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IMPACT OF FUND ADEQUACY ON BUDGET PERFORMANCE: A CASE STUDY OF KWARA STATE GOVERNMENT OF NIGERIA

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Abstract

Governments across the globe are expected to bring effective development to their citizenry through provision of goods and services. However, it is observed that poor budgetary process coupled with poor fund management have hindered the provision of these good and services. This study examines the impact of fund adequacy on budget performance of Kwara State Government. Data from Kwara State Government annual statement from years 1999-2012 were used. The data were analysed using both descriptive and inferential statistic. The result shows that both grants and value added tax have positive relationship with government capital expenditure while statutory allocation despite constituting the largest chunk of government revenue is negatively related to capital expenditure. Overall, the study recommends among others that to ensure proper budget effectiveness, regular monitoring and evaluation of programmes and projects I critical. Consequently, the study recommends the need to develop an appropriate mechanism to monitor the budget in order to enhance effectiveness in the level of budget achievement.

Keywords*: Capital Expenditure, Fund Adequacy, Budget Performance*

1.INTRODUCTION

Governments across the globe are expected, through their capital investment, to bring effective development and good governance to it citizenry through different strategies. Government achieves this by providing social welfare services to ensure sustainable development. Evidently in the developing economies, an examination of the fiscal and physical evaluation of the performances of government via their budgets in terms of physical development, provision of infrastructural facilities and social welfare to the people left much to be desired (Herbert, 2003). It is observed that poor budgetary processes coupled with poor fund management are responsible for their inability to meet their expectations and consequently performing below standards (Sender, 1999). Right

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from immemorial time, budgetary process in the developing countries has been defective and consequently the resources available to them are either misappropriated or mismanaged (Ogundiya, 2010). This is evidenced as majority of the ongoing projects across these countries have either been vaguely completed or jettison. Most often, those managing budgetary allocation always attributed their poor performances and inability to meet public expectations to underfunding.

Thus, this study examines the effect of Fund Adequacy on budget performance in Kwara state of Nigeria. Specifically, the study investigate the impact of each of the components of fund availability namely statutory allocation; internally generated revenue; external and internal loans, Value added Tax and Grants, and reimbursement and their impact on the state Budget performance (Capital Expenditure). To achieve the stated objectives, the following hypotheses were tested:

H_{O1}: There is no significant relationship between Statutory Allocation and budget performance.
H_{O2}: There is no significant relationship between internally generated revenue and budget performance.
H_{O3}: There is no significant relationship between External and internal loans and budget performance.
H_{O4}: There is no significant relationship between Value Added Tax and budget performance.
H_{O5}: There is no significant relationship between Grants and reimbursement and budget performance.
H_{O6}: There is no significant relationship between other income and budget performance.

The study is structured into five sections. Section one covers introduction. Section two reviews the related literatures. Section three discusses methodology. Section four presents the results and findings. Section five contain conclusion of the study.

2. LITERATURE REVIEW

2.1Conceptual Issues: Budget, Budgetary Control, Budget Process and Performance

Budget is described as a quantitative expression of a plan of action, and also as a quantitative expression of the inflows and outflows of money to determine whether a financial plan will meet organization goal. (Abogun & Fagbemi, 2012; Horngren, Sundem, Stratton, Burgstahler, & Schatzberg, 2008).Thus, budget transcends ordinary qualitative statement, but also involves quantitative implications of a plan of action. These two definitions however, were devoid of and/or silent about the object of time to which a budget relates. A budget should always be stated over a period of time, because the concept of time period is very crucial in budgeting. This may be half yearly, yearly, quarterly, monthly, weekly, daily, or other time periods (Frederick, 2001). A budget is

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also not just a quantitative expression of a plan of action but a quantitative economic plan. For instance, Harper (1995) opines that for a plan of action to be referred to as a budget, it must be in economic term. Thus, Lucey (2000) posits that a budget is a quantitative expression of a plan of action prepared in advance of the budget period. In a seemingly comprehensive term:

> *A budget is 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, 2009).

Budget is widely used as managerial technique tool in an organization (Silva & Syamaha, 2012). Glamour and Lewis (2005) observe that budgeting exercise could be viewed as a form of forecasting or making projections regarding the future. The evaluation of performance would, thus, presupposes the availability of actual that can be compared with projections. Dubnick, (2002) posits that government budget is a technical instrument by which commitments are translated into monetary terms. The budget is a key instrument for macro-economic management in most economy and its efficacy determines the success of governments in meeting social goals. Establishing effective budgetary control system in an organisation requires planning where a budget manual reflects the details of the budgeting process from activities to the people. The use of budgetary controls by managers is an aid to decision making and is essential towards achieving optimum performance of the organisation. (Meigs & Meigs, 2004).

