DISCUSS ON FISCAL DISCIPLINE AND CORPORATE GOVERNANCE IN THE PUBLIC SECTOR IN NIGERIA

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Abstract

Generally, any discussion on corporate governance partly revolves around transparency and accountability and fiscal discipline. The emphasis on transparency and accountability provides the baseline for defining fiscal responsibility and the enforcement of fiscal discipline. Fiscal responsibility and fiscal discipline are political and legal constructs that promote democracy, economic growth, sustainable development and nation building in transitional economies. The near absence of these values especially during the military interregnum in Nigeria created development inertia in the process of governance and social illusions in the relationship between government and the governed. With the rebirth of democratic values in 1999, it became obvious that the context of resource governance must be changed to make way for the attainment of sustainable development through democratic ambitions. Therewith, the federal government carried out some measures of fiscal reforms with a view to stimulating the mechanics of public sector governance and institutional performance. The paper examined the extent to which these reform measures have improved the culture of resources governance within the context of the systemic challenges that confronts Nigeria. From its analysis, the paper concluded that the inherent contradiction in the implementation of fiscal responsibility reforms in Nigeria arises from the inability of Nigerians to generate good ethical relationship with the reform objectives given the antecedent of gross corruption. The paper advocated the sustained re-orientation of Nigerians as a basis for creating the ethical foundation for the promotion and enforcement of fiscal discipline in the public sector.

Keywords: Fiscal Discipline, Governance, Budget, Public Sector

1. INTRODUCTION

The problem associated with public sector governance can be understood within the historical realities that surrounded the Nigerian society. The nation building process throws up many challenges to Nigerians and government. The first challenge was how to evolve a system of governance acceptable to all the ethnic nationalities without leaving any ethnic group disparaged. Accommodation was sought for in federalism and the creation of states and local government councils wherein the sharing of national wealth is guided by the political rationality of intergovernmental fiscal relations. The ultimate goal is to promote even development and good governance. The second challenge arises from the efficient use of allocated resources by leaders at the three tiers of government to improve the well-being of Nigerians. The extent to which the second challenge has been address by the Nigerian government is a function of leadership commitment to national integration and nation building. The third challenge arises from the nature of military governance and its arbitrariness in governance relations with little regards to transparency and accountability. Many of the problems facing the Nigerian nation today were made worse during periods of military misrule. Except for the Buhari/Idiagbon, Murtala/Obasanjo and the Gowon military regimes, military administrations contributed immensely to increasing the rate of poverty, unemployment, inequality, bureaucratic ineptitude, poor budget implementation, corruption and fiscal indiscipline. These problems made structural adjustment reforms inevitable.

In order to strengthen the mechanics of governance, the Nigerian government embarked on a number of fiscal reforms which ranges from the Monetisation policy in 2000, the Fiscal Responsibility Act 2007, the public procurement reforms, Integrated Payroll and Personnel System (IPPIS), the Treasury Single Account (TSA) and the Nigerian Extractive Industries Transparency Initiatives (NEITI) among others. These reform measures were undertaken by the federal government to strengthen the integrity of public sector governance and the efficient delivery of social services. Building blocks were made to guarantee the success of the reforms with the establishment of the Conduct of Conduct Bureau, Economic and Financial Crimes Commission (EFCC) and the Independent Corrupt Practices and Other Related Offences Commission as watchdogs of the code of public sector governance. The paper examines these issues in perspective but within the context of political, legal, economic, and socio-cultural rationality of governance in Nigeria.

2. CONTEXTUAL BACKGROUND

Generally, the rebirth in knowledge, learning and civilisation (renaissance) which emerged as part of the global process of modernisation, ethical reformation and development changed the context of governance all over the world. The renaissance introduced new political, economic, legal, social and cultural values that foster global interdependence, democracy and good governance. To this end, the problem associated with democracy, institution building, nation building and fiscal discipline are better explained within the context of the civilisation that created and sustain it. The civilisation that gave birth to public sector governance in Nigeria is rooted in imperialism and British colonialism. Colonialism created a tribal diversity culture that defines who get what, when and how in the Nigerian polity and foster an ethnic and religious solidarity that has made the fight against corruption difficult between ethnic/religious associates.

