.1 Research Objectives

The focal point of this paper is to examine the usage of the PEM mechanism in the preparation and implementation of the national budget in Nigeria. The major objectives of PEM as it is designed by the World Bank are to achieve the aggregate fiscal discipline, efficient allocation of resources and technical efficiency to reflect government policy priorities and deliver public services efficiently and effectively. This study, therefore wants to gauge the extent to which the instrumentality of PEM is achieving the three elements of PEM in the national budget of Nigeria. Thus, the study wants to gauge:

(i) The aggregate fiscal discipline;
(ii) The effective allocation of resources; and
(iii) The operational efficiency.

II. Literature Review

The genesis of PEM approach started with various reforms of the public sector in developed countries. From the idea of creating an effective and efficient public sector’s management in order to attain the set goals, the idea of PEM evolved. PEM emphasized three major elements, namely, aggregate fiscal discipline, allocation of resources based on strategic priorities (allocative efficiency), and effective and efficient use of resources (operational efficiency) (Compos and Pradhan, 1966; Schick, 1998; The World Bank (WB), 1998; Hayashi, 2003). Scholars such as Schick (1998), The World Bank (WB) (1998), Campos and Pradhan (1996) found that PEM mechanism succeeded in solving the problems of managing public expenditure in most developed, emerging and developing countries such as New Zealand, Australia, Ghana, etc.

According to the Department for International Development (DFID, 2001), the implementation of PEM approaches considered many factors such as economic, social and political climate of a particular country. However, international experts stress six general characteristics of PEM systems, which emerge to be universally required in creating a sound budgetary outcome with respect to the three objectives of PEM namely: constructive political engagement, policy clarity, consistency and affordability, predictability, transparency, comprehensiveness and integration, and accountability.

PEM is seen as a paradigm shift from conventional budget preparation and implementation of any country. According to Schick (1998), PEM differs in two important ways from traditional budgeting. Firstly, it complements the traditional procedural rules with substantive policy standards. Secondly, PEM covers a wide range of institutional and management arrangements, not just those traditionally ties up with budgeting. According to Overseas Development Institute (ODI) (2004), the paradigm is best illustrated below as:

<table>
<thead>
<tr>
<th><strong>Old Paradigm</strong></th>
<th><strong>New Paradigm</strong></th>
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<tr>
<td>‘Conventional Budgeting’</td>
<td>‘Public Expenditure Management’</td>
</tr>
<tr>
<td><strong>Budget process</strong></td>
<td><strong>Budget policies and institutions</strong></td>
</tr>
<tr>
<td><strong>Rules</strong></td>
<td><strong>Incentives</strong></td>
</tr>
<tr>
<td><strong>Inputs</strong></td>
<td><strong>Outputs / outcomes</strong></td>
</tr>
<tr>
<td><strong>Compliance</strong></td>
<td><strong>Performance</strong></td>
</tr>
<tr>
<td><strong>Centralized control</strong></td>
<td><strong>Decentralized responsibility</strong></td>
</tr>
<tr>
<td><strong>Bureaucratic opaqueness</strong></td>
<td><strong>Transparency and accountability</strong></td>
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</table>

Source: ODI, 2004
According to Table 1 above, there is a paradigm shift from old conventional methods of preparing, designing, and implementing budget to a new paradigm known as PEM. The shift is about moving from budget process to budget policies and institutions; rules to incentives; inputs to outputs/outcomes; compliance to performance; centralized control to decentralized responsibility; and finally from bureaucratic opacity to transparency and accountability.

2.1 Aggregate Fiscal Disciplines as an Element of PEM

According to the World Bank (1998), fiscal discipline refers to keeping public spending to a restricted, bound on one hand, maintaining debts at a level that is permitted to the economy. It is often used by governments to strike balance between the expenditure and revenue sides of the national budget. The distinction between the expenditure and revenue is government deficits, which must be paid in the future. This element of PEM is often put to practice by predicting government revenue and adjusting the fiscal framework by the central bank, finance ministry, and planning agency.

