Challenges Ahead for Institutional Implementation of Performance-Based Budgeting in the Nigerian Public Sector

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Abstract
This paper examines the challenges of implementation of performance-based budgeting as part of the public sector reforms in Nigeria and the outcomes of such efforts. It reviews the previous efforts at improving public service delivery via public sector reforms and the reasons for the failures recorded against such efforts. In particular, the Fiscal Responsibility Act 2007, being a major framework for carrying out the public sector reforms in Nigeria introduced in 2004, is examined in order to determine in what ways, if any, the provisions therein would require a reform in public sector budgeting and accounting systems to enhance transparency, accountability and efficiency in public service delivery and economic development in Nigeria. To this end, it undertakes a comparative review of the public sector reforms in New Zealand and Australia with a view to establishing the reform drivers and critical factors that made their reform efforts successful. It establishes that although the reasons for public sector reforms in Nigeria and New Zealand and Australia are the same, one of the critical success drivers in the latter countries is conspicuously missing in the former. It concludes that given the level of performance of the reform effort, its success may depend on the inclusion of the missing reform driver, that is, reform of the public sector financial reporting system by adopting an accounting system that is suitable for measuring performance.
Keywords: Public Sector Reforms, Performance Budgeting, Responsibility Accounting

1. Introduction

The second tenure of the administration of former President Olusegun Obasanjo witnessed the beginning of a comprehensive reform programme meant to strengthen economic development and improve the welfare of Nigerian citizens. The economic management reform, which is an integrated package of various economic reforms, was started in 2004. The reform programme was based on the National Economic Empowerment and Development Strategy (NEEDS). NEEDS is a 'home-grown' economic development strategy which focused on four main areas: improving the macro-economic environment, pursuing structural reforms, strengthening public expenditure management, and implementing institutional and governance reforms(Okonjo-Iweala and Osafo-Kwaako, 2007). The implementation of the comprehensive economic reform programme is in four main areas: Macroeconomic reform; structural reforms; government and institutional reforms; and public sector reforms.
The Fiscal Responsibility Bill was passed into law on July 30, 2007 by President Umaru Musa Yar'Adua and thus became an Act. It was published as Government Notice No. 80 in the number 126, volume 94 of the Federal Republic of Nigeria Official Gazette as Act No. 31. The Act is to provide framework for the implementation of public sector reforms started by the Obasanjo administration. The Act, which introduced the Medium Term Expenditure Framework (MTEF) and Medium Term Sector Strategies (MTSS) budgeting approach, is also expected to strengthen Nigeria's economic growth.

2. Literature Review

2.1. Background

Weaknesses in budget implementation and monitoring have always resulted in low quality of government expenditures and many incomplete projects in Nigeria. The federal government of Nigeria under former President Olusegun Obasanjo embarked on far-reaching economic reforms designed to deliver sustainable economic growth, wealth creation, and improve the quality of life of the Nigerian citizen. The economic management reform, which is an integrated package of various economic reforms, was started in 2004.

Various Nigerian governments had in the past, initiated economic policies and reforms that were supposed to address the economic problems confronting Nigeria; but most, if not all, failed. Some of such reforms include the underlisted:

1. The Economic Stabilization Act of 1982;
2. Austerity Programme of 1984;
3. Emergency Measures of 1985; and
4. Structural Adjustment Programme of 1986.

In a bid to find solution to the poor economic management situation and other developmental challenges, the Obasanjo administration embarked on economic reforms. In pursuit of this, a number of sectoral reforms were packaged for implementation. The Office of the Honourable Minister, Economic Matters (2000) records the following as some of the objectives of the various economic reforms, especially those of the Obasanjo regime:

i. Curtailing excessive and extra-budgetary spending by Government;
ii. Adopting measures to achieve fiscal prudence, transparency, minimal deficits, and efficient resource use;
iii. Establishing prudence and stability in macro-economic management.

The same source, commenting on the performances of the above economic reforms, asserts that "their implementation suffered many weaknesses and consequently had negligible effects on the poverty situation". The consequences of these developments on economic and social activities, the source continues, "were severe…..and it was no surprise that the poverty situation worsened, with the number of Nigerians in the poverty range rising from 39.2 million in 1992 to 67.1 million in 1996".