The Nigerian federation emerged from the euphoria of attaining political independence on October 1, 1960 to face multiplicity of political, economic and social crisis in governance relation. Part of the crisis culminated into a civil war between 1967 and 1970 and crippled the economy and structurally imposed limitations on political and social relations among the constituent ethnic nationalities. By the early 1970s, Nigeria witnessed an economic windfall due to the rise in the price of crude oil (oil boom) in the international market. The dialectics associated with the economic windfall was the payment of enhanced salary to workers under the Udorji Salary award and the mass retrenchment of civil servants. The attendant trauma on the untimely retrenchment (early retirement) of civil servants snowballs into fiscal indiscipline and inefficiency in public sector governance in Nigeria. It raised the apprehension against retirement into poverty as public servants began to device ingenious means to make ends meet in a manner that became a travesty of good governance. The tolerance of this unethical practice by political leaders provides favourable platform for corruption and high cost of governance above the rational economic principle favourable to sustainable development. The over-bloated size of the public service, the high emoluments of political officeholders and their seeming indifference to corruption produced negative spirals in the development continuum of Nigeria. The above harsh economic realities made debt a viable alternative strategy for economic recovery but this too was incurred above the level the Nigerian economy can sustain. The Structural Adjustment Programme by the military administration of President Ibrahim Badamasi Babangida has the fiscal responsibility measures indexed in it as subsidy removal, currency devaluation, deregulation, downsizing/rightsizing and privatisation and commercialisation of public enterprises. The economic hardship it occasioned is a factor to be considered in the discussion on fiscal indiscipline in Nigeria.

3. CONCEPTUAL REVIEW

The dynamics of public sector governance can better be understood within the context of fiscal discipline and corporate governance as discussed in the foregoing sections of this paper.

3.1. Fiscal Discipline

The concept of fiscal discipline is used by scholars and professional bodies to convey a definitive culture of efficient resource management and economic governance. It is an ethical requirement in public and private administration upon which democracy and sustainable development can be promoted. It bestows a multi-cultural and multi-sector ethics on public officials, the electorates, tax payers and corporate individuals. Musgrave (1959), Musgrave and Musgrave (1989, p.101) relates fiscal discipline to the efficient financing of current operations (*sic of individuals, government and corporate organisations).* It addresses the attempts by government and organisations to match its expenditures with available resources and therein promote efficiency in resource management and public administration. Mikesell's (1999, 44-45) thesis on fiscal discipline laid emphasis on incurring public expenditure within the limits of available resources and the efficient implementation of the budgets within the limit of the statutory power allocated to MDAs. All government Ministries, Departments and Agencies (MDAs) are statutorily required to implement the budget within the limits specified by parliament. Parliamentary approval of public expenditure creates economic relationship between fiscal discipline and parliamentary discipline. Parliamentary discipline paved way for the timely passage of the appropriation bill (Axelrod 1988, p.146). Transparency in the budget approval process in the Parliament is a prerequisite to efficient implementation of the budget and good governance. In the same manner, legislative indiscipline distorts the budget process especially if members of the members of parliament ask for gratification from heads of MDAs to approve the budgetary allocation to MDAs. It paved ways for indiscipline in the budget implementation process, illegal virement and fictitious contracting to accomplish budget task without tangible and or intangible result. The relationship between legislative indiscipline and executive indifference is a catalyst to corruption in the public sector. Fiscal discipline is a multitask activity that can only be sustained by multi-stakeholders role commitment and as Schick (2000) argued a multi-year budgeting framework. It is difficult to maintain annual structural balance between current revenue and current expenditures without resorting to multi-year financial planning (Hou 2002).

Multi-year budgeting is popular among developing and transitional economies (Boex, Martinet-Vazquez and McNab 2000) as contained in the Medium Term Expenditure Framework (MTEF) designed to enable governments of transitional economies plan their income and expenditure proposal three years ahead and evaluate the prospective fiscal implications of such decisions (Brigham 1982, p.3). This underscored the need to strengthen the fiscal health and stability of the economy taking into consideration the contingent liabilities of government. Fiscal discipline requires strict budget monitoring, budget transparency and accountability and the monitoring of all financial transactions in the country. Fiscal transparency and accountability demands openness in financial transactions and the acknowledgement of financial payments and receipts by business agents. This stabilising function is performed by the national governments (Musgrave 1959; Oats 1972) and financial institutions and as Gramlich (1987) and Hou (2001)) argued by sub-national governments using counter-cyclical fiscal measures (general fund surpluses and budget stabilization funds). Fiscal discipline is also strengthened by a sound debt management policy. Debt is a macro-economic instrument that provide alternative source of finance for infrastructural development. Fiscal discipline restricts the amount, type and maturity of debts in a long-short term basis after careful debt sustainability and debt profitability analysis to avoid imposing unbearable debt burden on future generation.

