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Issues in Government Budgetary System: Evidence from Developed and Developing Economies

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ABSTRACT

Globally, budgeting is an integral part of public financing which is the nerve-center of governance at all levels. Despite various frameworks to strengthen budget effectiveness in Nigeria, it seems as if the challenges with budgetary system in Nigeria still remains. This is evident from the incessant loan options by the federal government. It is on this backdrop that this study examined the budgetary system in both the developed and developing economies. This paper adopted the Content Analysis Method (CAM). This was done by analyzing each context in the articles relating to issues in government budgetary system of both the developed and developing economies. From the review, it was discovered that most of the budgetary issues found in the developing countries are not present in the developed economies. The developing economies are faced with budgetary issues such as the poor budget planning, fraudulent manipulations, lack of integration and information sharing across departments and agencies**,** untrained budget staff**,** inflation**,** non-adherence to budgetary control measures**,** and political environment. Based on the major findings of this paper, it was concluded that the budgetary system in the developing economies are still faced with strong issues since these economies have neglected a sound budgetary and accounting procedures, impeachment or dismissal due to high political backups. It was recommended that government should enact an enabling law that will ensure the workability of its budgets according to plans and to reduce corruption by the public officers through an effective budget control checks.

Keywords: Government finance, developed countries, developing economies, budget performance, public budgetary systems

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1 INTRODUCTION

Government budgeting is the critical exercise of allocating revenues and borrowed funds to attain the economic and social goals of the country. It also entails the management of government expenditures in such a way that will create the most economic impact from the production and delivery of goods and services while supporting a healthy fiscal position (Nwaorgu, 2018). A public sector budget is used as an instrument to allocate public resources toward achieving some public value. Public decisions must equate the cost of public action against the worth of the activity to society. Fisher, et al. (1995) define budget as "a description of spending and financing plans of an individual, a company or a government. It is also a plan quantified in monetary terms prepared and approved prior to a defined period in time, usually showing planned income to be generated and/ or expenditure to be incurred during that period and the capital to be employed to attain given objective.

Globally, budgeting which an integral part of public or government is financing is the nerve-center of governance at all levels. This is particularly because of its central role in the determination of government revenue and expenditure. It therefore follows that without budgeting; the multi-layered levels of government cannot raise revenue and engage in public expenditure. Budgeting is therefore at the heart of the execution of government policy and the actualization of its various programmes, projects, operations and activities. Moreover, as far as budgeting is concerned with the allocation of funds to different sectors of government, it is critical to sectorial and national development. Also, in so far as the generation of such funds and their allocation for governmental activities has to be authorized and checked, budgeting is a key instrument of public financing management (Adetayo, 2017). It is instructive to note that budgeting encapsulates budget preparation, authorization, implementation, accounting and auditing. Implicitly, budgeting does not terminate at preparation stage; rather, it covers the above range of functioned activities in such a manner and fashion that the process can be explicitly describe as cyclical. As a consequence, budget planning should be accompanied with appropriate implementation after authorization by the relevant legislative authorities (Plebn, 2009). The truism of this assertion is evident in the fact that budget plans cannot be translated into concrete realities regardless of how beautifully crafted they are. In fact, budget plans are dormant until they are activated through implementation into the envisioned tangible projects, programmes, operations and activities.

A budget deficit can pose several challenges for developing countries, such as debt accumulation and interest payments, inflation and currency depreciation, crowding out and reduced investment, and reduced growth and development. Debt accumulation and interest payments can increase the government's liabilities and reduce its fiscal space for other spending, while inflation and currency depreciation can erode the purchasing power of the people and make imports more expensive. Crowding out and reduced investment can occur when the government borrows from the domestic or foreign markets, leaving less funds available for the private sector. This can result in lower public and private investment, lower consumption, and lower confidence in the economy, leading to reduced growth and development (Allen, 2008). Among the most difficult problems faced by developing countries is that of balancing a budget which is swollen by the cost of development. This problem is enhanced both by the slowness with which revenues grow, and by technical difficulties in controlling expenditures. The Fund is alive to the importance of the problem and is now able to offer help to its members in this field (Andrews, 2006).