Part of the reason for this failure includes non-integration of a corresponding accounting system with the fiscal policies. This is because it may be difficult for a fiscal policy to yield intended objective without a commensurate accounting system to ensure efficiency, transparency, probity and accountability. Therefore, strengthening the budget preparation and execution process was urgently needed in order to improve the efficiency of government spending and improve service delivery to the Nigerian public (Okonjo-Iweala and Osafo-Kwaako, 2007; Soludo, 2007).

2.2. Budgeting Defined

A budget can be defined as a financial and / or quantitative statement prepared and approved prior to a defined period of time for the purpose of attaining a given objective (ICAN Study Pack, 2006). This definition implies that a budget is a key component of planning. Indeed, budgets are financial plans for the future through which objectives as well as the means by which to achieve them are identified (Hansen and Mowen, 1997). They are used to exercise control, evaluate performance, communicate, and encourage coordination (Simonsen and Armitage, 2006; Foltin, 1999).

The budget in the public sector is seen primarily as a document that sets limits on various government expenditures. But Simonsen and Armitage (2006), Foltin (1999), and Horngren and Sundem (1990) are of the opinion that budget in an effectively managed entity must be much more than a spending authorization. Budgeting, according to Horngren and Sundem (1990), is primarily attention-directing as it helps resource managers to focus on operating problems early enough for effective planning or action.

2.3. Performance Budgeting in Perspective

Performance budgeting is a budgeting technique used for presenting public expenditures in the form of functions or projects to be undertaken, highlighting the cost involvements. The anticipated costs are compared with expected incomes or outputs (ICAN, 2006).

A major feature of the PPBS is its focus and emphasis on input-output/outcome dimension. The focus of this technique is on results or outputs achieved rather than how much has been expended (ICAN, 2006; Horngren, 2004).

The essential features of a performance budgeting system are (ICAN, 2006; Horngren, 2004; Hansen and Mowen, 1997):

i. Classification of budgets in terms of functions and activities
ii. Measurement of work done or output provided by each activity
iii. Expressing the budget in a manner that facilitates direct comparison between cost of project and the anticipated income or benefit
iv. Monitoring of actual cost and performance against the budgeted results or expectations.

2.4. Comparative Review: New Zealand and Australia

According to Ouda (2004), public sector reforms are carried out to address economic crises. The New Zealand embarked on reforms to tackle the economic crises it faced (Wynne, 2003). Richardson (IFAC, 1997) opines that the imperative for change in New Zealand was three fold:

i. Sick economy—one of the worst performance in the Organization for Economic Co-operation and Development (OECD),
ii. Sick public institutions—lack of efficiency and effectiveness in government agencies,
iii. Sick social policy—neither fair nor affordable.

He also identified Financial and Performance deficits as other major imperatives for New Zealand's public sector accounting reforms. It was in continuous deficit for two decades (70s and 80s) pushing net public expenditure levels up from 5% of Gross Domestic Product (GDP) to over 50% of GDP. Also, while public expenditure levels climbed from 30% of GDP to over 42% of GDP over those two decades, the standard and quality of performance in its public institutions and agencies dropped (IFAC, 1997).

Australia's poor economic performance of the 1970s led to a reassessment of the role of the Australian public sector and its management (Ouda, 2004). The Australian public sector was suffering from the lack of a system of performance measurement, the absence of incentives to encourage greater efficiency and the lack of competition as a pressure for improved performance (Mascarenhas, 1990). There was clamour for reform that should focus on improving efficiency, effectiveness, responsiveness and accountability. This led to the launch of The Financial Management Improvement Program (FMIP) in 1984. FMIP was concerned as much with effectiveness as with efficiency. In fact, the major concern was to improve the links between programs outcomes and the resources required for achieving them (2004).

The conditions that necessitated public sector accounting and budgeting systems reforms in New Zealand and Australia are no different from what obtains in Nigeria.

3. Methodology

3.1. Sources of Data

The data used in this study are sources from Central Bank of Nigeria Annual Reports and Statement of Accounts (covering financial years 1990-2009); the Nigerian Statistical Fact Sheets on Economic and Social Development (2009); Central Bank of Nigeria Statistical Bulletin; National Bureau of Statistics Year Books, National Accounts, among others.