Budget control is vital to the attainment of organisational target across the operations of the business. The future revenue and anticipated expenditure are usually reflected in the performance and position objectives of the organisation. Therefore controls enable achievement of both short term and long term goals. (Welsh & Gordon, 2000). Glamour & Lewis (2005), opines that budgeting exercise could be viewed as a form of forecasting or making projections regarding the near future. Budget is applicable in the public sector the same way it is to the private sector. Government budget is prepared periodically for the approval of National or State Assembly before implementation. For the public sector, budget process include: Ministerial or Pre-treasury Board Phase; Executive Council Phase and The National or State House of Assembly i.e. Legislative phase; Presidential or Governor's Assent. (Celis, *et al*., (2001) and ICAN (2009)).

Budgeting and budgetary control are powerful tools of sound financial management, most especially in the Public Sector where there is great emphasis on economy, efficiency, effectiveness, probity and accountability. (ICAN, 2009). The evaluation of performance would, thus, presupposes the availability of actual that can be used as a basis of comparison with projections. Also, since we are primarily focusing on a programme of expenditure and projected revenue, our forecasts and projections as well as actual should entail some high degree of quantification, even though some qualitative policy objectives or targets cannot be entirely ruled out. For the purpose of this study, we would focus on the quantifiable aspect of the budget (Capital expenditure).

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In view of this, the political institution that organizes and empowers budgetary allocations is expected to touch individual life through adequate fund provision for qualitative capital projects implementations. Just as the functionalists argued that an influence on any of the component parts of the human organism transcends the whole, hence, amenities built by the government positively impact on every human activities. Due observance of the recurrent expenditures (salaries and allowance) brings about multipliers effect in the economy which promote development after gradual economic growth. However, if development is to be sustained, adequate fund should be provided for servicing the infrastructural facilities in order to enhance sustainable development in the country.

2.2 Empirical Framework

Hopewood, (1989) examines the role of budget data in the evaluation of rewards in organizations, using an American firm with three different styles namely: a Budget constrained Style (BCS) which uses budget data in a rigid manner; a Profit conscious Style (peS) where emphasis was on contribution to organisation effectiveness and; a Non-Accounting Style (NAS) where budget data played a relatively unimportant role in performance evaluation. The study found out that managers elevated on the use of a style of budget data in a rigid manner achieve significantly higher levels of job tension than managers evaluated on their contribution to organizational effectiveness.

Olurankinse, (2006) study on the role of budget and budget process in the public sector, observed that citizens' participation in decision making process of budget allocation as an innovation could reinforce accountability at local level. He concluded that participating budgeting have converging expectation for the reinforcement of democratic practice.

In a related work, Olurankinse, (2012) research on the determination of project viability using capital budget on four key capital projects in six local government areas of Ondo State from 2006 to 2010, using both correlation and regression matrix found out that local government with the least budgeted fund/allocation has the highest rate of budget performance than the one with the highest budgeted fund/allocation which implies that budget performance is not a function of adequacy of funds.

3.METHODOLOGY

This study adopts secondary data sourced from the Kwara State Government annual financial statements spanning through a period of fourteen years from year 1999 - 2012. The year 1999 was chosen as the base year as it represents the inception of democratic dispensation after long years of military intervention in Nigeria, which places emphasis on transparency and accountability in budget formulation and implementation. In addition, year 2012 was chosen because data were available as at the time of undertaking this study. The choice of Kwara state for the study was judgmental and based on easy accessibility of researchers' to the requisite data needed for effective research.

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Dependent variable of the study is budget performance proxied by the actual capital expenditure for a period of fourteen years. The independent variables represents the various sources of revenue to the state government including State Statutory Allocation (SA), Internally Generated Revenue (IGR), Grant & Reimbursement (GR), External & Internal Loan (EIL), Value Added Taxes (VAT) and Other Incomes (O1). Both descriptive and inferential statistic was employed in the analysis of the study's data. The descriptive statistic involves the use of mean, maximum, minimum, skewness, kurtosis and Jaque- Bera statistics. The mean, maximum and minimum provide a descriptive snap shot of the variables used in the study, while skewness, kurtosis and Jaque- Bera statistic were used to test for normality or otherwise of the distribution. In an attempt to address the research objectives raised, the inferential statistics via the use of regression analysis was also employed.