The importance and critical role that budgeting is expected to play in the development of all nations largely explains why several scholars and experts have devoted a growing attention to the academic discourse on the topical issue. For instance, Ianna (2018) examined budget implementation and governance in Nigeria and contended that poor governance results to poor budget implementation which occurs when the desired result on the target beneficiaries is not actualized. Onho & Zayol (2017) also explored budgeting and budgetary control in the public sector using ministry of finance in Benue State as a case study. The findings of the study revealed that budgeting and budgetary control in the public sector is weak and despite the effort of government, budget and budgetary control has failed because of dependence on federation account, untrained budget staff, non-adherence to budgetary control measures, corruption, inflation and political environment. On a general note, a budget is a financial plan that serves as a formal statement of revenue and expenses of an Organisation. A budget provides a time frame for decisions about the services and activities. It provides indications of revenue flows. Budgets have three general functions; budgeting; control accountability and evaluation. There are three types of control: expenditure control; accountability for purposes of management and efficiency; evaluation for purposes of monitoring, assessing and planning for future service requirements Control constraints. At the levels of local government, public budgets were originally designed to prevent pilfering. This is important because budgetary control acts as a deterrent against misappropriation of funds.

2 LITERATURE REVIEW

2.1. Conceptual Framework

The following were conceptualized to give the paper a concise direction, they are: Government Budgetary System, Developed Economies, Developing Economies.

i. **Government Budgetary System:** This system is established and developed as a way for the National Assembly to control and organize the financial activities of the government (the executive), with the aim of effective control of the executive by the legislature (Onho & Zayol, 2017).

ii. **Developed Economies:** A developed economy is one with sustained economic growth, security, high per capita income, and advanced technological infrastructure. It is also called an industrialized country which has a mature and sophisticated economy, usually measured by gross domestic product (GDP) and/or average income per resident. Developed countries have advanced technological infrastructure and have diverse industrial and service sectors (Onho & Zayol, 2017).

iii. **Developing Economies:** Developing economies, once referred to as lesser-developed economies (LDCs), are characterized by average infrastructural facilities, moderate growth rates, an imbalanced social programs (Onho & Zayol, 2017).

2.2. Theoretical Framework

This study is anchored on the institutional theory of organizations and was used as the analytical lens to understand the budget issues. Institutional theory was developed to explain how established social structures including laws, norms and cultural practices influence individual and group behaviours in organizational environments. As the fundamental concept of the theory, institution refers to rules, norms and cultural practices including routines that have attained some level of stability and thus enable or constrain social life (Mekonnen & Wubishet, 2016). From this perspective, the theory focuses on how government officers' will, social actions, interactions and choices are shaped to affect the budgetary system. The key principle of the theory is that institutions have performative effects on social life, performances and deviation from norm. In this paper, institutions are considered as established rules, norms and practices that influence public sector activities, including government budgeting.

Two approaches of institutional theory discussed in the organizational studies literature are:

i. Institutional Factors and

ii. Institutionalization Process (Mignerat & Rivard, 2009).

The two approaches account for the stable and the dynamic perspectives of institutions. The factors approach views regulative, normative and cultural institutions as mechanisms of actions in organizations and their environments and within the information systems literature, the factors approach has been used to study the impact of institutional pressures on budgetary and information systems adoption and use (Mekonnen & Wubishet, 2016). However, while this approach has been found useful for understanding the effects of social structures on information system activities, it fails to account for the dynamic aspects of institutions in terms of how they emerge, stabilize and eventually get replaced or disappear.

The institutionalization process approach seeks to explain how institutions emerge, become stable, change and finally phase out. The institutionalization approach has been found useful for studying change-related information systems phenomena, including systems development, implementation, adoption and use (Mignerat & Rivard, 2009). As this paper is concerned with government budgetary system which is a form of institutional change, the paper considered the institutionalization approach as the appropriate theoretical lens.

2.3. Empirical Review of Literature

In this segment, issues in the government budgetary system of both the developing and the developed economy were submitted through past empirical studies.