3.2. Method of Analysis

This study employs the descriptive and ex-post facto research designs. The descriptive design is employed to determine the extent of the association between the variables and to draw inferences. The ex-post facto research design is also adopted in addition to the above in order to make meaningful comparison between the pre and post FRA 2007 periods. This is especially necessary as the study seeks to determine whether or not there are changes in economic indices in both periods as an indication to the effectiveness of the Act. Specifically, the primary and secondary data were subjected to statistical analyses using percentages, tables, and graphs.

4. Statistical Analyses

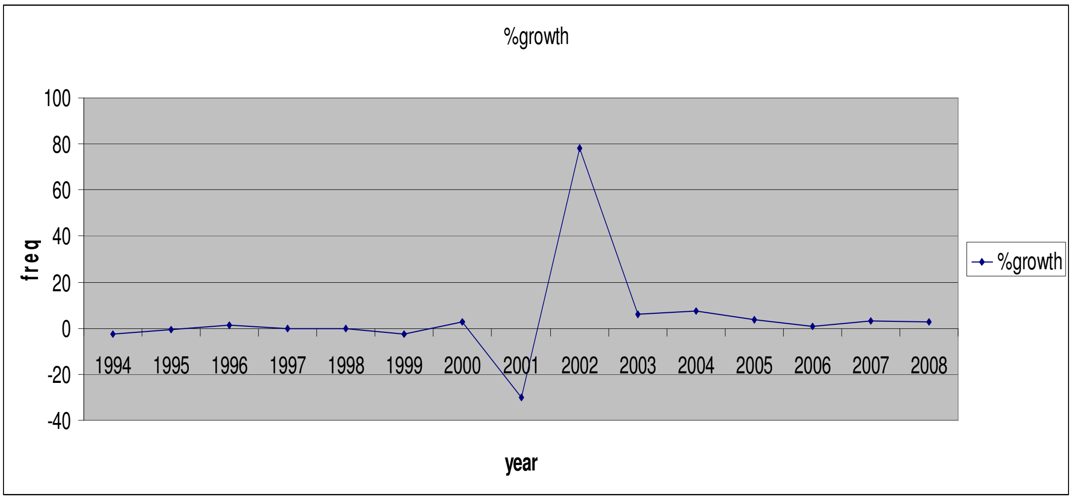
Statistics show that when the economic indicators in the Nigerian Public sector for the past ten (10) years up to the year 2003 (before the commencement of the present Public Sector Reform that necessitated the Fiscal Responsibility Act 2007) are compared with those of subsequent years up to 2008, there does not seem to be much difference nor improvement. For example, the percentage increase of per capita income between 1994 and 2003 averages 5.28% against those of annual expenditure which averages 23% for the same period (figures are results of calculations based on figures in table1).

Table 1: per capita GDP growth from 1994 to 2008

Year	GDP(=N=million)	Population	Per capita GDP(=N=)	%growth
1994	275450.53	96,763,496	2,847	(2.53)
1995	281407.4	99,501,903	2,828	(0.67)
1996	293745.36	102,317,807	2,871	1.52
1997	302022.54	105,213,401	2,871	0.00
1998	310890.6	108,190,940	2,874	0.10
1999	312183.47	111,252,744	2,806	(2.37)
2000	329178.71	114,401,196	2,877	2.53
2001	356994.26	117,638,750	2,010	(30.14)
2002	433203.5	120,967,927	3,581	78.16
2003	477532.99	125,620,213	3,801	6.14
2004	527576.03	129,175,262	4,084	7.45
2005	561931.4	132,830,925	4,230	3.57
2006	595821.61	140,003,542	4,256	0.61
2007	634251.1	144,483,655	4,390	3.15
2008	672202.55	149,107,132	4,508	2.69

Source: The population figures for the years 1994 to 2005 have been generated by the researcher using 1991 as the base year and the actual 1991 census figure of 88,992,220 and population growth rate of 2.83%. The 2006 population figure is the actual census figure sourced from National Population Commission, National Bureau of Statistics and the National Manpower Board. The estimated population figures for years 2007 and 2008 have also been generated by the researcher using the 2006 actual figure.

