BUDGET PADDING AND THE NIGERIAN ECONOMIC GROWTH

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Abstract

This study examines budget padding and the Nigerian economic growth with the objective of establishing if budget padding has any significant relationship with the economic growth of Nigeria since it is the desire of every government to grow its economy. To achieve this, data are obtained from the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN) statistical bulletin. Through the use of E-view, regression analysis is used to ascertain if there is a relationship and T-test analysis to determine the kind of relationship that exists between budget padding and economic development respectively. The result shows that there is a positive and significant relationship between budget padding and economic growth. We therefore reject the Null hypothesis and accept the Alternative, concluding that there is a significant relationship between budget padding and economic growth. The study recommends therefore among others, that the roles by all parties involved in the budgetary process be clearly defined with constitutional backups, that in the case of conflict, duplication or misconception of roles, the court should be called upon for proper interpretation of the rules, the issue of secrecy should be done with and that alterations made by the National Assembly be made public by them.

Keywords: Budget, Budget padding, Economic Development

Introduction

Budgets are usually prepared against a succeeding period. It helps to lay a possible financial outlook of how that succeeding period will look like. Because planning is very important, individuals, organizations and governments strategize on how the following period will be administered financial wise.

Ukpai (2003) defines budget as a quantitative expression of the objectives and goals of an enterprise. The budget portrays a master plan of the intentions of the organization which indicates what expected revenue and projected expenditure will be.

While budget is the quantitative expression of the objectives and goals of an enterprise, budgeting is the process of preparing the budgets for use in measuring and controlling the achievement of an organization objective (Umeaka, 2010). Whereas budgeting has been an age long practice and has been accepted by many, there is a new twist to this in recent times. Padding the budget, otherwise known as budget padding has become a topical issue in Nigeria. In the Nigeria context, the budget proposal is prepared by the Executive with the president taking charge and presented to the National Assembly in a joint session of both the Senate and the House of Representatives. At the point of returning the budget to the president for appendage of his signature after it has been scrutinized and passed, it is usually alleged that padding has taken place, hence generating heat in the polity.

Merriam Websters Collegiate Dictionary, Eleventh Edition defines padded as 'to furnish with a pad or padding, to expand or increase especially with needless, misleading or fraudulent matter'. Therefore budget padding simply means the deliberate increasing of the budget proposal to become larger than the actual estimate (Theophilus and Perpetua, 2016).

Wahab as cited by Theophilus and Perpetua (2016) asserts that padding the budget is a practice that some people use in business when submitting a budget for approval, and that it artificially inflates the proposed budget in order to give the budget room for expansion or in order to carter for unexpected costs.

A budget is expected to give the managers of the economy the direction to follow since all aspects of the economy are covered. However, with the vexed issue of budget padding, one will want to know the relationship this will have on the economic growth, hence this study is set out to ascertain if budget padding has any significant relationship with the GDP of the country.

Budgeting Process

Amupitan (2016) asserts that the process of budget making in Nigeria is a joint responsibility of the president and the National Assembly, because it is clearly stated in section 81 sub-section (1) of the constitution of the Federal Republic of Nigeria 1999 as amended, that the president shall cause to prepare and lay before each House of the National Assembly, at any time of each financial year, estimate of the revenue and expenditure of the federation for the next following financial year. As soon as this is done, each House of the National Assembly is expected to commence what is known as legislative debate of the estimate of revenue and expenditure as submitted by Mr. President. And of importance again is the provision of section 59 of the constitution of Nigeria which states that the budget as presented by the president must be in the form of an appropriation bill. And a bill, of course, is what initiates a law; law is passed through a bill introduced into the House. So the moment the president presents the budget to the National Assembly, then it becomes an appropriation bill. And the National Assembly must therefore exercise their constitutional powers under section 58 and 59 of the constitution to pass the bill to become a law. When we talk about a budget within the context of a country, we are therefore talking about a law.

Conceptual Framework

Tracing the origin of the word budget, Perrin (as cited by Theophilus & Perpetua, 2016) asserts that the word emanated from the French word "bougette" which means "little bag".

Ojo and Chukwu (2007) see budget as "a plan for coordinating the various operations of the business expressed in financial terms", further alluding that it is a detailed schedule of production which the management deems to be most profitable for the ensuing period.

