



Assessment of Public Financial Management and Fiscal Outcomes in Nigeria: 1990 – 2019: An Empirical Investigation

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Abstract

Public Financial Management (PFM) is a critical instrument for the implementation of economic policy and its works by influencing the allocation and use of public resources through the budget; and overall fiscal policy. The primary concern of this study is to assess the general impact of public financial management on fiscal outcomes in Nigeria, 1990 - 2015. The methodology: adopted for this study are basically Granger and Causality test, Unit Root, Co-integration, Autocorrelation and multi-collinearity test and Ordinary Least Square. Our major findings show that there is strong and positive relationship between public financial management and fiscal outcomes in Nigeria going by the various tests applied. The findings indicate that institutional factors such as corruption and literacy rate affect the institutional pillars of PFM in Nigeria. Poor budget coordinating institutions, lack of respect for the rule of law, weak fundamentals of appropriation templates and contract management and poor accounting systems are the critical factors undermining the ability of these pillars to positively influence fiscal outcomes in Nigeria. Based on the empirical findings of the study, it is recommended among others, that public sector expenditure programmes should be reviewed and prioritized to enhance: efficiency and effectiveness of overall fiscal outcomes in Nigeria. The study also recommended improvement in some critical institutions such as fiscal responsibility commission, fiscal jurisdictions through respect for law and order as well as close the leakages for looting government funds through better legislation. That PFM should uphold the platform of policy formulation, budget formulation, budget structures, payment systems, government accounting financial reporting, auditing and legislative control.

Keywords: Corruption, Financial, Management, Fiscal, Outcome

1. Introduction

One of the major macroeconomic objectives of every nation is to achieve efficient allocation of resources as well as stabilization of the business cycles. In the last two decades, Nigeria has initiated and implemented series of economic reforms to assist in the better management of the economy. Parts of these reforms are aimed at improving the quality of the nation's Public Financial Management (PFM) systems. Public Financial Management (PFM) is a critical instrument for the implementation of economic policy and it works by influencing the allocation and use of public resources through the budget and overall fiscal policy (Prakash and Cabezon, 2008). A Well-functioning PFM system would



ensure that the funds released through revenue generation and appropriation processes as well as from debt forgiveness (cancelation) mechanism are productively used in a transparent and effective manner. A well-functioning PFM system also improves the use of aid as well as overall budget performance and thus contributes to macroeconomic stability and growth. In addition, it contributes towards improving overall governance through protection of public resources against the risk of expropriation and corruption.

There are key indicators of a well-functioning PFM. The idea is that if the public financial management system of a nation is well managed and coordinated, certain outcomes of fiscal policy are evident. The fiscal outcome/policy refers to the use of government revenue collections (mainly taxes) and expenditure to influence the economy. The fiscal policy can also be used to stabilize the economy over the course of the business cycle. These outcomes include (i) manageable level of public debts, (ii) positive primary and overall balance levels, and (iii) less allocation to the servicing or payment of debts. Available data from the Central Bank of Nigeria (2011) reveals that primary balance has been mostly surplus while the overall balance remains largely in deficit. This has continued to manifest in growing external debt and payments in the servicing of loans.

Evidence from the literature indicates that the relationship between public financial management system and the fiscal outcomes of the nation derives largely from various institutional factors, (Alesina & Peroti, 1996; Birdsall 2007, Prakash & Cabezon 2008; Okafor 2015). Thus, several institutions such as the World Bank, the International Monetary Fund (IMF) and the African Development Bank (AfDB) have pushed for institutional reforms through a number of initiatives to improve the public financial management systems particularly, for developing countries. The World Bank Structural Adjustment Programme (SAP), the Enhanced Structural Adjustment Facility (ESAF) as well as the IMF Policy Support Instrument (PSI) are some of these policy initiatives. Although most developing countries including Nigeria adopt and implement these initiatives, the impacts of these reforms on the public financial management systems are still contentious.

The optimality of the policy initiatives could depend largely on the need, policy outcome and the capacity and ability to sustain these programme initiatives. It has become imperative to provide robust investigation on the nature of these initiatives and their consequences on the Nigeria public financial management system. The budget does not only function as a mechanism for resource mobilization and allocation, it also serves as a tool for economic management (Olomola, 2009) and Government Integrated Financial Management Information System (GIFMIS), 2011). This is because the budget document sets the direction for the entire economy and determines who gets what and when, as well as provides funds to implement new initiatives/policies through legal, rational and acceptable means (Bengali, 2004). In fact, it will be very difficult if not impossible for the government in any modern economy to realize her vision in any fiscal year without the instrumentality of budgeting (Olomola, 2009). This is why, the development of a nation's budget is considered to be the government's single most important activity in any given



year (Government Finance Officers Association (GFOA), (1999); National Democratic Institute (NDI), (2003).

However, for a budget to function as an instrument of fiscal cum macroeconomic engineering, both the budget process and budget management must be sound, articulate and robust. By sound budgeting, we mean a well- planned and implemented public spending strategy that promotes technical efficiency, allocative efficiency and equity (Lucien, 2002). It is the budget process that is characterized by fiscal discipline and efficiency in both operational and allocative dimensions (Olomola, 2009). Lack of these basic ingredients of sound budgeting in most African countries, including Nigeria, has justified the description of their budgetary performances as disappointing, and underscores the need for reforms in public financial management in general and budget management in particular (Lienert and Sarraf, 2009).

In Nigeria, budget management reforms were the major areas of the public service reforms undertaken from the inception of civilian administration in 1999. Prominent among these reforms were the Medium-Term Expenditure Framework (MTEF) introduced in 2005, and the Fiscal Responsibility Act (FRA) passed into law in 2007. The objectives of these reforms were to improve resource management by curtailing wasteful spending, and ensure budget discipline among others (Government Integrated Financial Management Information System, 2011). After nine (9) years of the adoption of MTEF and seven (7) years of the enactment of FRA, the realization of the reforms' objectives does not seem to be evident.

It is against this back drop that this study was conceptualized. The objective is to empirically investigate assess the PFM and fiscal outcomes in Nigeria through the use of tools and techniques of economic management such as the policy thrust of the second generation of economic reforms, the implementation of second-generation reforms, the third generation of economic reforms such as GIFMIS, MTEF, MTSS and FRA on output growth in Nigeria.

One of the major concerns of the government from the inception of the democratic civilian administration in 1999 was the rate of extra budgetary spending, and blatant disregard to budget rules perpetrated by previous (military) administrations (Ben-Caleb, 2015). Specifically, during the military regimes, the budget process was said to be thrown into disarray with major defects which precluded the budget from performing its role effectively as a tool for economic transformation but rather, pressurized the nation into economic instability (Obasanjo 1999). Expectedly, a number of reforms were embarked upon aimed at revamping the processes, programmes and policies considered ailing, in order to bring the economy on tract with the new democratic agenda and to delivering value for money to the people. The public sector in general and the public budget process in particular were among the areas for which reforms were exigent.