Figure 1: Graphic illustration of the growth rate of per capita GDP in Nigeria for selected years



Source: Researcher

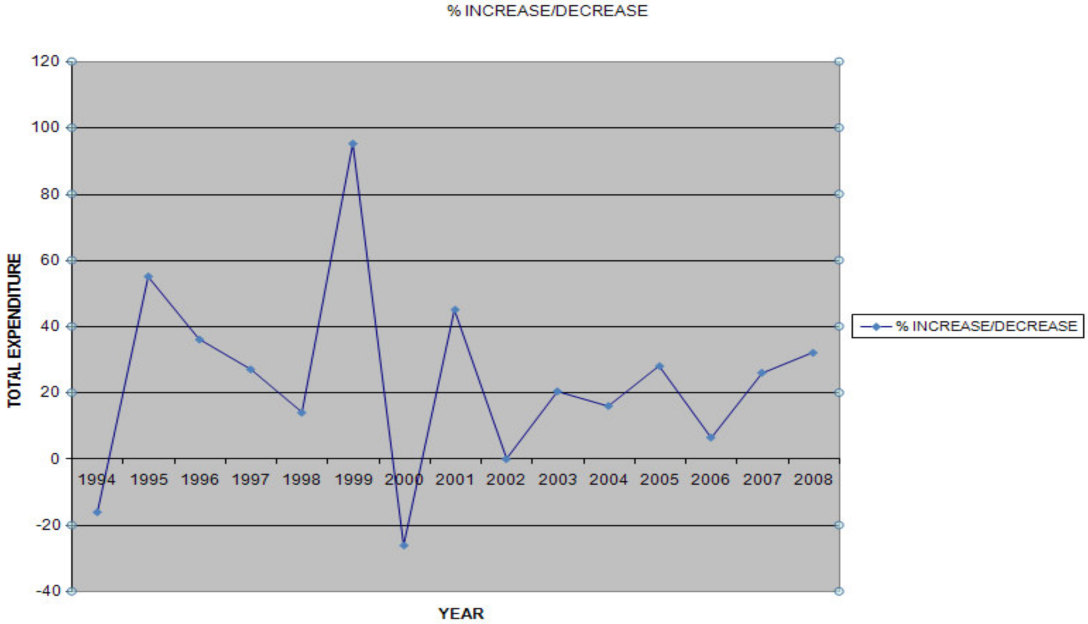
The diagram above illustrates the growth rate of per capita GDP in Nigeria. The curve is almost a straight line except in years 2001, which recorded an acute negative slope, and 2002 which recorded an acute positive sloping. Following is a tabulation (table 2) of percentage growth rates of both federal expenditures and per capita GDP for selected years and their comparison as illustrated in figure 2.

Table 2: Percentage increase (decrease) in government expenditure for selected years.

Year	Total Expenditure(=N=million)	%increase(decrease)
1994	160,893.2	(16)
1995	248,768.6	55
1996	337,217.6	36
1997	428,215.2	27
1998	487,113.4	14
1999	947,690.00	95
2000	701,059.40	(26)
2001	1,018,025.60	45
2002	1,018,115.80	0.01
2003	1,225,965.90	20.4
2004	1,426,200.00	16
2005	1,820,100.00	28
2006	1,938,002.50	6.5
2007	2,450,896.70	26
2008	3,240,820.00	32

Source: The figures for total federal government expenditures for the selected years have been extracted from the Statistical Bulletin published by the Central Bank of Nigeria. The percentages have been generated by the researcher based on the expenditure figures for the selected years.

Figure 2: Graphic illustration of annual percentage increase/decrease in federal expenditures from 1994 to 2008.



Source: Researcher

The diagram above is a reflection of the spending pattern of the federal government. It is consistent with the view that government spending in Nigeria is largely a function of how much is in the till, rather than any predetermined strategic plan. Figure 3 lends credence to this view.