Aggregate fiscal discipline is particularly about consistent macroeconomic programs such as the Medium Term Expenditure Framework (MTEF). This framework is an essential part of the budget process mainly comprised of i) a top-down resource envelope undeviating with the macroeconomic constancy and comprehensive policy priorities, ii) a bottom-up is the evaluation of the current and medium term cost of existing national programs and projects, iii) a repetitive process of decision-making, affiliate costs, and new policy ideas with available resources over a rolling 3–5 years time (ODI, 2005). In the same vein, Schick (1998) corroborates the position of the Overseas Development Institute (ODI) by stating that the aggregate fiscal discipline demands the overhauling of budgetary systems in order to establish a spending limitation. These overhauling may include: i) targets must be realistic and achievable; ii) a medium-term structure for applying and mandating the budget aggregates, iii) aggregate standards should be supported by sub targets, iv) the restriction should include all the key aggregates, not just total spending or the debt, v) aggregate constraints should include mandatory spending, vi) aggregate goals should include the strengthening mechanism including in-year tracking and out-year target, and vii) firm restrictions to conform with the fiscal policy makers plans.

2.2 Efficient Allocation of Resources as an Element of PEM

According to the World Bank (1998), efficient allocation of resources implies apportioning and disbursing resources in the area that will propel the greatest contribution to the governments’ goals. Thus, resources should be disbursed based on priorities and effectiveness of projects in the society. Efficient allocation of resources is achievable only when emphasis is on strategic priority in different policies, getting the people’s thought in acquiring limited resources for their maximum benefits.

In order to achieve an efficient allocation of resources in budgeting, Schick (1998) postulated that an institution with the following criteria must be constructed. The criteria are i) incentives for strategic priority ii) development and availability of the necessary details for efficient resource allocation and iii) transparency in allocation methods and results. On the issue of the public expenditure system, governments are prompted to organize a strategic objectives and priorities for ministries, departments, and agencies (MDAs) submit their bid for budget resources. This is the current global practice.

2.3 Operational Efficiency as an Element of PEM

According to the World Bank (1998), operational efficiency is defined as the adeptness and productive utilization of resources in carrying out the strategic priorities of the government. Enhancement of operational efficiency is emphasized by the Japan Bank for International Cooperation (JBIC) (2001) when it was reported that the civil service organization should be reorganized. The reorganization eventually became the governing principles of the public sector, especially with reference to PEM. Based on the reorganization, operational efficiency implies i) independent management of the implementing department and agencies and ii) merit-based evaluation.

The independent management of resources by MDAs is an issue that must be addressed in the budget process. These issues include habitual expenditure, and even the development of expenditures that is appropriate to programs based on the output of the budget. In the budget system, the independent management practice shifts from the line-item budgeting system to activity-based budgeting system. The rationale behind the shift is that the activity-based budgeting system is more efficient than the line-item. Activity-based budgeting system is premised on achievement of results as efficiently as possible, focusing on managing both recurrent and development expenditures.

According to Schick (1998), there are elements of PEM, and each element has its peculiar features. These elements and their features are best illustrated below as:

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Table 2: Basic Elements of Public Expenditure Management

<table>
<thead>
<tr>
<th>Elements</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Fiscal Disc</td>
<td>Budget totals should be the outcome of explicit, enforced agreements; they should not merely comply with spending demands. These totals should be set before individual disbursing decisions are made, and should be possible over the medium-term and beyond.</td>
</tr>
<tr>
<td>Allocative Efficiency</td>
<td>Expenditures should be based on government priorities and effectiveness of public programs. The budget system should spur relocation from lesser to higher priorities and from less to more effective programs.</td>
</tr>
<tr>
<td>Operational Efficiency</td>
<td>Agencies should offer goods and services at a cost that attained ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.</td>
</tr>
</tbody>
</table>


III. Research Methodology

This study is premised on qualitative analysis. The study gathered the available secondary data from the Central Bank of Nigeria, Federal Ministry of Finance, and Senate Committee on Appropriation of the National Assembly to analyze the workability of PEM on the Nigerian national budget. The data is on the national budget for 2014 fiscal year. The study used content analysis to analyze the data in order to examine the workability and/or usability of PEM instrument in the formulation, implementation and execution of the national budget in Nigeria on the priorities of the society.