Ugoh & Ukpere (2009) investigated the problems and prospects of budgeting and budget implementation in local government system in Nigeria Local Government has historically provided services of importance to its citizens in rural and urban areas in Nigeria. These services include provision of basic amenities like water, roads, health facilities, education, etc. Of late, the role of local government in providing these services has attracted public concern. Furthermore, it has generated national crisis as a result of increasing rate of poverty among the rural people. Some scholars view this development to poor budgeting and implementation while others associate it to the federal and state government's interference.

Achi (2013) investigated poor budgetary performance: Causes and implications for development. The research was a case study and data were sourced from government workers using a questionnaire. A total of 150 questionnaires were distributed and 119 retrieved. Data obtain were analyzed using descriptive and empirical analyses. The descriptive analysis employs the use of tables, percentages and charts to describe the characteristics of the responses in the questionnaires. The empirical analysis employs the use of multiple regressions of the ordinary least square and covariance and correlation analyses. The results of the analyses show that factors such as poor planning, fraudulent manipulation, lack of adequate professional knowledge, delay in passage of budget, late release of fund are all responsible for poor budget performance in the state. The implication is that it discourages investors due to poor condition of the state infrastructures, it reduces the standard of living of the people of the state, and it slows down economic development through wasteful spending, extra budgetary spending and debt accumulation.

Nwaorgu, (2018) investigates the effect of dominant individuals on budgetary system in Nigeria. The methodology used in the study is content analysis method. The literature and empirical review reveal that the activities of dominant individuals range from manipulation of budget items before and after approval of annual estimate: embezzlement and fraudulent activities: lack of proper budgeting processes is responsible for the failure of budget in Nigeria. The recommendations therefore include the need for budget reform in Nigeria. Budget should be based on thorough evaluation of revenue and needs and the issue of probity, transparency and accountability should be properly addressed in the budget process. The implication of findings includes high level of youth unemployment, poverty and corruption as well as causing underdevelopment of Nigeria.

Ianna (2018) examined budget implementation and governance in Nigeria. In any polity, be it developed, developing or under-developed, the idea of governance conjures a theoretical undertone of the social contract and the common good which budget implementation is expected to assure. Ianna (2018) contends that poor governance results to poor budget implementation which occurs when the desired result on the target beneficiaries is not actualized. The paper after analyzing several ways through which governance can improve budget implementation in Nigeria, went further to recommend among other things, that all the parties concerned especially the target beneficiaries should be involved at the formulation stage of the budget so as to accommodate all inputs. This will go a long way in providing the needed commitment by all parties who will see the budget as originating from them.

Onho & Zayol (2017) explored budgeting and budgetary control in the public sector using ministry of finance in Benue State as a case study. To ascertain the effectiveness of budgets control and the problems affecting budgeting and budgetary control, the writers used literature review as their main source of data using ministry of Finance, Makurdi as a case study and also made use of personal observations. The writers found that budgeting and budgetary control in the public sector is weak and despite the effort of government, budget and budgetary control has failed because of dependence on federation account, untrained budget staff, non-adherence to budgetary control measures, corruption, inflation and political environment. The author recommended among others that there is a need for budget culture in the public sector, sharpening the budget monitoring and implementation procedures in the public sector, sustaining greater accountability and transparency and making the need for budgeting realistic and not just a formality.

Onyiah, et al. (2016) studied the impact of budget implementation and control reforms of the Federal Government of Nigeria with a view to analyzing their impact on resource management, level of productivity and efficiency and personnel and overhead costs in Nigeria. The study employed ex-post facto descriptive research design. The respondents comprised of Accountants and Economists who are in the federal civil service in Enugu state. The primary data were collected with the aid of a structured 5-point likert scale questionnaires. The findings showed that poor project conceptualization, design or planning practices by Ministries, Departments and Agencies (MDAs) resulted into low resources management. Respondents also perceived that there is no significant reduction in the personnel and that the effectiveness of Medium Term Revenue Framework and Medium Term Expenditure Framework can be achieved through budget discipline. Participatory monitoring and assessment of government projects by host community-members and identifications of opportunities/Challenges for Government Services are recommended.