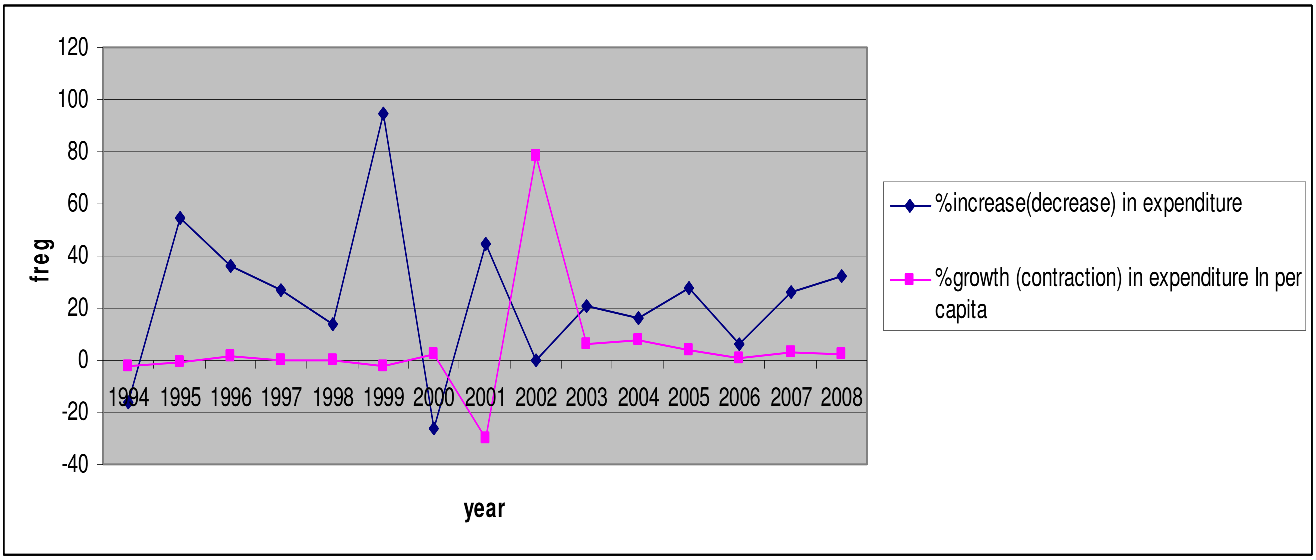
Table 3: Percentage increase (decrease) in expenditure and per capita for selected years

Year	% increase (decrease) in expenditure	%growth (contraction) in per capita
1994	(16)	(2.53)
1995	55	(0.67)
1996	36	1.52
1997	27	0.00
1998	14	0.10
1999	95	(2.37)
2000	(26)	2.53
2001	45	(30.14)
2002	0.01	78.16
2003	20.4	6.14
2004	16	7.45
2005	28	3.57
2006	6.5	0.61
2007	26	3.15
2008	32	2.69

Source: Researcher

The table above shows that the increased spending by the government has not brought about commensurate increase in the welfare of the people as represented by the percentage increases in the per capita GDP. The figure below is a graphic illustration of table 3. As the graph shows, the per capita growth rate consistently falls below the rate of increase in expenditure except in the year 2002.

Figure 3: Graphical comparison of percentage growth rates of government expenditures and per capita GPD



Source: Researcher

The figure above shows that there is no significant relationship between expenditure levels and outputs and outcomes in the Nigerian economy; for whereas one, the expenditure produces a non-linear scatter diagram, the other, the per capita GDP, is almost a straight line. However, the 'curve' of the percentage increase in expenditure is consistently above that of per capita GDP at all points. It must also be noted that there is a downward sloping of the per capita GDP curve from 2004 to 2007, contrary to the objectives of the public sector reforms.

The economy has not recorded much improvement thereafter. The average percentage increases in per capita and federal government expenditure from 2004 to 2008 are 3.49% and 21.7% respectively. Indeed, whereas the annual expenditure increased by 26% in 2007 and 32% in 2008 against their respective previous years, the per capita GDP for the same periods increased marginally by 3.15% and 2.69% respectively. These statistics which are results of calculations based on figures in tables 1 and 2 show that despite the marginal increase in welfare being far less than the marginal increase in expenditure, there is actually a decline in welfare in 2008 in spite of the existence of the Fiscal Responsibility Act 2007.

Inflation is also on the rise which is an indication that not enough goods are available to meet demand. Also, there has not been much improvement in the quality and availability of healthcare delivery and services to the ordinary citizen. Life expectancy of 54 years has indeed declined to 47 years according to World Bank; and infant mortality rate of 114 per 1,000 live births has not recorded any appreciable improvement over the period in question, as it is still among the highest globally (Central Bank of Nigeria, 2008). These are evidences that the increases in budgetary allocations have not increased the welfare of the citizens nor have they translated to any appreciable improvement in the economic indices. And so it becomes obvious that more needs to be done so that the objectives of the economic and public sector reforms can be achieved.