Consequently, a number of budget related reforms were introduced into the Nigeria budget process. These include; Oil-Price based fiscal rule, the Medium-Term Expenditure



Framework (MTEF) 2005, and the Fiscal Responsibility Act 2007 among others (Garba, 2011). The reforms centered on five major aspects namely; administrative procedures, budget preparation, management of government spending, budget implementation, as well as budget monitoring and evaluation. They were intended to achieve the following objectives among others; reduce the cost of governance, improve the management of resources by curtailing extravagances, increase the level of productivity and efficiency, as well as ensure budget discipline (i.e. adherence to limits) (Olomola, 2009;).

Specifically, the Medium-Term Expenditure Framework (MTEF) was introduced into the Nigerian budgetary process in 2005; although its legal backing came via the Fiscal Responsibility Act in 2007. According to Pascua (2005), MTEF entails annual budgeting system in which budget decisions relating to new programs and projects are made at every budget preparation session based on three-year fiscal scenarios, to ensure that projects financed for the next three years will be approved under the annual system and will be consistent with the baseline budgeting approach. Its emphasis is on a multi-year (three years) budget packaging. The specific objectives for the adoption of MTEF in Nigeria were to improve the allocation of resources to strategic priorities among and within sectors, as well as provide Ministries, Departments and Agencies, (MDAs) with a hard budget constraint among others (Olomola, 2009; State Partnership for Accountability, Responsiveness and Capability (SPARC), 2009).

Statement of the Research Problem

Nigeria has for some time been battling with series of economic problems most of which have seemingly defied solutions based on conventional wisdom. The 1980s witnessed the full manifestation of the ill health of the economy with most indicators of macro-economic imbalance such as inflation, unemployment, balance of payments disequilibrium, low-capacity utilization and debt burden assuming worrisome heights/dimensions.

The 1980s was a decade of fiscal adjustments that have continued through the 1990s. This notwithstanding the early 2000s and beyond perhaps seems to be calling for further adjustments. It appears as if the fiscal indiscipline of the 1970s has proved difficult to reverse. The strong association between government fiscal activities and the performance or non-performance of the Nigerian economy is not in doubt. This is because, in Nigeria, government is not just a facilitator of economic activities but also a key player. And so, several economic variables were largely driven by government expenditure and revenue generation activities.

The period being examined in this study is a mixture of one during which the economy was government driven and one during which the economy is undergoing deregulation and privatization. Yet government control of key variables like interest rate and exchange rate unnecessarily enhanced the impact of fiscal activities on the economy.

Attaining macroeconomic balance has become a foremost necessity for Nigeria. Meanwhile a very important source of imbalance in Nigeria is seemingly the deficits of the government. Prima facie, reduction or elimination of deficits would perhaps appear to be



an appropriate policy. However, there is more to the situation. This is because deficits are known going by the experiences of other developing countries to show bewildering effects. In some of these countries, deficits have been reported as carrying along with them common consequences such as debt crisis, inflation, balance of payment deficits and crowding out of private investment. In others, moderate deficits have not caused macroeconomic imbalance at all.

Fund releases to governmental agencies through revenue generation, appropriation processes as well as debt forgiveness (cancellation) are not productively used in a transparent, efficient and effective manner. This, therefore results to unsustainable spending, large government deficits, large recurrent spending and debts service costs as against capital expenditures i.e. (roads, hospital, education, electricity and water supply etc), poor linkage between spending and development priorities, poor accountability and monitoring due to heavy reliance on manual and outdated procedures instead of using modern technology.

In summary, the problems confronting the study on the assessment of Public Financial Management and Fiscal Outcomes in Nigeria are; lack of transparency in government financial system, fund releases are not prudently utilized in efficient and effective manner, poor linkages between spending and development priorities, poor accountability and monitoring due to heavy reliance on manual and outdated procedures instead of using modern technology, large government deficits and huge service cost in form of large recurrent spending at the expense of capital expenditures.

In line with this, the problems confronting this study are as follows questions are pertinent to this study and are stated as follows; does public financial management have any significant impact on overall balance in Nigeria? Does public financial management have any significant impact on primary balance in Nigeria? Does public financial management have any significant impact on external debt in Nigeria?

2. Literature Review

Public financial management is concerned with the planning, organizing, procuring and utilizing of government financial resources as well as the formulating of appropriate policies in order to achieve the aspirations of members of that society. Premchand (1999) sees public financial management as the link between the community's aspirations with resources, and the present with future. It lies at the very heart of the operations and fiscal policy of government.

The stages of public financial management include

Policy formulation: Policy formulation is one of the most important stages in public financial management structures. According to Premchand (1999), "the transformation of the society's aspirations into feasible policies with well-recognized financial implications is at the heart of financial management. Issues not addressed during policy formulation tend to grow in magnitude during implementation and may frequently contribute to major reversals in the pursuit of policies or major slippages that may lead to contrary results".



Public financial management should be designed to achieve certain micro and macroeconomic policies. It entails a clearly defined structured and articulated system that moves to promote cost-consciousness in the use of resources. The government needs to have an estimate of revenue and expenditure to achieve the policy objective of government.

Budget formulation: The budget formulation is the step that involves the allocation of resources before the submission to the legislature for review and final approval. According to Appah (2009), in Nigeria the budget formulation involves the articulation of the fiscal, monetary, political, economic, social and welfare objectives of the government by the President; based on these, (i) the Department issues policies and guidelines which form the basis of circulars to Ministries/Departments and Agencies requesting for inputs and their needs for the ensuring fiscal periods; (ii) Accounting Officers of responsibility units are required to obtain and collate the needs of their units; and (iii) Accounting Officers of Ministries, in this case the Permanent Secretaries, are required to collate these proposals which would be defended by unit heads before the supervising minister.

Budget structures: According to Anyanwu (1997), budget structure addresses the question of how the budget is or should be composed. In Nigeria, budgets have revenues and expenditure sides. According to Premchand (1999), many governments have yet to put in place cash management systems, which would pave way for coordinated domestic management. The practice of limiting outlays to collected revenues has exacerbated this problem. He, further argued that there is a massive under funding of programs and projects provided for in the budget.

Payments system: This involves the operational procedures for receiving monies for the public and for making payments to them. In Nigeria, governments make payments using a variety of procedures. These include book adjustments, issue of cheques, payment authorities and electronic payment systems.