Asogwa (2015) assessed the measures that would stem the tide of low budget implementation in Nigeria public sector using South-East geopolitical zone of Anambra, Enugu, Abia, Imo, Ebonyi and Enugu States as case study. To achieve this aim, conceptual, historical and theoretical framework was adopted in literature review. Three research hypotheses were formulated and tested in empirical setting using chi-square (X^2) statistical tools. Findings of the study revealed that poor budgetary implementation in the Nigerian public sector have had significant negative effect on the Nigerian economy. The study showed that factors such as late presentation and passage of appropriation bills, delay in release of funds for capital projects, ineffective planning, corruption in the public sector amongst others have contributed to low budgetary implementation in Nigeria. The study concluded by highlighting that effective planning and the adoption of responsibility accounting system will assist in enhancing budget implementation in Nigeria.

In the developed economies, digitalization of activities has greatly influenced the government budgetary system, notwithstanding, the benefits of digitalization and its deployment in the public sector can be a challenge. Generally, the nature of the culture and structures in the public sector in the developed countries can be barriers to digital innovation and in turn negatively affecting the budgetary system (Falk, et al. 2017).

The traditional public sector is characterized by hierarchical and disparate structures as well as bureaucracy and paper-based processes that cause inefficiencies and delays. Paradoxically, bureaucracy in the public sector was intended to promote efficiency, equality and democracy. Yet, it has increasingly become a source of delays, inefficiencies and excessive paperwork (Wiredu, 2012).

Other issues rooted in the developed economies is resulting from the public sector structure and culture including operational divisions and politics as well as resistance to new innovation due to rigid economic policies. Functional insularity as well as lack of integration and information sharing across departments and agencies also pose challenges to digitalization. Resistance from civil servants due to fear of losing jobs and also constrains digitalization in the public sector (Zhao & Khan, 2013).

Despite its usefulness, digitalization of documents and activities in the public sector has been associated with challenges as it sometimes fails to consider differences between agencies in terms of access to technologies and related resources (Calvo & Campos, 2017). In situations where, some agencies are more advanced than others, formalizing and standardizing digital processes across horizontal and vertical hierarchies of governments can be problematic to budgetary system. This challenge is particularly pronounced in the developed world, where due to digital divides, agencies lack equal access to technologies (Falk, et al., 2017).

3 METHODOLOGY

This paper adopted the Content Analysis Method (CAM). This was done by analyzing each context in the articles relating to issues in government budgetary system of both the developed and developing economies. This method is also called the Empirical Review of Past Literatures (ERPLs).

4 DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Issues Identified

From the literature review, the following issues are all responsible for poor budget performance:

4.1.1 Developing Economies

The identified challenges with budgeting in Nigeria are: Poor Budget Planning, Inflation, Fraudulent Manipulation, Functional Insularity, Lack of Integration and Information Sharing Across Departments and Agencies, Lack of Adequate Professional Knowledge, Over Dependence on Federation Allocation, Untrained Budget Staff, Non-adherence to Budgetary Control Measures, Lack of civil society participation , Political Environment, Poor Governance, Increases in the Elderly and Youth Population, Corruption in the Budgetary Processes, Delay in Passage of budget, Late Release of Fund and Agencies lack Equal Access to Technologies.

i. **Poor Budget Planning:** Bad budgeting can lead to negative long-term financial impacts and difficulties in reaching government social goals and objectives. Without good budgeting practices, governments may be unable to effectively allocate resources where they are most needed and not know the difference until it is too late. The causes of Poor Budget Planning are setting of unrealistic goals, Lack of commitment, not having enough funds, missing out the miscellaneous expenses and Lack of emergency planning.

ii. Inflation: This leads to a rise in prices, which means that one unit of money buys fewer goods and services. This loss of purchasing power impacts the cost of budgeting for the public which ultimately leads to a deceleration in economic growth. The consensus view among experts is that sustained inflation occurs when a nation's money supply growth outpaces economic growth.

iii. Fraudulent Manipulation: The most specific consequences of budgetary corruption are closely linked to government efficiency and effectiveness. Budgetary corruption: Misallocates scarce resources. Resources are diverted from government coffers into private hands. Important expenditures for development and for social safety nets are reduced. Limited funds for priority social sector spending are reallocated to areas that benefit few people.