The fundamentals of fiscal discipline are:

i. A good budget system;
ii. Revenue and expenditure estimation on a medium- to- long-term basis;
iii. Budget compilation and adoption based on public needs;
iv. The evaluation of the fiscal impacts of budget decisions;
v. The structural balance between current revenues and current expenditures;
vi. The early passage of the budget before or at the beginning of a new fiscal year;
vii. Budget execution or implementation in a prudent manner within built-in counter-cyclical measures; and
viii. Debt profiling around the debt sustainability and profitability levels.

These variables provide the basis for understanding public sector governance, the budget system and fiscal discipline in Nigeria. The subversion of the budget process by the National Assembly and the executive (implementing agencies) could pave way for fiscal indiscipline. Fiscal discipline can also be measured by the level of transparency and accountability in the public procurement circle. It can be undermined where contracts are split into small contract heads in violation of the due process rule.

3.2. Issues with Corporate Governance

Corporate governance is a subject matter that has attracted many intellectual debates from scholars like Hutton (1995), Kay and Silberston (1995), Arrow (1972), Keasey, Wright and Thompson (2007) and Otinche (2013; 2009) among others. It has also received institutional recognition from corporate bodies like the World Bank, the International Monetary Funds, the Organisation for Economic Cooperation and Development, the Council of Europe, Transparency International, the European Union and the African Union among others. The debate on corporate governance has driven the policy making and implementation processes in Nigeria, Africa and the world at large to a level that have made policy reforms in the public sector inevitable. The varied opinions as to what it stand for and what it should be drew the concern of Otinche (2013, p. 70-73) to think that corporate governance emerged from the ideology of governance that conveys the understanding about how policies are initiated, formulated, implemented and adjudicated for the well-being of members of the civil society. He examined this within the rationality of corporate trust and corporate ability and the best practice mechanism it promotes on information disclosure, decision making, efficient financial resources management, board membership and remuneration, employee compensation and mergers, acquisition and take-over. These values enhance the economic potentials of the rule of law. He argued that the prevalence of defective values system like lack of transparency and accountability, poor monitoring and regulatory framework in the Nigerian public sector have affected the growth of democratic institutions and the process of development and nation building. Otinche examine these issues in context with the pension industry in Nigeria and revealed how defective institutional values have led to the poor management of pension fund and the inefficiency in social welfare administration generally in Nigeria. Olowu (1999, p.140) argued that accountability requires clear definition of responsibility, reporting mechanism and a good system of review, rewards and sanction. In another dimension, Fredrick stressed the need to strengthen accountability through the reinforcement of the internal control and self-restraint on public officials through education and training against the external political control mechanism recommended by Herman Finer as a basis for promoting political responsibility (Cited in Olowu, 1999, p. 140). The social (internal) and political (external) control emphasise education and training and the codification of some ethical guidelines for officials to enable them override political decisions that are contrary to public interest and ensure they are accountable to the public or their political representatives (Jabbra and Dwivedi, 1988). Accountability laid the basic foundation for fiscal discipline and structure the public sector into an agent of change and a vehicle for promoting sustainable development. It creates the requirement that those who holds office in the public sector should account for the use of the resources allocated to the office they occupy. This is motivated by the wide spread assumption that public sector organisations are wasteful in the use of public resources.