Government Accounting and Financial Reporting: Government accounting and financial reporting is a very important component of the public sector financial management process in Nigeria. Government accounting entails coding, communicating, summarizing, analyzing and interpreting financial statement in aggregate and in details. In the same vein, Premchand (1999) argues that government accounts have the dual purpose of meeting internal management requirements while providing the public with a window on government operations. Government financial reports should be prepared with the objective in mind of providing full disclosure on a timely basis of all material facts relating to government financial position and operations (Achua, 2009). Financial reports on their own do not mean accountability but they are indispensable part of accountability.

Audit: One of the fundamental aspects of public sector financial management in Nigeria is the issue of audit of government financial reports. Audit is the process carried out by suitably qualified Auditors during which the accounting records and the financial statements of the enterprises are subjected to examination by the independent Auditors with the main purpose of expressing an opinion in accordance with the terms of appointment.



The high level of corruption in the public sector of Nigeria is basically as a result of the failure of auditing. As Premchand (1999) puts it, "many audit agencies are legally prevented from reviewing policies. Most of them cannot follow the trail of money, as they do not have the right to look into books of contractors, and autonomous agencies". One fundamental failure of audit is the absence of value for money in the Nigerian public sector.

Legislative control: The legislature (House of Representative and Senate in Nigeria is expected to perform this very important task of controlling and regulating the revenue and expenditure estimates in any fiscal year. It is the responsibility of the members of the National Assembly to ensure that the budget estimates are properly scrutinized to ensure accuracy, effectiveness and efficiency of government revenue and expenditure.

A well-functioning public financial management (PFM) system goes hand in hand with institutional development. In Sub Sahara Africa (SSA), a large majority of the population do not have the economic means to access basic goods through the markets, including basic commodities such as clean drinking water, education and health care services. This population thus depends upon the government for the provision of these basic services. These essential public goods are necessary for survival, and can thus be characterized as public property rights.

A strong PFM system protects the use of the budget for provision of these basic goods and services. A well formulated budget allocates resources transparently. The money is spent on the objectives articulated in the budget, thus minimizing the risk of expropriation of public funds for private gain. The process of custody of public money, the process of incurring expenditure, making payments, accounting for the money spent, and oversight and audit, also ensure similar results. A well-functioning PFM system thus contributes directly to and is reflective of institutional quality. A good PFM system contains rules and procedures. But excessive PFM rules and procedures can also be a cause of corruption. Mauro (1996) suggests that pervasive regulations and excessive discretion in applying the rules can lead to corruption.

Corruption distorts budgetary allocation of resources resulting in adverse budgetary consequences, lower quality of public infrastructure as well as the composition of public expenditure, thus adversely affecting income and growth. Since a large share of the population depends on public services for many basic needs such as health care, drinking water education etc, and the supply is limited, officials have greater discretion in deciding who should be allowed to access these goods and services (Tanzi, 1998, Tanzi and Davoodi, 2000). Exercise of such discretionary power in contravention of PFM systems of checks and balances give rise to corruption. However, it is essential for a well-functioning enforcement system to support PFM systems. In the absence of a meaningful enforcement system, PFM systems can be subverted.



Empirical Review

There is a growing literature on the relationship between PFM and fiscal outcomes. Researches are conducted in Latin American countries, the European Union, and the United States with little analytical work for Nigeria. However, researches done especially in Latin America could be relevant in Sub Sahara African (SSA), since the two regions share similar issues. In the economics literature, PFM is analysed as part of budget processes. This research focuses on how budget processes affect fiscal and macroeconomic outcomes, and the allocative and distributive effects of budgeting. Budget laws and regulations, and the processes of preparation, execution, and audit of the budget are all assessed on how they influence budget decisions. A separate literature focuses on the more practical aspects of budget processes. It concerns itself with the role of each budget agent in budget processes and the techniques of budgeting, regulations, and procedures. These two areas of research complement each other. Nearly all the literatures on Latin American as well as on European countries consider both the broader economic issues as well as the practical aspects.

North (1990), defines institution as the rules of the game, formal and non-formal, which affect economic incentives and behaviour. Among economic institutions, property rights and trade are considered to be the most significant. Literature on Sub-Sahara Africa (SSA) has concluded that institutional weaknesses in SSA have been one of the main causes of lack of or slow economic growth. Acemoglu and Johnson (2003) found a strong relationship between higher per capita income and protection against the risk of appropriation by the politically and other powerful groups. Rodrik, Subramaniam, and Trebbi (2004) found out that institutions are the major determinant of economic growth and the level of institutional development. It helps in explaining the differences in income between countries. Acemoglu, Johnson, and Robinson (2004) explored the link between political power, political institutions, economic institutions, and economic performance. Protection of property right and protection against the risk of expropriation are central to these institutions. Similarly, Birdsail (2007) looked at how weak institutions prevented the most effective use of external aid, and posed a risk to creating and sustaining a middle class.

Alesina and Perotti (1996) examined how the budget process affects fiscal deficits and borrowing. They divided budget rules and regulations into three kinds: procedural rules; rules on transparency; and numerical targets such as balanced budget laws. They focused on numerical targets and argued that such targets encourage creative accounting, and are not optimal and flexible from an economic point of view. With regard to procedural rules, they distinguished between hierarchical and collegial procedures. In hierarchical procedures, the minister of finance is seen as more powerful and they argue that this arrangement results in better fiscal discipline. Alesina, Haussmann, Hommes, and Stein (1996) constructed an index of budget process through a questionnaire and concluded that budget procedures—formulation, approval, and implementation of the budget—strongly influence fiscal outcomes. They defined budgetary institutions as all the rules and



regulations according to which budgets are drafted, approved, and implemented. They cautioned that since institutions are endogenous, other factors such as social, cultural, and political variables also impact budget processes. They showed that in Latin America, countries with the best budget processes had, between 1989-1993, fiscal surpluses of 1.8 percent of GDP, while the three weakest had average deficits of 2.2 percent. Alesina et al. (1999) also showed, for Latin America, that budget processes and rules had a significant impact on the budget deficit and debt.