iv. Late Release of Fund: Late submission and adoption of the budget can have seriously adverse knock-on effects for the rest of the PFM cycle. Poor procurement planning, for example, undermines efforts to establish credible cash planning practices that meet suppliers' bills in a timely fashion. Ongoing development projects being implemented by line ministries and agencies may be stalled or financed through the creation of future financial obligations. Poor cash planning methods can obscure in-year prioritization and create risks of default on debt service and other statutory expenditures. Delays in the release of cash against appropriations can encourage end-of year spending splurges, at times complicating monetary policy management.

v. **Delay in Passage of budget:** Late passage of the annual budget undermines efforts to build a good budgetary system that would be achieved through continuous review and improvements to the existing practices. The risk of undermining important budgetary reforms is higher in low-capacity countries where such reforms are still in their infancy. Budget credibility could be at stake, if late approval of the budget compounds existing problems such as weaknesses in revenue forecasting and management of virements. Incentives to replace cash-rationing with better cash flow planning tools may be undermined. If such problems persist, budget reforms that encourage improved sectorial planning with greater integration of externally financed projects within the Government's budgetary process may also be compromised.

4.1.2 Developed Economies

The identified challenges with budgeting in developed economies are: Hierarchical and Disparate Structures, High Bureaucracy, Public Sector Structure and Culture, Public Sector Agencies are more advanced than others and Operational Divisions and Politics

i. **Hierarchical and Disparate Structures:** Common disadvantages of hierarchical structures include: complicated chains of command which can slow down decision-making. Inconsistencies in management at different levels which can impede work, delay in communicating vertically through the levels and horizontally between teams.

ii. **Operational Divisions and Politics:** This will bring about a decrease in productivity. People caught up in budgetary politics pay less attention to their work. Low levels of concentration: Workers who are preoccupied with their personal agendas are less likely to do their best work. Cynicism: This can lead to low morale, lower productivity, and dissatisfaction.

iii. **Bureaucracy:** Due to the developed economies rigid rules and procedures, bureaucracies are often slow to respond to unexpected situations like the emergence of inflation or deflation and slow to adapt to changing social conditions. In addition, when left with no latitude to deviate from the rules, frustrated budgetary staff can become defensive and indifferent to the needs of the people who deal with them.

5 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

From the reviews, it was discovered that most of the budgetary issues found in the developing countries are not present in the developed economies. The developing economies are faced with budgetary issues such as the Poor Budget Planning, Fraudulent Manipulation, Functional insularity, Lack of integration and information sharing across departments and agencies**,** Lack of Adequate Professional Knowledge**,** Over Dependence on Federation Allocation**,** Untrained Budget Staff**,** Inflation**,** Non-adherence to Budgetary Control Measures**,** Inflation**,** Political Environment, Poor Governance**,** Increases in the Elderly and Youth Population**,** Ineffective Planning, Corruption in the Budgetary Processes**,** Delay in Passage of budget.**,** Late Release of Fund, Agencies lack equal access to technologies while the developed economies are faced with budgetary issues like Hierarchical and Disparate Structures, Bureaucracy and Paper-based processes, Public Sector Structure and Culture, Inflation, Public Sector Agencies are more advanced than others, Operational Divisions and Politics.

5.2 Conclusion

Based on the major findings of this paper, it was concluded that developing economies are still faced with strong issues facing budgetary system since they have neglected a sound budgetary and accounting procedures, maintain an adequate and effective system of accounts for safeguarding assets as well as devise a good system of internal control and have been spending funds unlawfully or for purposes not provided by law since public officers do not face impeachment or dismissal due to high political backups.

5.3 Recommendations

Based on the findings, it was recommended that:

i. Government should enact an enabling law that will ensure the workability of its budgets according to plans and to reduce corruption by the public officers through an effective budget control checks.

ii. Budget preparation should start in good time.

iii. Money not accessed during the period of budget implementation could be moved to a more viable project.

iv. Public financial management and decentralization reforms need to be carefully planned together at the national level, otherwise budget planning and execution capacity among subnational governments inevitably unfolds in highly uneven ways.

v. Initiatives to strengthen enabling factors at the national level can begin with basic budget codes and procedures for executing expenditures at the subnational level, then move on to more advanced reforms such as conditions attached to different budget schemes.

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