To strengthened the systems of public administration for good governance, international organisations like the Organisation for Economic Cooperation and Development (OECD), the World Bank, the International Monetary Fund, Global Corporate Governance Forum, Trade Unions, Civil Society Organisations, International Standard Setting Bodies, Transparency International, the International Financial Reporting Standard Board and the European Council among others have set efficiency benchmark for public and private sector organisations. The standard set by these organisations is geared towards addressing systemic dislocations in the management of fiscal and corporate resources and build public trust among stakeholders so that desirable outcome could be achieved for stakeholders (Otinche, 2013, p.71). The central theme that runs through the reform objectives of the Economic Commission for Africa (ECA, 2005, p.3), the African Peer Review Mechanism (APRM, 2008, p.32) and the New Partnership for African Development (NEPAD, 2006, p.28-29) as summed up by Otinche (2013, p.71) is economic governance, political governance, corporate governance and socio-economic development. These institutions brought to the fore the multifaceted nature of the paradigmatic shift in the philosophy of public administration, organisational development and financial management. The adoption of corporate governance values which is a private sector model of enterprise governance into the public sector means that changes must be made on the mode of board appointment and resources management. To this end, professional matrix should be used as the yardstick for appointing board members to oversee the MDAs as against political rationality which was a dependent variable. The appointment of board members on the basis of political rationality should be jettisoned in favour of professional rationality so that the powers, authority and independence of board members could be enhanced in enterprise decision making process. This will strengthened public sector governance in Nigeria.

Corporate governance involves what Blair (1995) identified as the whole set of legal, cultural and institutional arrangements that determine what publicly traded corporations can do, who controls them, how the control is exercised and how the risks and returns from the activities they undertake are allocated. These institutional reforms have brought about fiscal discipline to the general system of public administration and broaden the scope of public sector reform to all sectors of the economy. The reforms manifested in institutional regulation, legal reform, enterprise rights, operational reforms and management reform.

4. UNDERSTANDING THE RATIONALITIES OF FISCAL DISCIPLINE AND PUBLIC SECTOR GOVERNANCE

The relationship between fiscal discipline and public sector governance can be understood within the context of political, legal, economic and socio-cultural rationalities.

4.1. Political Rationality and Fiscal Discipline

The basis for fiscal discipline, democracy, sustainable development, nation building and good governance is laid by politics. Political values and political culture defines the context of public administration and the efficiency and effectiveness with which administrative institutions take decisions that has qualitative and quantitative impact on the well-being of citizens. Generally, laws are made and interpreted within the context of political probability, political realism and political rationality. The motivation to initiate purposeful and goal driven reforms and implement them can only be successful if there is sufficient political will to promote it. The powers of public institutions and the individual that heads it are defined by politics, the constitution and or Acts of Parliament. The constitution sets the standard for political actions, public administration, the fiscal policy, institutional relations and the application of legal remedies to breaches of the law. This can be undermined by non-progressive political culture. Chapter V Part E Section 80-89 of the Constitution of the Federal Republic of Nigeria 1999 spelt out the mode of managing public funds in Nigeria. Section 80 charged all public revenue to the Consolidated Revenue Account wherein section 85 (1-6) addresses the issues relating to the auditing of public account. The enforcement of this statutory responsibility lies in the political will to enforce it. Political will defines the content and context of fiscal discipline and the sanctions imposed on individuals and organisations that violate the fiscal responsibility rule. In Nigeria, the political rationality to satisfy the interest of the political oligarchy by elected political leaders, the high cost of political transition, the economic rationality that sustain the political oligarchy in power and the legal rationality to defend the political decisions of the ruling political party undermine the establishment of a viable tradition of fiscal discipline. Part of the institutional measures put in place to promote fiscal discipline in Nigeria are products of political decisions hence the establishment of the Independent Corrupt Practices and Other Related Offences Commission, the Economic and Financial Crimes Commission, the Code of Conduct Bureau, the Bureau of Public Procurement (Due Process Mechanism), the Fiscal Responsibility Act 2007, the Integrated Payroll and Personnel System, Treasury Single Account, the Medium Term Expenditure Framework and the Nigerian Extractive Industries Transparency Initiatives (NEITI). The NEITI Act 2007 strengthened transparency and accountability and information disclosure in the extractive industries in Nigeria and mandate companies to disclose what they earn and what they pay and the relevant government agencies to disclose what they receive and what was expected to be paid to them as government revenue. These fiscal reforms were designed to strengthen fiscal discipline and promote long term macro-economic stability in Nigeria on a sustainable basis (FRA, 2007: 401-402). It provides the legal framework for the efficient management of public funds.