Budget rules include both formal and informal rules. Rules and procedures help political bargain in budgeting and reduce and resolve conflict. By assigning roles and responsibilities to different budget agents and procedures it ensure better flow of information, and transparency, and thus prevent collusion among budget participants. They recommended that procedural reforms that include increasing the budgetary power of the minister of finance over line ministers, limiting off budget spending and earmarking, and preventing line agencies from making commitments without a budget, strongly improve fiscal outcomes. In their study of the EU countries, von Hagen and Harden (1995) showed that in the 1980s, the three countries with the weakest budgetary processes had a budget deficit of 11 percent of GDP, while the three countries with the strongest processes had a budget deficit of 2 percent. Poterba (1994) showed that, in the U.S. states, budget rules potentially determine expenditure outcomes, although use of creative accounting is not uncommon. Potter and Diamond (1999) and DFID (2001) covered a large range of issues, from institutional roles and responsibilities to all the stages in the budget process. They provided guidelines on public expenditure management in developing economies (including those in SSA), and emphasize the role of PFM in promoting fiscal discipline by restraining expenditure. DFID highlights that PFM can bring political engagement, clarity of policy, affordability, predictability, transparency, comprehensiveness, and accountability to the budgetary process.

Public sector financial management is concerned with the economic behaviour of government with regards to the methodologies, rules, regulations and policies that shape the planning, budgeting, forecasting, coordinating, directing, influencing and governing the inflow and outflow of funds in order to maximize the objective of the institution. In other words, public sector financial management (PSFM) deals with management of government spending, taxation, borrowing, public debts, foreign reserves, foreign exchange system, level of liquidity in the economy and-public finance auditing in order to achieve some stated objectives (Nwezeaku, 2010). Omopariola (2002) viewed government financial management as the branch of financial management that is concerned with the management of government operations - or as an administration of the ways in which the government derives its financial resources, records, restricts and accounts for their use. In other words, it is the management of the inflows into and outflows of funds from the government treasury.

Recently, there has been increasing debates as to the effects or influence of the financial and productive activities of the government of Less Developed Economies (LDCs) on their



economic growth and development. A key driver for the public financial management debate was the need to free the country from the status of least developed country (LDC) by 2020. Government's strategy identified the direction of development and poverty reduction as well as stressing the importance of building public financial management at all levels to deliver better services for the poor. The objective of the program/debate was to promote a public financial management system to assure transparency and accountability through strengthening public financial management and capacity-building work forces (ACCA, 2010)

Focusing on Nigeria, which is one of the most developed economies in Africa, the phenomenon of financial crisis, economic hardship and low productivity that has engulfed the country since the early 1980s. That has defied all solutions, crafted by the decisions and actions of financial managers of successive Nigeria governments has turned into a hydra-headed monster, characterized by a nightmare. For example, Nigeria's foreign exchange reserve crashed from 5.1 billion U. S. dollars in 1981 to 1.1 billion U. S. dollars in 1983. Consequently, government financial managers resorted to fiscal deficits, which unleashed the rapid increase in the inflation rate, reaching the unprecedented level of 72.3% in 1995. The deficits were financed largely through fiduciary issue thus raising total domestic debt outstanding to N343.67 billion in 1996 (Olashore, 2001).

The petroleum industry provides 80% of foreign trade earnings and about 70% of budget revenues. For example, Nigeria's National budget has been increasing in geometric proportions over the years from N785.819bn in 2004 to N1.003trn in 2005 and from N1.3trn in 2006 to N1.6trn in 2007. Also, from N2.1trn in 2008, it increased to N3.1trn in 2009 (Nwezeaku, 2010). The budget had increased to N4.07trn and N4.9trn in 2010 and 2011 respectively, in just a matter of six years since the beginning of the current millennium. The economy of Nigeria has been bedeviled by sustained underdevelopment evidenced by poor human development indices including, poor income distribution, low life expectancy rate, poverty, unemployment, debt burden and poor standard of living in spite of governments' effort to mitigate it. For example, recent World Bank report estimated that 80 percent of oil revenues in Nigeria benefited only 1 percent of the population (World Bank 2011). Before the debt forgiveness of 2006, the country was listed among the heavily indebted nations of the world with the external debt stock standing at a whopping \$37.5 billion (Okonjo-Iweala, 2006). Presently, Nigeria is still living with huge external debt burden which amounted to N1, 026,903.92 Million in 2012 (CBN, 2012)

However, in spite of the visible attempts by the various governments of Nigeria to manage their vast financial and other resources, there exists what has been referred to as "the paradox of plenty". Indeed, there has been rather a co-existence of abundant resources and wealth and extreme poverty in these economies unlike their developed counterparts. The country which ranked sixth in World oil output is ranked 156 out of 186 countries in human capital development (UNDP, 2011). About 60 per-cent of the population live in abject poverty. Efficient management of public sector fund has always been the tool available to any governments for the implementation of developmental goals and



objectives. It is crucial to the growth and development of any economy. Ordinarily, efficient management of the resources of any economy should lead to poverty reduction, improvement in the standard of living of its citizens, mitigation of inequalities in income distribution and improve the general wellbeing and productivity of the economy.

Public financial management is absolutely critical to improving the quality of public service outcomes. It affects how funding is used to address national and local priorities, the availability of resources for investment and the cost-effectiveness of public service. Most available works in this area have concentrated on the size of public expenditure and its determinants without giving much consideration to the effects of these public financial management activities on the level of output production. Against this background, the research question that necessitates and steer this study is; what is the magnitude of relationship between public sector financial management (as measure by fiscal instruments) and output productivity in Nigeria. The main objective of this study is to investigate the relationship between public sector financial management (PSFM) and fiscal outcomes.

3. Methodology

Estimation Techniques: When you are estimating a model that includes time series variables, the first thing you need to make sure is that either all-time series variables in the model are stationary or they are co-integrated, which means that they are integrated of the same order and errors are stationary, in which case the model defines a long run equilibrium relationship among the co-integrated variables. Therefore, a co-integration test generally takes two steps. The first step is to conduct a unit root test on each variable to find the order of integration. If all variables are integrated of the same order, the second step is to estimate the model, also called a "co-integrating equation," and test whether the residual of the model is stationary. The purpose of this exercise is to implement the Johansen co integration test methodology. This particular approach is been conducted by using E Views 9 as stated above, macroeconomic variables are non-stationary. But we assume that they become stationary after first difference. It is believed that when we run a regression model with these non-stationary variables, the regression model may be spurious or nonsense. Equally, note that the symptom of a spurious regression is R2Square value would be greater than Durbin Watson statistics. By this singular act, it means that something is wrong with whole dataset and the analysis will be rendered valueless and of no-good predictive value in economic analysis Gujarati, (2007).

For the estimation techniques we employed two methods to analyse the relationship between PFM and Fiscal outcomes in Nigeria. Firstly, we carried out a nonparametric analysis of (correlation and trend analysis) to examine the link between the variables. Secondly, regression analysis based on OLS method was used or conducted to determine the impact of each of the selected indicators on the specific outcomes.