Idoniboye (2004) defines budget as "a detailed plan of action for a future period, either for the business as a whole or for any sub-unit", affirming that the budgetary process is a means of translating the objectives of the business into such detailed plans of action.

Budget is a monetary plan prepared in a quantified form and approved prior to a specific period of time which normally shows expected income to be generated and/or planned expenditure to be incurred during the period and the capital to be used up to achieve the given objective (Chartered Institute of Management Accountants (CIMA), Adeniji 2004). According to Okpanachi and Muhammed (2013) budgets are central to the process of planning and control which are major activities of management in all organisations.

Meigs and Meigs (2004) see budget as a detailed financial plan, showing the expected means by which the financial and operational goals of an organization can be realised.

Omolehinwa (2003) describe budget as the plan of dominant individuals in an organization that are shown in monetary terms which are subject to the hurdles imposed by various factors indicating how the available resources may be used up to realise whatever the dominant individual agreed to be the organization's proprieties. Budget is viewed as an instrument which stipulates policies and programmes targeted at realizing the developmental objectives of a government (Oke, 2013).

Malgwi and Unegbu assert that budget is a means of communicating to business stakeholders in monetary terms of what the Firm/Organization intends to spend and how much revenue they intend to generate from that expenditure for a given period.

Having seen various authors concept about budget, it is however necessary then to also look at the concept of budget padding. Delee (2017) defines budget padding as the means of making the budget proposal larger than the actual estimates for the project. It occurs through the increasing of a project's expenses or decreasing its expected revenue. Kperogi (2016) opines that padding is stuffing something with extraneous material in order to firm it up. It is a terminology which is usually used in accounting practice when the estimates of a budget are artificially inflated to give a project room to expand or to cover unexpected costs (PLAC, 2016). Theophilus and Perpetua (2016) citing Falana (2016) asserts that Padding takes place when legislators resolve to rewrite the budget by introducing new items outside the estimates prepared and presented to them by the president.

Economic growth can be viewed as a result obtainable when a country makes conscious effort to increase her political, social and economic well-being of its citizens. It is a policy intervention measure which centres on economic and social well-being of the people. Economic growth is a phenomenon of market productivity and upward movement of GDP of an economy (available online).

According to Krueger (2006), economic growth is the process whereby simple, low-income economies are transformed to modern industrial economies. It is the growth of wealth of countries, regions or communities for the well-being of their people. In terms of policy, economic development is regarded as the ability to better the economic well-being and standard of living for a state through the establishment of jobs, retaining them and encouraging incomes and the tax base (available online).

Economic development generally, is usually the focus of government at all levels to elevate the standard of living through jobs creation, the initiation of new ideas, improving innovations, creation of wealth and on the whole better the life of its citizens. This can be achieved by improving the infrastructure and social amenities, improving the educational system, enhancing public safety through fire and police service, encouraging businesses to open locations in communities, etc.

Theoretical Framework

This study adopts three theories that further explain why a study of this nature is relevant and give a foundational background of the concepts addressed. These theories are the Stewardship theory, Social contract theory and the Stakeholders theory.

Stewardship Theory

The Stewardship theory states that when managers are allowed to act just the way they will want to act, they will act in a manner that will not be responsible enough as stewards of the assets in which they control. Generally, managers are viewed as good stewards who will act in the overall best interest of the owners of the business (Donaldson & Davis, 1991). Under the stewardship theory, company executives are expected to protect the interests of the owners or shareholders and also make strategic decisions on behalf of the business and their principal. The objective behind this is to create and maintain a prosperous organization such that the shareholders will experience prosperity. The government (Executive) in this regard viewed as the manager of the nation’s resources prepares the budget with the aim of managing the resources on behalf of the citizenry, hence the relevance of this theory.

Social Contract Theory

The Social Contract Theory implies that people co-habit in the society in accordance with an agreement that set and established moral and political rules of behaviour (Ethics Unwrapped, 2018). Some people believe that if we live according to a social contract, we can live morally by our own choice and not because a divine being requires it. Government has the responsibility of providing security and social welfare for its citizens and this is done by making provisions for such through the preparation and implementation of the budget.