Following the work of Olurankinse (2012) whose study focused on budget performance as a function of funds availability, this study model is stated as:

$CE=F(SA, IGR, GR, VAT, EIL, OI)$

Consequently, when transform into multiple linear relationship, it becomes:

$CE=\beta o + \beta_1 SA + \beta_2 IGR + \beta_3 GR + \beta_4 VAT + \beta_5 EIL + \beta_6 OI + e.$

Where:
CE = Capital Expenditure
SA= Statutory Allocation
IGR= Internal Generated Revenue
GR= Grant and Reimbursement
VAT= Value Added Tax
EIL = External and Internal Loan
OI= Other Income
βo = Intercept
$\beta_{1\ to}\ \beta o_6$ = Estimation Parameters
E = Error Term

The a-prior expectation of the model is positive relationship between the dependent variable and all the independent variables, i.e the more the independent variables (CE, SA, IGR, GR, VAT, EIL, and OI), the more the dependent variable of capital expenditure.

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4.RESULTS AND FINDINGS

Table 1:Trends Analysis of Kwara State Revenue Sources and Capital Expenditure from 1999-2012

YEAR	SA ₦'m	IGR ₦'m	VAT ₦'m	GR ₦'m	EIL ₦'m	OI ₦'m	TOTAL REVENUE (TR) ₦'m	CE ₦'m	SA/TR ₦'m	CE/TR ₦'m
1999	2784	514	478	386	821	0	4983	1828	56%	37%
2000	6031	1082	573	382	10	0	8078	3334	75%	41%
2001	6485	1603	922	2194	1729	0	12933	5519	51%	43%
2002	8203	1831	1074	1780	1804	77	14769	2045	56%	14%
2003	9861	1641	1307	503	607	82	14001	1986	70%	14%
2004	14085	2009	1575	491	1030	49	19239	4256	73%	22%
2005	15332	2334	1789	2519	14	221	22209	7915	69%	36%
2006	17102	3202	2235	5122	1615	240	29516	9055	58%	31%
2007	18520	3659	2831	4737	9925	233	39905	12780	46%	32%
2008	26015	16557	3897	9542	2003	579	58593	19890	44%	34%
2009	22068	6204	4490	9043	17904	0	59709	29598	37%	50%
2010	25689	7259	5380	4900	1624	0	44852	25939	57%	58%
2011	33785	8817	6148	7052	8163	2866	66831	21153	51%	32%
2012	38185	11317	6713	4694	14255	0	75164	24067	51%	32%

Source: Authors' Computation.

From the Table, it can be observed that the ratio of Statutory Allocation (SA) to Total Revenue (TR) were averagely above 50 over the period. This implies that the bulk of government revenue comes from Federal Government Statutory Allocation except for the year 2008 and 2009 when there seems to be a short fall. This, as evident from the Annual Financial Statements, is as a result of one off receipt and increased loan revenue in 2008 and 2009 respectively. Also, the table shows that the ratio of Capital Expenditure (CE) to Total Revenue (TR) ranges from 14 to 43 except for 2010 and 2011 when the Capital Expenditure as a percentage of Total State Revenue stood at 50 and 58 respectively. This trend indicates that on the average, the state government spends less than 50 of its revenue on capital expenditure while the bulk of government revenue could be said to have been gulped by recurrent expenditure.

Table 2: Descriptive Statistics Analysis of Impact Fund Adequacy on Budget Performance

	Mean (N'b)	Max (N'b)	Min (N'b)	Skewness	KurtosisJarqueBera	
CE	12.1	29.6	1.8	0.567	1.790	0.423
SA	17.4	38.2	2.9	0.430	0.262	0.669
IGR	4.9	16.6	0.5	1.337	1.930	0.082
GR	3.8	9.54	0.4	0.583	.2.140	0.519
VAT	2.8	6.71	0.5	0.653	2.065	0.446
EIL	4.7	17.9	0.01	1.380	1.576	0.833
01	0.3	2.87	0	1.212	1.87:2	0.754

Source: Authors' Computations

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A descriptive statistics including mean, maximum, minimum, skewness, and kurtosis was computed to show the distribution of the dependent and independent variables used in the study. The variables as shown in Table 2 has a mean range of between N17.4billion and NO.3billion with statutory allocation having the highest mean value and other income source having the lowest mean values implying that the bulk of government revenue source comes from the statutory allocation. The distribution also shows a maximum revenue allocation source ofN38.2billion while nil value from other income constitutes the minimum value. In addition, the skewness and kurtosis statistics as shown in Table 2 indicates that the data are normally distributed as these values are within the cut of point of -3 and 3 (Peck, *et aI.*, 2008). Furthermore, the Jaque- Bera statistic, a technique which shows any departure from normality, was statistically insignificant for most of the models giving further support that the data of the study are normally distributed.