Model Specification

Prakash and Cabazon (2008) examined whether PFM is significant in explaining fiscal performance. They used OLS to explore the relationship between the various fiscal



variables, specified as the dependent variables, and explanatory variables. For explanatory variables, (ie GDP, GDPP, CPI, POP, LIT, OVB, PRB, ED)', Prakash and Cabazon (2008), used the PFM overall balance in their model, economic growth, GDP per capita, population, the literacy rate, the level of corruption, a dummy for fractionalization, a dummy for resource rich countries, a dummy for countries that met the decision point in Highly Indebted Poor Countries (HIPC) and a dummy for countries with French legal system origin. Additionally, a time dummy variable for 2001 is added, in order to capture omitted variables that change over time such as the changes in interest rates or commodity prices.

The general form of Prakash& Cabazon (2008) model is given as follows:

$$Y_t = \alpha_0 + \beta_1 GDP_t + \beta_2 GDPP_t + \beta_3 POP_t + \beta_4 LIT_t + \beta_5 COR_t + \beta_6 FRAC_t + \beta_7 RRC_t + \beta_8 HIPC_t + \beta_9 HIPC_t + \beta_{10} HIPC_t + \beta_{11} HIPC_t + \beta_{12} FRCC_t + U_t \dots \dots \dots 1$$

Where: Y_t = Overall Balance use to proxy fiscal outcome representing the Dependent variable, GDP = Gross Domestic Product, GDPP = Gross Domestic Product Per Capita, POP = Population Growth Rate, LIT = Literacy Rate, COR = Corruption Perception Index, FRAC = Fractionalization, RRC = Resource Rich Country, HIPC = Heavily Indebted Poor Countries, HIPC_t = Heavily Indebted Poor Countries. Decision Point, HIPC_t = Heavily Indebted Poor Countries, Completion Point, FRCC = Francophone Countries, α_0 = Constant Variable, U_t = Error Term (white noise).

Prakash and Cabezon (2008), used thirty-Nine (39) observations in their model and the number of countries that participated in the studies are totaling Twenty-One (21). However, Sao Tome and Principe were excluded from the samples.

While adapting the Prakash and Cabezon model, we dropped the Francophone countries (free), Resource Rich Countries (RRC), Heavily Indebted Poor Countries (HIPC), HIPC decision point (HIPC_t) and HIPC Completion Point They were dropped essentially because the francophone countries are not part of Sub-Saharan Countries (SSA). It should note that we are not using panel data (which uses questionnaires and Surveys) but rather we are using Time Series Data in our Nigerian case situation because of its macro-economic importance which are mostly stationary and non-stationary in nature.

Nigeria is relevant because of its peculiar economic situation in Africa. Again, Nigeria's economic environment differs from other Countries in many respects. We made value addition by including eight (8) variables as listed below:

Gdp_t = Gross Domestic Product at period t, $Gdpp_t$ = Gross Domestic Product Per Capita at period t, Pop_t = Population Growth Rate at period t, Cpi_t = Corruption Perception Index at period t, Lit_t = Adult literacy Rate at period t, Ovb_t = Overall Balance at period t (Defining the "Overall Fiscal Balance"

On a cash basis, total incomings and outgoings from the budget must always balance. A deficit (or surplus) is determined by drawing a balance among a subset of receipts and



payments). Prb_t = Primary Balance at period t (Primary Balance: Is defined by the Organisation of Economic Cooperation and Development (OECD) as government net borrowing or net lending, excluding interest payments on consolidated government liabilities). ED_t = External Debts Service payment at period t

Table: indicating variables that are Retained, Dropped and /or Added

Details	Variables Retained	Variables Dropped	Variables Added
GDP	1	0	0
GDPP	1	0	0
POP	1	0	0
LIT	1	0	0
CORP	1	0	0
FRAC	0	1	0
RRC	0	1	0
HIPC	0	1	0
HIPCDP	0	1	0
HIPCCP	0	1	0
FRCC	0	1	0
OVB	0	0	1
PRB	0	0	1
ED	0	0	1

Note: One (1) = Denotes Action, Zero (0) = Denotes No Action

Source: Authors' Computation

We Retained Gross Domestic Per Capita (GDPP), Population Growth Rate (POP), Adult Literacy Rate (LIT) and Corruption Perception Index (COR) because they measure Economic Growth and Development. Similarly, we Dropped Fractionalization (FRA), Resource Rich Countries (RRC), Heavily Indebted Poor Countries (HIPC), Heavily Indebted Poor Countries Decision Point (HIPCDP), Heavily Indebted Poor Countries Completion Point (HIPCCP), Francophone Countries (FRCC), essentially because the Francophone Countries are not part of Sub-Saharan African Countries (SSA). And finally, we Added Overall Balance (OVB), Primary Balance (PRB) and External Debts (ED) because they determine the Public Financial Management (PFM) and Fiscal Outcomes measurements. Prakash and Cabezon (2008), equally used external debt as dependent variables with the same number of explanatory variables, 39 observations; number of countries that participated was twenty-one (21) as stated in the above original equation. The model specifications for this study are structured in the following pattern:

$$Y_t = a_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + U_t \dots\dots\dots 2$$

The above models were similar to that of Prakash and Cabazon (2008), in which they studied public financial management and fiscal outcomes in Sub-Sahara African Countries. It is however adapted for this study.



Where: Y_t is the dependent variables (fiscal outcomes) and X_t are independent variables as specified before.

To satisfy one of our specific objectives as stated in chapter one of this study on the impact of PFM and fiscal outcomes in Nigeria, the following model was adapted from Prakash and Cabezon (2008), with little modifications. The reasons are that, they readily captured the variables vividly and relevant in interpreting the impacts of Public Financial Management and Fiscal Outcomes in Nigeria.

$$\text{Let } Y_t = F(X_{is}) \dots\dots\dots 3$$

Y_t = are the three dependent variables namely, Overall fiscal balance, Primary balance, and External debt. These are our key area of investigation. On the other hands, the regression or explanatory variables are defined below:

$$Y_t = \alpha_0 + \beta_1 \text{GDPGR}_t + \beta_2 \text{PCG}_t + \beta_3 \text{Corp}_t + \beta_4 \text{LIT}_t + \epsilon_t \dots\dots\dots 4$$

Where: Y_t represent three dependent variables which are Overall Balance, Primary Balance and External Debt., GDPGR = GDP Growth Rate, PCG = Per Capita GDP, Corp = Corruption Perception Index (measured by Dummy variables), and LIT = Adult literacy Rate.