4.2. Legal Rationality and Fiscal Discipline

The process of promoting and enforcing fiscal discipline depends on the legal tradition and the legal instruments put in place by government to interpret breaches of the law by individuals and organisations. The interpretation of fiscal responsibility rules from the legal-juristic point of view is value laden with legal rational specificities that provides justifications for the interpretation and analysis of fiscal indiscipline by individuals, organisations and government institutions. In Nigeria, the legal instruments put in place by government to promote fiscal discipline are numerous but not limited to the under listed.

4.3. The Fiscal Responsibility Act 2007

This is one of the legal instruments put in place by government to promote fiscal discipline. The Fiscal Responsibility Act creates a legal platform for the efficient management of public finance by MDAs and the three tiers of government. The basic components of the FRA 2007 are the Medium-Term Expenditure Framework, the budget, national revenue and debt administration. The Medium Term Expenditure Framework (MTEF) promote the macro-economic policy of government within the nexus of taxation, recurrent expenditure (non-debt), debt expenditure, capital expenditure, borrowing, lending and investment and other development priorities of government within a three (3) years fiscal plan. This policy framework is captured in the Fiscal Strategy Paper (FSP) based on a Pre-determined Commodity Reference Price (PCRP) and the tax revenue projections of government. The Fiscal Strategy Paper contained a consolidated debt statement (CDS) with descriptive analysis of the significance of the debt liability of government as well as remedial measures to reducing liability. It contains a detailed statement of the nature and fiscal significance of contingent liability and quasi-fiscal activities and measures put in place to ameliorate the impact of the liability. The FSP placed in context the aggregate amount appropriated by the National Assembly for each fiscal year and the estimated aggregate revenue and the deficit within the range of 3% of the estimated GDP or any sustainable percentage determined by the National Assembly and the President. The 3% of GDP ceiling may be exceeded if the President feels the necessity to do so base on the national security implication of such expenditure. To this end, fiscal discipline requires fiscal prudency, high investment in capital projects, marginal savings and marginal recurrent expenditure based on the marginal propensity to generate revenue. This rational economic principle is undermined by the dialectics of the political interest of a political oligarchy that promote dependency (domestic and international) and the economic rationality that sustain the political interest of the political oligarchy.

Under the MTEF, the President of the Federal Republic of Nigeria is mandated to make adjustment on the medium term Expenditure framework subject to changes in fiscal indicators.

The annual budget is one of the policy instruments used in promoting macro-economic development. The budget is prepared in line with the Medium Term Expenditure Framework as contained in Part 3 section 18 (1–2) of the Fiscal Strategy Paper (FSP). The budget is accompanied by:

i. Cost control measures and a revenue framework broken down into monthly collection targets based on the Predetermined Reference Commodity Price (RCP);
ii. A fiscal target based on the rate of inflation;
iii. Targeted fiscal account balance and a fiscal Appendix that evaluates the fiscal risk to the annual budget; and
iv. Measure to offset the risks as stipulated (Section 19-20 Part 3, FRA 2007).

In Section 21 (2a-b), all government Ministries, Department and Agencies (MDAs) are required to prepare their budget estimates for the prospective three fiscal years in line with Acceptable Accounting Practice (APP). In section 22 of the Fiscal Responsibility Act 2007, each MDA is mandated to establish a General Reserve Fund (GRF) into which one fifth (1/5) of its operating surplus for each fiscal year is credited into. The balance of the operating surplus is paid into the Consolidated Revenue Fund (CRF) of the federal Government within one month in line with the statutory deadline for the publication of the agency account. The agency surplus is classified as Federal Treasury Revenue (FTR). The audited financial report of each agency is published three (3) month after the end of each fiscal year as stated in Sections 20 and 22. In Section 25 of the Fiscal Responsibility Act 2007, the Accountant General of the Federation (AGF) is mandated to prepare an Annual Cash Plan (ACP) showing the estimated monthly cash flow and the actual cash flow (ACF). In section 26 of the FRA 2007, the Minister of Finance prepares and publishes the schedule of financial disbursement in line with the Annual cash plan 30 days after the approval of the Appropriation Act by the National Assembly and the President to facilitate cash disbursement to MDAs for budget implementation. Financial shock resulting from short falls in expected revenue is managed within the fiscal risk criteria. Today, the monthly allocations from the federation account to three tiers of government are published periodically in the Nigerian daily newspapers.