IV. Analysis

It is an open fact that there is fiscal indiscipline in the public financial system in Nigeria. Sanusi (2014) posited that $40.8 million was not remitted into the consolidated federation account by the Nigerian National Petroleum Corporation (NNPC). This was countered by both the Minister of the Federal Ministry of Finance and Group Managing Director of NNPC respectively. But, it was later confirmed by the Ministry of Finance that the said unremitted fund is $10.8 million, and not $40.8 million (Okonjo-Iweala, 2014).

To further show that there is fiscal indiscipline in the public financing system in Nigeria; Ogunmade (2014) reported that the senate is set to probe the CBN, NNPC and others for breach of fiscal responsibility act. According to him:

The senate is set to order its Joint Committee on Finance, Judiciary, Human Rights and Legal Matters to commence a probe into perceived loss of revenue into the Consolidated Revenue Fund of the Federation through the breach of the Fiscal Responsibility Act (FRA) as well as alleged breach of public procurement laws and regulations by the Central Bank of Nigeria (CBN), Nigerian National Petroleum Corporation (NNPC) and other government agencies.

It is stipulated in Section 80 (1) of the 1999 Constitution of the Federal Republic of Nigeria that all revenues raised or received by the federation shall be paid into the Consolidated Revenue Fund of the Federation. Contrary to remitting whatever that accrues to the Federation Account, it is clearly seen that NNPC that generates the largest share of the government’s revenue is not remitted the accrual into the government’s coffer. This shows an act of fiscal indiscipline.

On the same clime, Enang (2014) moved a motion at the hollow chamber of the National Assembly to determine:

Why the balance of agencies’ balance of their operating surplus is not paid into the Consolidated Revenue Fund on one hand, and why those agencies failed to establish a general reserve fund for the purpose of allocating one-fifth of their operating surplus at the end of the year into the Consolidated Revenue Fund as stipulated in Section 22 (1) and Section 23 (1) of the Fiscal Responsibility Act.

Few examples of fiscal indiscipline in the management of the public financial system include unlimited of actual revenue balance into the Federation Account, spending beyond the exceeded limit by agencies as it is stipulated in the 1999 Constitution of the Federal Republic of Nigeria, non-submission of agency's procurement proposal to the Bureau of Public Procurement (BPP), arbitrary award of contracts without following due process by agencies, etc.
All these are clear proof that Nigerian public resources are not well managed. There is aggregate fiscal indiscipline because the national government is not following the instrumentality of PEM as proposed by the World Bank.

On the issue of efficient allocation of resources as an element of PEM, Saraki (2014) posited that the 2014 Appropriation Bill failed to give priority to critical sectors in the national economy, and that the Bill is a blueprint for fiscal recklessness and leakages in government expenditure. He stated further that the budget process in Nigeria has become a mere procedural ritual designed to fulfill a legal/constitutional condition rather than a scrutiny on efficient allocation of resources and use for the welfare of the people.

Considering the 2014 Appropriation Bill, there is enough reason to show that resources are not allocated efficiently. Evidence below shows that budgetary votes are not allocated based on priority. Rather, votes are allocated based on sentiments. Thus:

Table 3: 2014 Budget Estimates for Operating and Development Expenditures for Security, Health and Education

<table>
<thead>
<tr>
<th>Votes in the National Budget</th>
<th>Operating Expenditure</th>
<th>Development Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defense and Security</td>
<td>#113 billion</td>
<td>#39 billion</td>
</tr>
<tr>
<td>Ministry of Interior</td>
<td>#144.7 billion</td>
<td>#6.29 billion</td>
</tr>
<tr>
<td>Police formation and Commands</td>
<td>#285.5 billion</td>
<td>#6.79 billion</td>
</tr>
<tr>
<td>Education (including UBEC)</td>
<td>#443.9 billion</td>
<td>#49.5 billion</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>#216.4 billion</td>
<td>#46.3 billion</td>
</tr>
</tbody>
</table>

Source: National Budget Estimates for 2014 Fiscal Year

It is observed that the MDAs under consideration have higher budgetary votes on the recurrent expenditure than the development expenditure. This implies that allocation of resources is not efficiently budgeted to cater for the interest of the people.