Most importantly, we want to find out the effects of PFM on output growth, poverty alleviation, corruption, welfare of the people, overall fiscal balance, primary balance and external debts situation in the country in terms of impacts on the generality of the people in Nigeria. Above all, this study differs from previous studies particularly in terms of methodology for dealing with economic impact, poverty reduction and empowerment decomposition. The present study joins other such as (Bengali, 2004; Brumby 1998; Oji 2005; Ojo, 2009; Oladele 2001; Prakash and Cabazon, 2008; Onuchukwu, 2001; Sarraf, 2001; Lucien, 2002; Olomola, 2009), to mention but a few, in applying regression-based approach. The approach has been proved to overcome the major shortcomings of econometric approach in empirical research.

Granger Causality Test

The final part of the analysis addressed the fundamental question of what variable Granger causes (GC) movements in a particular series. The direction of Causation is important in our understanding of the transmission Mechanism or the impact of PFM on the macroeconomic variables in the economy. Note: Endogenous variables are variables that are generated, or explained, by the model. They are the objectives of model building. Exogenous variables are external to the system. They have impact on the endogenous variables, but there is no feedback from the economy (or the model of it) to the exogenous variables. Other expressions for these same two classes of variables - endogenous and exogenous - are jointly dependent variables (endogenous) and independent (exogenous) variables. The independent variables "drive" the model, apart from initial conditions and functional form.



4. Results

Data Presentation

Having carried out the test of stationarity and granger causality test as discussed in chapter 3, OLS estimation techniques was applied to every equation since each one has exactly the same set of explanatory variables. The secondary data used in this work has been subjected to Unit Root Test for Stationarity, Ganger and Causality test, Co-integration, Autocorrelation and multi-co linearity test. We used the econometric regression techniques (OLS) to examine the impact of public sector financial management and fiscal outcomes in Nigeria. Apart from the above, the study also made use of models. The secondary data used in the study covered the period 1990 -2015, and presented in the appendix 1, Table below.

Summary Statistics

The Summary statistics as derived through E- Views 9.0 shows the Mean, Median, Maximum, Minimum, Standard Deviation, Skewness, Kurtosis, Jacque-Bera and Probability of each of the variables as presented in table below.

Table 1: Summary Statistics for the Variable Under

	GDP(GR)	GDPP	LIT	POP	COR	OVB	PRB	ED
Mean	5.29	19.64	18.89	2723.73	117.11	7.57	11.52	7.21
Median	5.50	12.45	18.13	351.59	87.30	5.04	12.10	4.04
Maximum	14.60	72.80	29.80	14112.17	189.12	18.80	27.40	15.32
Minimum	-0.55	5.40	10.50	11.35	2.12	1.41	1.80	1.52
Std. Dev.	3.68	17.84	3.88	4549.49	10.11	5.56	8.38	6.21
Skewness	0.43	1.62	0.85	1.56	0.11	0.66	0.56	0.15
Kurtosis	2.75	4.53	4.32	3.75	2.34	1.84	2.05	0.14
Jarque-Bera	1.01	16.22	5.86	12.90	3.17	3.88	2.72	2.12
Probability	0.60	0.0003	0.053	0.001	0.13	0.14	0.25	0.54
Sum	158.77	589.4	566.80	81711.98	1113.8	227.37	345.6	217.3
Sum Sq. Dev.	394.62	9238.395	436.82	6.00	3000.65	896.87	2036.7	797.8
Observations	30	30	30	30	30	30	30	30

Sources: Author's own computation using E-Views Software, Version 9.0

It was observed from the summary Statistics with reference to the JarqueBera estimates and probability value that GDP per capita and population are variables which are not normally distributed due to their low probability values of 0.000300 and 0.001580 respectively which is lower than the probability value of 0.05. The non-normality of GDP per capita (GDPP) and population (POP) will affect hypothesis testing of these variables. However, based on the central limit (CLT) theorem that states that the OLS parameter estimates are mean (expected) values and as such non-normality in any of the variables will not affect the parameter estimates since mean values are always normality distributed.

On the other hand, it was observed that the probability values for Growth rate, GDP per capita (GDPP), Corruption perception Index (CPI), Population Growth Rate (POP), Adult literacy Rate (LIT), and External Debts (ED), Overall Balance (OVB) and Primary Balance (PRB) were normally distributed due to their high probability value of 0.600627,



0.053225, 0.033628, 0.143395, 0.256009 and 0.133638 which are higher than the probability of 0.05.

Trend Analysis and Correlation

The relationship between budget reforms and public financial management and fiscal outcomes was first explored using correlation analysis. The purpose was to determine the nature and degree of relationship. We decided to measure the correlation coefficient between PFM and fiscal outcomes with the interaction between corruption and indicators of fiscal outcomes. In simple correlation analysis, the correlation coefficient can either be positive or negative. The result shows a negative relationship between overall fiscal balance and corruption. Nonetheless, corruption is also negatively correlated with primary balance. This implies that a negative relationship exists between corruption and fiscal outcomes, which tries to say that the higher the level of corruption the lower the fiscal outcome.

Table 2: Correlation Result

	CORPT	GDPGR	LIT	OVB	POP	PRB	EXD
CORPT	1.00						
GDPGR	-0.59	1.00					
LIT	-0.49	0.87	1.00				
OVB	-0.46	0.74	0.87	1.00			
POP	-0.92	0.81	0.82	0.72	1.00		
PRB	-0.58	0.63	0.75	0.79	0.75	1.00	
EXD	-0.13	-0.02	-0.03	0.35	0.26	-0.54	1.00

Source: Authors' Computation

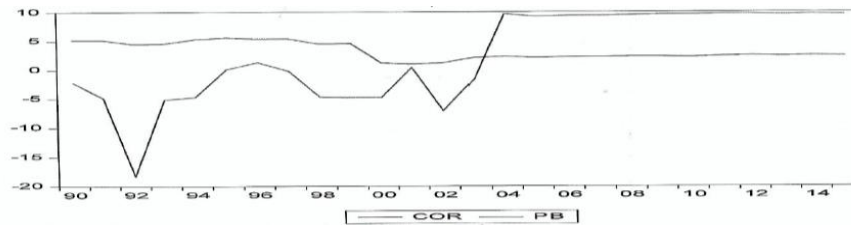


Figure 1: Relationships between Corruption and Primary Balance

Figures 1: Confirms the relationship between overall fiscal balance and corruption. In other words, as the quality of institution improves, positive and surplus overall fiscal balance is achievable. As shown in figure 4.1, corruption perception index of the nation was fairly better during the period 1990 and 1992 than between 1994 and 2015. It came down in 2000 and nose dive upward again in 2004 and then level up in 2006 to 2012 respectively. This can be virtualised in the Corruption graph (Figure 1) in the appendix please. Intuitively, overall fiscal balance during these periods maintained same trajectory. Overall balance witnessed positive/ surplus balance before the 1996 period. However, overall balance



plunged into deficit since the nation's corruption perception index declined substantially throughout the 2000 decades.