5. Challenges Of Implementing Performance-Based Budgeting

These are the same as for most other countries. Public service is known for the following characteristics among others:

5.1. Tradition of Administration Orientation

The tradition of administration in the public service means working by laid-down rules even when such rules have become obsolete and are no longer relevant. These rules are usually handed down from the top without inputs from the lower cadre of the workforce. Expectedly, there is no motivation among the workforce to work towards ensuring achievement of any set goal, if any, as they are not part of the goal-setting and, therefore, cannot relate with such a goal. Moreover, there is no incentive to be creative as the only reward to be expected from the system is to be able to retire with pension at the appropriate retirement age. The only way to ensure this is to stick to the rules.

5.2. Principle of anonymity

The public sector assigns authority but no responsibility. This feature makes it impossible to hold any one person responsible for the non-achievement of set goals.

5.3. Cash-based accounting system

The public sector has traditionally been known to be cash-based (Wynne, 2003; McClarin, 2000). The cash system is well suited to the annual appropriations and revenue collection systems found in public sector administration whose main focus is parliamentary accountability (Boothe, 2008). The cash-based government accounts are prepared mainly to report back to the Legislative Council on the actual outturns vis-à-vis the approved budget after the end of a financial year (Shum, 2003; Wynne, 2003).

Besides the above-mentioned characteristics, there are other factors which also pose serious challenges to the implementation of performance-based budgeting in the public service. These include:

i. the problem of resistance to change
ii. lack of skilled manpower
iii. lack of opportunities for entrepreneurship skills
iv. putting the cart before the horse syndrome

The last of the afore-mentioned factors has led to so many projects being abandoned because the frameworks for implementation are not in place.

6. Consideration for Accounting system Reform in the Nigerian Public Sector

Generally, cash accounting system in the public sector serves legislative purposes, that is, budget compliance; and even then only partially. This is so because it only serves to give authorization to receive or disburse funds as approved by legislature (Wynne, 2007). Whether or not these are used to achieve that for which they are meant is of little consequence.

Granted, cash accounting has been used in the public sector for quite a long time. This is because, according to some scholars who are skeptical about accounting reforms in the public sector like Ellwood and Wynne (2003) and McClarin (2000), it is easy and simple to understand and operate. But in a global environment that is growing more complex by the day, does it make sense to stick to a system that can no longer adequately perform the function for which it is meant? Now, if accrual accounting can be applied successfully in the private sector, why not in the public sector? Or are these authors suggesting that the operators and stakeholders in the public sector are less intelligent than those in the private sector? If it were so, then the public would not have been intelligent enough to know that the government is not doing enough and thence the outcry for accountability, probity, and transparency in the public sector.

In fact, the use of accrual accounting in the public sector will allow for the measurement of the total cost of providing services on an aggregated basis and also allow for more accurate cost measurement of specific programs and activities. The total costs include not only the cost of goods and services produced or purchased and paid for during the accounting period but also the cost of using long-lived assets (e.g. depreciation and cost of capital) and other non-cash costs. Arguing against what he terms ‘the backwardness of cash accounting’ and in favour of the suitability of accrual basis in the public sector, Ouda (2005) posits that Accrual accounting with its matching principle means that the actual cost will be recognized in the year in which it occurs. He further emphasizes that the matching principle means that both usefulness and the costs incurred in providing this usefulness have to be recognized in the same reporting period in order to prevent the current generations from benefiting on the account of the future generations or vice versa (Ouda, 2007).

Most performance measures can be classified into four categories: inputs, outputs, efficiency, and effectiveness. Input measures determine volume or amount of resources used to provide a service to citizens. Output measures gauge the amount of services provided to citizens. Efficiency measures determine the correlation between inputs and outputs. The first three measures are typically financial, including amount of expenditures, labour hours, and unit cost. Effectiveness measures, on the other hand, estimate the quality and productivity in providing services to citizens and often use non-financial data (Simonsen and Armitage, 2006; Parry, 2005). Accrual accounting provides the platform for such measurements as it readily provides the framework that strengthens the relationship between financial and non-financial information (FEE, 2005).