Stakeholders Theory

The Stakeholders Theory formulated by Edward Freeman in his book entitled Strategic Management: A Stakeholder’s Approach, states that the purpose of a business is to create value for stakeholders and not just for shareholders only who he said, are just one of the many stakeholders of the business; and he described the stakeholders as those who invest or are involved in, or that are affected by the company’s decisions. Businesses need to consider customers, employees, suppliers, communities, shareholders, government, etc. while carrying out their activities. In this instance, the government takes into consideration the stakeholders in the economy and on sector by sector basis while preparing budget.

In their study on Budget Padding: The Nigerian Perspective, Theophilus and Perpetua (2016), placing emphasis on the 2016 budget, used content analysis research design to ascertain reasons why budgets are padded, effects of budget padding and moral implications of budget padding. They found out that deception in budgeting leads to budgetary slack, a phenomenon that involves a process of understating revenue and overstating costs. The study concluded that budget slack and budget padding can result from two sources: forecast inaccuracy, which occurs as a result of unintentional estimation errors and changes in efficiency; and intentional manipulation which occurs when the efficient accomplishment of a budgeting process depends on obtaining information from subordinates who are in close proximity to resource usage.

Methodology

The data for this study were sourced from the Securities and Exchange Commission (SEC) and Central Bank of Nigeria (CBN) statistical bulletin. Budget padding figures were arrived at after deducting the proposed budget values from the approved budget values on a year by year basis from the years under review and the period spans from 2007 to 2016.

This research work tends to test the hypothesis which states that:

H0: Budget padding has no significant relationship with the GDP of the economy.

Data Presentation and Analysis

Regression Analysis

Dependent Variable: Y
Method: Least Squares
Date: 05/08/18 Time: 22:16
Sample: 1 10
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	837470.3	74134.55	11.29663	0.0000
X	133964.1	458004.8	0.292495	0.7774

R-squared	0.010581	Mean dependent var	850866.7
Adjusted R-squared	-0.113096	S.D. dependent var	174727.4
S.E. of regression	184343.4	Akaike info criterion	27.26384
Sum squared resid	2.72E+11	Schwarz criterion	27.32436
Log likelihood	-134.3192	Hannan-Quinn criter.	27.19746
F-statistic	0.085553	Durbin-Watson stat	0.142988
Prob(F-statistic)	0.777351		

Y = f(x)
Y = bx0 + bx1 + u
GDP = b0 + bpad + u

Where:
GDP = the economy
b0 = constant
b1 = budget padding
u = stockastic variable or error term

From the regression result analysis with the aid of Eviews package, the estimated regression line is

GDP = 837470 + 133964

The co-efficient value of 837470 (b0) shows the mean value of the dependent variable when all the independent variables are equal to zero. This means that 837470 (b0) is equal to GDP.

Since 133964 is the estimated value for budget padding (b1), it implies that a positive relationship exists between budget padding and GDP, hence we reject the Null hypothesis and accept the Alternative hypothesis.

From the regression analysis computed above, T-statistics shows that there is a positive and significant relationship between budget padding and GDP since the probability value of 0.000 is less than 0.05.

Conclusion

The study reveals that while budget padding is perceived by many as an illegal and criminal act perpetrated by a handful of persons in the National Assembly for their personal benefits as opposed to public interest, the perpetrators actually hinged their actions on the constitution of the country which gives them legal backing. Empirically, the study showed that budget padding has a significant relationship with the economy which we represented with the Gross Domestic Product (GDP). It was discovered that some few persons in the National Assembly and even the Executive have been fingered in the practice and that it has been an ongoing thing for quite some time now but only became pronounced in the 2016 budget and eventually sparked public outcry and debate. If this practice is allowed to continue, it will portray the country in a negative light before the international community, thus inhibiting the benefits it ordinarily would have derived, like Foreign Direct Investment (FDI).

Recommendations

Based on the completion of this study, the following recommendations are thus put forward:

1. The roles by all the parties involved in the budgetary process should be clearly defined and the various constitutional backups be provided.
2. In the case of any conflict, duplication or misconception of roles, the courts should be brought in for proper interpretations of such roles.
3. Any person(s) found guilty should be made to face the full weight of the law not minding their party affiliations so as to deter others.
4. The issue of secrecy should be done away with. Appropriation bills should be made public before it is presented to the national assembly so that the public will be abreast with the exact figures if padding occurs.
5. Pressure should be intensified by Non-Governmental Organizations (NGOs), professional bodies and the general public on both the executive and the legislature to act in the best interest of the public and openly too.

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