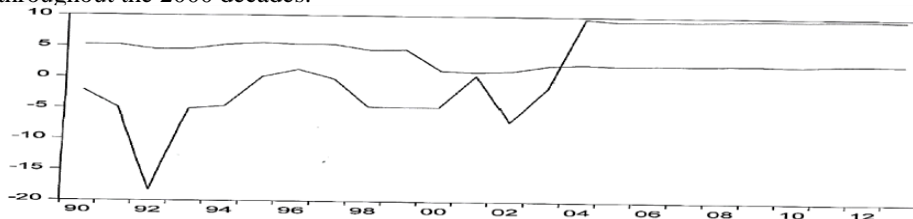


Figure 2: Relationships between Corruption and Overall Balance

From Figure 2: The trend analysis for corruption perception index and overall balance does not indicate any relationship. Each variable tends to fluctuate between 1990-2015 as depicted in Figure 2.

Trend on Corruption Perception Index

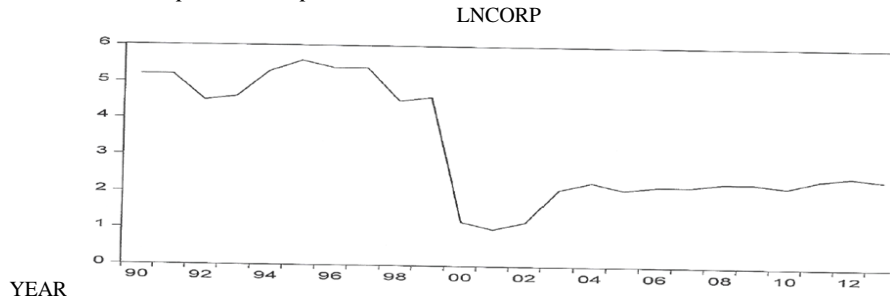


Figure 3: Corruption Trend Analysis Graph
 Source: Researchers' computation 2017

The graph in figure above shows the corruption trend in Nigeria. The vertical axis shows percentage (%) level of corruption while the horizontal axis shows the year in which the corruption takes place (X axis). It indicates the year from 1990 to 2012. The arrow shows the movement or trend analysis of corruption index. In the year 1990, for instance, it was at 5% level, it decreases to about 4.5% in 1992. It later rose again to 5.4% in the year 1996, it started declining gradually to about 4.3% in 1998. It fell to all time low in the year 2000 to about 1%. This was when the present democracy was at it embryonic stage. With the advent of the nascent democracy, we started witnessing increase in corruption tendencies in Nigeria. Little wonder why it starts rising again to about 2.4% in 2004. And perhaps that is why Nigeria is been ranked as one of the most corrupt nation in the whole world today. The Total Budgeted FGN Revenue for the Twenty (20) years period 1995-2005 is N20,892 while the Actual Total FGN Revenue Collected for the Ten(10) years Period 1995-2005 is N2,020 representing about 10.34% only on the average (Please See Table For Details).

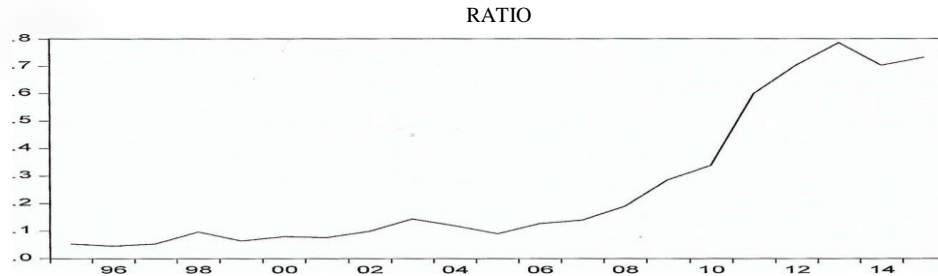


Figure 4: Ratio of Total Budgeted FGN Revenue Compared to the Actual Total FGN Revenue

The diagram in figure above indicates the trend of the ratio of total government budgeted revenue and actual revenue from 1995 to 2015. The horizontal axis represents the years starting from 1995 to 2015 while the vertical axis represents the values of total government budgeted revenue and actual revenue. The graph indicated that the ratio of actual revenue compared to budgeted revenue have risen over the period (1995-2015) especially from 2008 to 2015. This increase is as a result of the various measures put in place by the government to reduce corruption and enhance federal revenue. The Treasury Single Account (TSA) was introduced in order to effectively manage the revenue of the country, the CBN called for an urgent implementation of the TSA which is an essential tool used for consolidating and managing cash resources. According to the IMF, a TSA system helps consolidate government cash balances, gives the ministry of finance/treasury oversight of all government cash flows, and brings improvements in budget control and monitoring. Another measure is Integrated Payroll and Personnel Information System (IPPIS). This is a centralized database system for the Public Service known as the Integrated Payroll and Personnel Information System (IPPIS). The database is a single source of employee information that provides integration with other business applications. According to the Finance Minister, about N185.4 billion has been saved through the implementation of IPPIS. In addition, the current administration has weeded out 60,450 ghost workers from 359 MDAs.

Furthermore, the implementation of Tax raids has also led to increase in revenue. The Debt Enforcement and Special Prosecution Unit ("DESPU") of the FIRS, has recently gone on the offensive, resorting to tax raids and prosecution of non-compliant taxpayers. We expect this trend to continue in 2015. Also, an increase in Value Added Tax (VAT) rate from 5% to 10% did not only raise revenue but also align with the VAT rates of other West African countries (and make it easier to implement the Common External Tariffs). These measures have led to the increase in government actual total revenue as shown by figure above.