Last but not the least, the issue of technical efficiency is one of the major elements in the instrumentality of PEM. Saraki (2014) posited that priorities are misplaced in the national budget of Nigeria. Clear evidence is the misplacement of allocation of #54 billion to Niger Delta Militants under the Presidential Amnesty Program, while the Military and Police got #46 billion in capital allocation. In the 2014 Appropriation Bill, there is allocation of #705 million to construct the VIP Wing at the State House Clinic, while a sum of #328 million is earmarked for Obafemi Awolowo University Teaching Hospital, #310 million is earmarked for University of Ilorin Teaching Hospital, #89 million is earmarked for NOMA Children Hospital and zero budget is earmarked for the Institute of Child Health, University of Benin Teaching Hospital.”It is clear from the foregoing that the formulators of the budget, the VIP Wing at the State House clinic is superior in terms of cost, priority and efficient allocation of resources to two teaching hospitals, a National Children’s Hospital and a Pediatric Research Institute combined”, Saraki notes.

Saraki further stated that:

A cursory appraisal of the Ministry of Foreign Affairs indicated plans to spend money for the maintenance of plants and generators in several of our foreign missions, including the one in London, even as the headquarters would spend #201.7 million for fumigation and cleaning services during the year.

Going from the foregoing, evidence abounds that there is clear mismanagement of priorities in the national budget of Nigeria.

V. Implications Of The Study

It is clearly seen that there is a lot of misappropriation in the execution of the budget. The executive arm of Nigerian government seems to spending public funds with impunity. Evidences abound from financial leakages of several MDAs in Nigeria. This is possible because PEM is not strictly followed in the formulation, implementation and execution of the national budget in Nigeria. It is on record that the Nigerian national budget has been performing below 50%, and that is what informed Saraki, who says that:

Let’s be frank and admit that our budget process has been inadequate. And a lot of this failure of the budgets in the past cannot be completely ascribed to the executive alone. We (the National Assembly) too have a low pass mark on the budget ourselves, as we have not guarded our budget process effectively and have shielded away from vesting it with the right integrity assurance value it deserves.
On the same clime, there is due process in designing the national budget, but the executive arm of the government has not been following this due process. By not following the due process, the legislative arm has not been finding it easy to abide by whatever that is presented by the executive arm of the government. So, the issue of formulation and execution of the national budget is an issue that is yet to be resolved. Therefore, PEM should be seen as a working instrument that can be used for formulation and execution of the budget in any financial system.

In a nutshell, the study is emphasizing that the three major elements of PEM, namely fiscal discipline, effective allocation of resources and technical/operational efficiency should be incorporated into the formulation and implementation of the national budget in Nigeria.

VI. Conclusions

There is need for proactive steps on modus operandi of designing, formulating and implementing budget in Nigeria. There is what is known as budget circle. Thus, the time frame of annual budget, indicating when budget proposal is to be prepared and sent to the Federal Ministry of finance, the time frame for budget defense by MDAs, laying the budget estimates before the National Assembly, passing of the budget estimates by the National Assembly and eventual assent of the budget of the President of the Federal Republic of Nigeria. These procedural issues are well stated in the PEM framework.

The corporate agencies in charge of designing and formulating the national budget need to make use of the PEM framework to prepare the budget, and formulate the budget with respect to the life cycle of every annual budget. It is when this is done that Nigeria as a country can have a working national budget.

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