One of the cardinals of fiscal discipline is efficient revenue allocation and administration. Section 32 of the FRA 2007 creates a balancing mechanism between revenue payment and revenue allocation among the tiers of government in the revenue allocation circle. To this end, if a state government is to remit the sum of three billion (N3 billion) naira as tax revenue generated and the federal allocation to the state for the same month under consideration is five billion (N5 billion) naira, the federal government gives the state government in question two billion (N2 billion) naira to complement the three billion (N3 billion) naira generated. In each fiscal year, the proposed Reference Commodity Price fixed by government is used to estimate the expected revenue target and expenditure profile of government. the Reference Commodity Price (RCP) in Nigeria to determine the income and expenditure of government is the price of crude oil in the international market. Any fall in the proposed price of the RCP often results to budget deficit and the motivation to borrowing to offset budget deficit. Section 35(1) of the FRA 2007 stipulates that where the Reference Commodity Price rises above the predetermined price level the resultant excess fund should be paid into the Excess Crude Account (ECA) maintained by the Central Bank of Nigeria. The Excess Crude Fund (ECF) formed part of the Consolidated Revenue Fund (CRF) of government and is shared among the three tiers of government.

Efficient debt management policy is one of the fiscal measures embedded in the MTEF with a view to promoting macro-economic stability. Public debt in Nigeria is managed by the Debt Management Office. Section 7 and 50 Part 1 of the Second Schedule of the 1999 Constitution of the Federal Republic of Nigeria and Section 41 (1a-b) of the FRA 2007 established a debt sustainability profile for government. The 1999 constitutions spelt out the conditions and limits of consolidated debt to be incurred by each tier and agency of government. Any agency or tier of government that wishes to borrow must state the purpose for borrowing and the cost-benefit analysis of the loan. In Section 45 of the FRA 2007, banks and financial institutions are mandated to obtain proof of compliance with conditions for incurring public debt before lending to any tier or agency of government. Section 48–50 of the FRA 2007, emphasised the need for the periodic auditing and publishing of the income and expenditure of government.

4.4. The Treasury Single Account

The importance of the treasury to the promotion of macro-economic stability and development is underscored by Garamfalvi (1996) and Allen and

Tommasi (2001, p.241). The Treasury Single Account (TSA) emphasised that payments for all government transactions, salaries and entitlements into the beneficiaries' accounts through the e-payment platform. The TSA strengthens the cash management system and is coordinated by the Office of the Accountant-General of the Federation and the Central Bank of Nigeria. It is made up of One Central Account and Passive Treasury Single Account (PTSA). The latter is organised on the basis that:

a. Line ministries holds accounts at the central bank as subsidiary accounts of the treasury's accounts;
b. Spending agencies holds accounts either at the central bank or with commercial banks authorised by the treasury;
c. Spending agencies' accounts are zero-balance accounts with money being transferred to these accounts as specific approved payments are made or the bank accept the payment orders sent by spending agencies up to a certain limit defined by the treasury;
d. Spending agencies' account are automatically cleared at the end of each day (where the banking infrastructure allows daily clearing); and
e. The central bank consolidates the accounts position of government at the end of each day including balances in all government accounts.

The Treasury Single Account makes it difficult for any individual and or government agency to make payment into fictitious account hosted for ghost workers and fictitious transactions.

4.5. The Integrated Payroll and Personnel System

The Nigerian public service is characterised by the ghost worker syndrome and inefficient personnel data management system. This phenomenon has made the efficient management of personnel records difficult. The Integrated Payroll and Personnel System (IPPS) was introduced in 2004 in Nigeria (Kenya in 1994) as a means of tracking payment made on personnel salaries, allowances and other ancillary social security benefits. It is designed to provide the best practice mechanism in personnel management, personnel cost accounting and personnel account reporting. The IPPS enables government to:

i. Maintain accurate and consistent personnel data in the public sector;
ii. Bring about uniformity in the management of personnel records in the MDAs by capturing the bio-data of employees;
iii. Overcome the challenges associated with the manual compilation and control of the payroll system, personnel inventories in the registry and promote the integrity of the personnel data management system in MDAs;
iv. Create an efficient computer-based system for gathering, storing and processing information for management decision making relating to recruitment, training, postings, transfers, promotions and retirements, salary administration and the enforcement of ancillary statutory financial benefits;
v. Minimise wastage incurred through the ghost worker syndrome;
vi. Generate data that facilitates decision making on good governance; and.
vii. Electronic remittance of employees' salaries to staff bank accounts through the Nigeria Inter-Bank Settlement System (NIBSS).