On the Other hand, the Total Budgeted FGN Expenditure for the Ten (20) years period 1995- 2015 is N9,661 Compared to the Actual Total FGN Expenditure of N2,007 which is representing 4.81% on the average. (Please See Table for details)

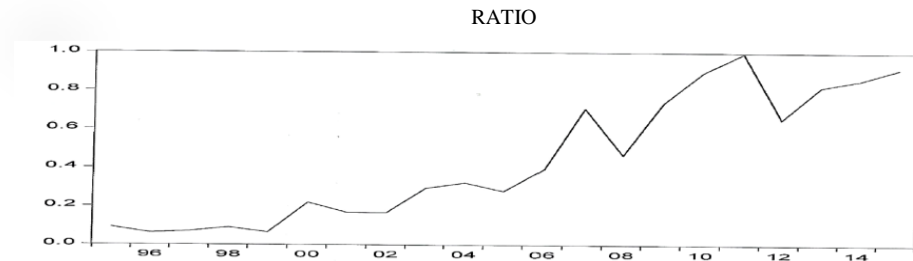


Figure 5: Ratio of Total Budgeted FGN Expenditure Compared to Total Actual FGN Expenditure

The diagram in figure indicates the trend of total government budgeted expenditure and actual expenditure from 1995 to 2015. The horizontal axis represents the years starting from 1995 to 2015 while the vertical axis represents the values of total government budgeted expenditure and actual expenditure. The graph indicated that the ratio of total government budgeted expenditure to actual expenditure continue to rise over the period (1995-2015). This increment is due to more efficient measures and schemes government adopted to ensure transparency in government expenditure. The introduction of the Integrated Financial Management Information System is a major scheme to promote transparency in government expenditure. The Government Integrated Financial Management Information System (GIFMIS) is an IT based system for budget management and accounting designed to improve Public Expenditure Management processes, enhance greater accountability and transparency across Ministries and Agencies. GIFMIS will help the government plan and use its financial resources more efficiently and effectively.

5. Conclusion and Recommendations

This study has analysed the impact of PFM and fiscal outcomes on the Nigerian economy. We have presented evidence that there is a positive and significant correlation between PFM quality and fiscal balances, after controlling for important effects, and a negative and significant correlation between PFM quality and external debt levels, also after controlling for important effects. These results are similar to those found in previous research works in other countries, including Latin America and Europe. Another significant finding is that a hierarchical budget or PFM system, as in the current budgeting process in Nigeria, where the Minister of Finance is very powerful, leads to better fiscal discipline. This implies, in policy terms, that there is a good argument for strengthening the fiscal role and responsibilities of the Finance Minister in Nigeria. This finding is similar to the results found in other regions, and emphasizes the need to consider carefully the benefits of a more collegial process, which has greater flexibility, versus a more hierarchical process, which yields better fiscal discipline.

These results are important in indicating that improving the quality of PFM can yield significant benefits in terms of better fiscal outcomes, which then has important microeconomic and macroeconomic spill-over on the entire economy. Public Financial Management is a key instrument of economic management. This study has endeavoured to



analyse the relationship between public financial management systems and fiscal outcomes in Nigeria. The findings indicate that institutional factors such as corruption and literacy rate affect the institutional pillars of PFM in Nigeria. The pillars include governance structure, accountability, transparency and predictability. Poor budget coordinating institutions, lack of respect for the rule of law, weak fundamentals of appropriation templates and contract management and poor accounting systems are the critical factors undermining the ability of these pillars to positively influence fiscal outcomes in Nigeria. Thus, the need to critically improve the index of capture, budget institutions and the coordination of the MDA's capital budgeting system through integrated and systematic accounting system cannot be overemphasized.

As indicated by the results above, corruption and literacy level are the key institutional factors undermining the efficiency and effectiveness of fiscal policy outcomes. While corruption affects the institutions implementing the budget through poor governance, the level of adult literacy which is a measure of the capacity to efficiently manage national economy affects budget policy designs and implementations strategies. Nigeria has over the years been scored low by the Corruption Perception Index of the Transparency Initiative based on the weak and poor manner in which public policies are implemented (Transparency International (2010). Budgets are in most cases not properly executed, and contracts are often times awarded in manner that violates procurement acts. Arrears are being owed to pensioners while public funds are misappropriated and mismanaged. The political class earns outrageous salaries and emoluments with some measure of poorly developed public service. There have been serious feud in the recent times between the executive and the legislature on the fiscal and budget performance. For instance, in 2015 annual budget, the capital budget never enjoyed up to 40% execution and implementation. Meanwhile, a classical evidence of these is the increasing level of abandoned capital projects across the country. All these point to the kind of institutional apparatus that negatively affects our fiscal outcome. More also, the impact of literacy on fiscal outcome calls to question the quality of education in Nigeria. Nigeria has an array of economic managers in different parts of the world but their impact on fiscal operations shows a positive link with fiscal outcomes. This suggests that emphasis need to be paid to the kind of education and capacity development.

In order to address some of these fiscal challenges, the following actions are recommended: Improve critical institutions such the Fiscal Responsibility Commission and other fiscal jurisdictions through respect for laws and order as well as close the leakages, for looting government funds through better legislation. That PFM in Nigeria should as a matter of urgency uphold the following strategies of policy formulation, budget formulation, budget structures, payment systems, government accounting and financial reporting, auditing and legislative control. Government should develop specialized institutions and critical training programmes targeted at improving the technical capacity of economic managers. In order to achieve accountability in PFM the legislature should champion the cause of accounting, reorientation of value system, management of accountability framework, protection of



whistleblowers, creating an environment of accountability, adoption of international public sector accounting standards, public performance reporting, determination of the cost of doing government business. The system of the benchmarking of efficiency, strengthening the public accounts committee, change in the structure of government accounting and auditing, revenue and expenditure in Nigeria should also be put in place.

The findings reveal that poor financial management in the public sector and incessant leakages of funds from the system has hampered positive contributions from some key economic sectors of the economy. Therefore, the need for proper budget implementation, sound financial discipline and feedback need not be overemphasized. It is worthy to note that proper financial management and practices in the public sector by way of instruments such as government expenditure (capital and recurrent) government borrowings, government revenue such as taxes, tariffs, duties, and other fiscal instruments can still bring about the desired positive change in the economy.

In analyzing the extent of the impact of public sector financial management in Nigeria economy and its effects, it discovered that proper public sector financial management plays vital role in economic growth and development of the nation. Productive government expenditure has potential to be growth- enhancing. This finding is consistent with the consensus in existing public sector literature. Thus; the study concludes that a clear plan that harmonizes government expenditure with tax revenues and public debts would determine the composition, speed and direction of economic growth. The study therefore, concludes that effective public sector financial management in Nigeria must take into consideration the behavioural pattern and social context of the people. It is evident from this study that the main vehicle of executing government plans and actions is the public service, personnel and people. Carefully planned effort to build institutional capacities and personnel for good governance is a pre-requisite, necessary and sufficient condition to achieve economic advancement and prosperity.

Above all, in order to achieve a better PFM and fiscal outcomes in Nigeria, we all must fast track fiscal rules such as process of project design, contract award and mode of payments in all the Federal Ministries and MDAs in Nigeria. More so we must develop a systematic and integrated accounting system for coordinating MDA's capital expenditures (IPFMIS). The National Assembly must adopt rollover of capital budget mechanism. Based on the empirical findings of the study, it is recommended among others, that public sector expenditure programmes should be reviewed and prioritized to enhance efficiency and effectiveness of overall fiscal outcomes in Nigeria.

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