7. Conclusion

A critical look at the reasons for the public sector accounting and budgeting reforms in New Zealand and Australia shows that these are the same objectives that the Fiscal Responsibility Act (2007) seeks to achieve. The drivers of the reforms in New Zealand are given by Ouda (2004) as follows:

1. Separating commercial operations from other government production,
2. Strengthening lines of ministerial and executive accountability,
3. Designing budget and financial management systems to improve measurement of the public

sector performance.

According to Goldman and Brashares (1991), the last reform driver entails the following:

a. shifting from an input to an output based system;
b. changing from cash to accrual accounting;
c. and creating different forms of appropriations for different types of government activities.

This last reform driver is conspicuously missing among the drivers of the reform process in Nigeria and accounts for the non-achievement of the objectives of Public Sector Reform in general and Fiscal Responsibility Act (2007) in particular. Since the public sector in Nigeria uses cash-based accounting and budgeting systems, it means that the Nigerian public sector is not yet equipped with the enabling financial reporting system to implement the provisions of the FRA.

A look at the various Appropriation Acts from the year 2009 to date shows that they are still essentially cash-based although they attempt to assign expected outputs for some projects. However, the Budget Office has started the publication of quarterly budget implementation reports with effect from the year 2009. This is in fulfillment of the provision of part V, section 30 the FRA 2007. But much as this represents an improvement over previous practices, it still needs a lot of fine-tuning and further improvements in information content to facilitate performance measurement. However, the reporting system has not shown any change.

8. Policy Recommendation

The following critical success factors should be considered for implementation:

8.1. Adoption of Responsibility Accounting in the public sector of Nigeria.

The FRA clearly provides for the adoption of programme performance budgeting and requires the adoption of techniques capable of measuring the performance of the programmes of government. Also, matching results with inputs as provided for in the FRA employs techniques that are clearly beyond those that the cash-based system, currently being used in Nigeria, can accommodate, such as cost and management accounting.

Therefore, there is need for a reform of the public sector financial reporting system in Nigeria to suit the requirements of performance-based budgeting and the provisions of the FRA 2007 so as to achieve the objectives of the public sector reform. This will require the adoption of Responsibility Accounting which uses cost and management accounting tools to measure effectiveness and efficiency, as well as ensures accountability and transparency. In addition, Responsibility Accounting clearly identifies and allocates programmes and activities to specific cost or profit centres with responsibility for the achievement of centre objectives resting on the cost centre manager.

Responsibility accounting is an accounting system that requires an input-output model by means of which performance can be measured to ascertain the efficiency and effectiveness of resource use by managers. Cash-based financial reporting system cannot provide such framework as needed in responsibility accounting as it is not an input-output model. On the other hand, the accrual-based system is well equipped with such input-output model as well as cost and managerial accounting techniques that measure efficiency and effectiveness.

8.2. Reengineering Needed - Orientation and Reorientation of Public Sector Workforce.

There is need for re-orientation seminars for public servants as well as legislators and policy-makers on the correlation between the success of performance-based budgeting and the responsibility accounting. In Nigeria, the attraction and reason for the preference for public service jobs is the job security it offers. The security stems largely from the monotony of assignments which are usually not tasking as there is not much demand for creativity and all one has to do is ensure adherence to rules. In addition, pension is assured for those who are able to adhere to the civil service rules till their retirement from the public service. Another major reason is that the employees are reasonably sure of receiving their salaries irrespective of the productivity level of the workforce. Moreover, promotion comes generally after a number of years in a particular position and being successful at the usually academic promotion interviews; not the result of outstanding job performance. Clearly, therefore, there is no correlation between productivity and reward.

Part of the interview processes and recruitment and orientation programmes for newly-recruited employees should be tailored to shirk off the public administration mentality and ensure that they understand and embrace the paradigm shift which the Fiscal Responsibility Act seeks to achieve.

8.3. Need For Public Management Not Administration As Obtained Presently.

The civil service/public sector in Nigeria has to do away with the concept of anonymity and evolve to the level of assigning responsibilities to particular persons with names. In addition, target setting and appropriate reward system should be institutionalized.

Public sector reforms or New Public Management focus on performance in terms of efficiency and effectiveness, that is, the management reforms focus on output instead of input and the managers are expected to become completely responsible for the management of their departments. Being responsible for the management and outcome of the resource use provides incentive to managers to put in their best and brings out the entrepreneurial qualities in them, especially when there are rewards attached to outstanding performances.

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