The result generated from the pilot test conducted in 2014 in six (6) Ministries, Departments and Agencies (MDAs) led to reduction in personnel cost worth about five hundred million (500,000,000.00) naira. Presently, about 30,000 verified civil servants' biometric personnel data have been captured on the IPPS.

4.6. Public Procurement Reform

The Public Procurement Act 2007 is one of the reform measures undertaken by government to promote fiscal discipline. It established a threshold for budget implementation and the management and monitoring of contracts and provides open platform for contractors to bid for contracts at competitive pricing level. It enables government to get the right value for the tax payers' money and reduce the risk exposure to corruption in the public sector. The PPA 2007 placed limitations on the cost of contract to be approved for implementation by heads of MDAs. Contract cost above one hundred million (N100, 000, 000. 00) naira must be submitted to the Bureau of Public Procurement (BPP) for approval and certification and subsequent award to contractors by heads of MDAs within the procurement circle. A procurement circle involves the identification of user needs, project preparation and the determination of procurement procedure and the tendering process. The tender process involves advertisement for prequalification for contract, competitive bidding, tender announcement of elements of the projects or goods and services to be contracted, the selection criteria and the award arrangements. The criteria for selection of prospective contractor and award of contract under the public procurement law are price, technical skill and quality of services (technicality and cost effectiveness). However, this process is undermined by corruption and fiscal indiscipline and the subversion of the due process mechanism in public procurement.

4.7. Economic Rationality and Fiscal Discipline

Rational economic principle advocates prudent spending, reduced or low cost of governance, high expenditure on capital projects, average recurrent cost of governance and expenditure prioritisation along the revenue index of government and public needs. In many developing countries, this economic principle is undermined by the dialectics of the political interest of the political oligarchy and the economic rationality that sustain the interest of the political oligarchy in power. Otinche (2015, pp.10-15) in his discussion on the "Bureaucracy and the Recovery of Human Values" argued that the political interest that sustains a neutral bureaucracy is undermined by the economic rationality that sustains the ruling political party in power. The contradiction between bureaucratic values and political values beclouds the capacity of the bureaucrats to promote fiscal discipline and the vision for development hence the high rate of corruption in the public sector. Corruption and the high cost of governance through the payment of high emoluments to elected public officials undermined the rational economic principle that promotes marginal expenditure. The emoluments of elected officials should be determined by the proportionality of the marginal revenue generated, the average cost of governance and the marginal revenue saved as national revenue (savings). Otinche used the **Public Expenditure Probability Thesis (PEPT)** to explain economic rationality of fiscal discipline. Herewith, **PEPT** refers to:

a. Marginal Public Expenditure should not outstrip Marginal Publicly Derivable Revenue **(MPE<MPDR);**
b. Surplus of Publicly Derivable Revenue (SPDR) after Marginal Expenditure should be kept as saving in the Treasury **(SPDR= S);**
c. Investment of Savings in Capital Projects creates National Wealth **(S+I=NW).**
d. The Propensity to Invest Savings in Capital Projects **(PISCPs)** as indices of National Wealth must be higher than the Propensity to hold Savings as Foreign Reverse **(PSFR)** in the World Bank;
e. Large deposit of funds in the World Bank as Idle capital limits the capacity for National Investment and the creation of National Wealth. This is the bane of the development policies recommended by the World Bank and the International Monetary Fund for third world nations.
f. Savings minus Investment equals to Idle Capital: **(S-I=IC);**
g. Idle Capital minus Investment equals to Underdevelopment **(ID-I=UND);**
h. Low rate of borrowing/debt burden boost the economic health of a nation.
i. The Rate of Public Borrowing should be Proportional to the rate of Debt Sustainability and Debt Profitability: **RPB≈RDS/DP**

Where:
PEPT=Public Expenditure Proportionality theorem
MPE= Marginal Public Expenditure;
MPDR= Marginal Publicly Derivable Revenue;
SPDR= Surplus of Publicly Derivable Revenue;
S-I=Saving minus Investment;
PISCP>PSFR: Propensity to invest saving in capital projects should be greater than the Propensity of Saving in Foreign Reserve;
ID= Idle Capital;
ID-I=UND: Idle Capital minus Investment equals to Underdevelopment;
S+I=NW= Savings + Investment= National Wealth.
RPB≈RDS/DP: Rate of public borrowing is proportional to rate of debt sustainability and debt profitability.