In an effort to address the research objectives raised, the result of the multiple regression analysis is shown in Table 3.

Table 3: Summary of the Regression Analysis Results

Variables	Coefficients	t-values	Probability
Constant	4.65	0.39	0.700
SA	-0.56	-2.39	0.044**
IGR	-0.18	-0.60	0.565
GR	1.51	4.13	0.003***
VAT	6.07	5.45	0.001 ***
ElL	0.03	0.17	0.872
0I	-2.51	-2.80	0.023**
Adjusted R^2	0.97		
R^2	0.96		
Durbin Watson	1.89		
Prob(F -statistic)	0.000003		

Source: Authors' Computation

Note: ***, **, * indicates significance at 1%, 5%, and 10% levels respectively

The regression result shows that the estimated model is good as it has a R^2 of 0.96. This shows that 96 of the variation in the dependent variable can be explained by the explanatory variables. The goodness of fit of the model is also reliable as probability of F -statistic is also highly significant at 1% level. The Durbin and Watson (1951), cited in Mohsan (2011) stated that the value of the test closer to 2 or 2 shall mean nearly zero. Hence the result value of 1.89 confirms absence of autocorrelation in the model. In

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addition, the autonomous coefficient of 4.65 confirmed that government will expend on capital project disregards any sources of funds because the existing capital projects need to be maintained if new ones are not coming. We expect a positive relationship between the dependent variable and all the independent variables.

As presented in Table 3, the result shows a positive significant relationship between grants and Capital expenditure on one hand and value added tax and capital expenditure on the other. Both explanatory variables were significant at 1%, implying that grants and value added tax have major and positive influence on government capital expenditure. This finding is also in tandem with the structural functionalist theory adopted in study as it provide the theoretical explanation on the fact that adequate utilization of fund to finance capital projects enhances economic growth.

However, the result as presented in Table 3 shows that statutory allocation is negatively significant to capital expenditure at 5%level of significance. This result contradicts the study's positive a-priory expectation. This result is however surprising considering the fact the largest chunk of government revenue source come from this source. This perhaps, could not be unconnected with the fact that most states usually divert their statutory allocation to recurrent expenditure. This accounts for low pace of development in Nigeria despite persistent increase in allocation from Federal Government annually. Consequently, this result contradict the structural functionalist theory as the result show no influence between the major revenue source and the capital expenditure that is expected to enhance economic growth and development. The result is in consistent with Olurankinse (2012) that found a negative relationship between Budget performance and fund availability.

Furthermore, two of the explanatory variables; internally generated revenue and external and internal loan show .insignificant relationship with capital expenditure, implying that these variables have no influence on government expenditure profile. The results, even though contradict our expectations is consistent with the findings of Akpan (2004) who also find no significant relationship between revenue source and government expenditure.

5.0 CONCLUSION AND RECOMMENDATIONS

The study examines the impact of Fund adequacy on budget performance using Kwara State as a case study. In achieving this aim, secondary data collected from the Annual Report of Kwara State spanning over fourteen years period. The dependent variable a measure of budget performance represents the total actual capital expenditure made by the state for a period of fourteen years. The independent variables (i.e fund adequacy) were proxied by six major sources of revenue to the state. These include State Statutory Allocation (SA), Internally Generated Revenue (IGR), Grant & Reimbursement (GR), External & Internal Loan (EIL), Value Added Taxes (VAT) and Other Incomes (OI). The study found that the statutory allocation which constitutes the major sources of revenue to the state government has a significant negative impact on budget performance.

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This perhaps, could not be unconnected with the fact that most states usually divert their statutory allocation, internally generated revenue and other income for recurrent expenditure like payment of staff salaries, overhead commitment to mention just a few in the state. (see Felix, 2012). Most often, state government resort to the use of other sources of revenue including Internal and External borrowing, Grant and reimbursement revenue and VAT to finance capital expenditure which in turn improves the welfare of the entire citizenry as well as enhance economic growth and/or development in the state. Another reason that can be ascribed for budget failure or non-performance can be traceable to the inefficiency on the part of those managing the state government funds. Other reasons that could be ascribed to it are policy related issues (Olurankinse, 2012).

In view of the findings, the study recommends among others the need to ensure proper budget effectiveness, regular monitoring and evaluation of programmes and projects. Consequently, it is necessary to develop an appropriate mechanism for monitoring the budget in order to enhance effectiveness in the level of budget achievement. In addition, there is the need to ensure proper monitoring of statutory allocation to states in order to enhance transparency and accountability in the Nigeria public sector.

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