This rational economic calculations strengthen economic growth can be undermined by irrational political calculation and the probability of political actions that support political party financing. In a nascent democracy, the patronage politics is promoted via the award of contracts to godfathers against rational economic considerations. Most of the contracts awarded to political godfathers are rarely or poorly executed and no accountability is demanded of them due to entrenched political interest. Part of this problem emanates from the economic liability incurred by candidates during elections. This leads to fictitious contracting, indecent disclosure of public expenditure and the diversion of public funds to offset financial liabilities to banks and political godfathers. The high cost of election was partly responsible for the inability of many state governors to pay workers salaries in the last some months in the hay days of President Ebele Goodluck Jonathan administration. Arising from this development, the Buhari-led All Progressive Congress (APC) government provided financial bail-out valued at N338 billion to 27 state governments. Details are shown on table 1 below:

Table 1. Amount given as financial bail-out to States

S/N	*State*	*Amount*
1	Abia State	N14.152 billion
2	Adamawa	N2.378 billion
3	Bauchi	N8.60 billion
4	Bayelsa	N1.285 billion
5	Benue	28.013 billion
6	Borno	N7.680 billion
7	Cross River	N7.856 billion
8	Delta	N10.036 billion
9	Ebonyi	N4.063 billion
10	Edo	N3.167 billion
11	Ekiti	N9.604 billion
12	Enugu	N4.207 billion
13	Gombe	N16.459 billion
14	Imo	N26.806 billion
15	Katsina	N3.304 billion
16	Kebbi	N0.690 billion
17	Kogi	N50.842 billion
18	Kwara	N4.320 billion
19	Nasarawa	N8.317 billion
20	Niger	N4.306 billion
21	Ogun	N20.00 billion
22	Ondo	N14.686 billion
23	Osun	N34.988 billion
24	Oyo	N26.606 billion
25	Plateau	N5.357 billion
26	Sokoto	N10.093 billion
27	Zamfara	N10.020 billion
	Total	**N338 billion**

Peter, D. (2015), Salary Crisis: Buhari to Bail-out States, Vanguard October 4

The relief package provided by the federal government is to be paid by the state government within a period of 20 years at 9% interest rate. The bail-out finance is managed by the Central Bank of Nigeria (CBN) and the Debt Management Office (DMO). The affected states are allowed to assess the fund given the approval of the loan package by the State Executive Council and the House of Assembly of the state and on issuance of the Irrevocable Standing Payment Order (ISPOs). The ISPO conveys the authority to deduct at source the percentage of loan repayment from the federation account allocation due to the indebted state. Financial indebtedness increases the cost of governance but this can also be made worse by the payment of huge allowances and emoluments to elected and appointed public servants. In the years 2010 and 2011, the sum of N138.015 billion and N232.736 billion was allocated to the National Assembly respectively. The average cost of one member of the National Assembly with 469 legislators (360 members of the House of Representatives and 109 Senators) is estimated at N294, 375million ($1.962 million). The statistical detail is presented on table 2 below.

Table 2. Accommodation and Furniture Allowance and Car Loan of Lawmakers in Nigeria as at 2014

S/N	***Annual Package***	***Senator***	***Member HOR***
1	Accommodation	N4 million	N3.97 million
2	Car Loan	N8 million	N6.9 million
3	Furniture Allowance	N6 million	N5.956 million
4	Constituency Allowance	N5 million	N1.7 million
5	Car Maintenance	N1.52 million	N595, 563
6	Entertainment	N202, 640	N198, 521
7	Recess	N202, 640	N198, 521
8	Ward rope Allowance	N405, 280	N397, 042
9	**Total**	**N35, 000, 000.00**	**N29, 28, 000.00**

Source: Daily Trust Monday July 22, 2014:1

Arising from the above statistics, the former governor of the Central Bank of Nigeria, Sanisu Lamido Sanisu, argued that 25% of the national budget is spend on parliamentary (National Assembly) administration yearly. The statistics for legislators at the state government level is also high as shown on table 3 below.

Table 3. Pay Package of State of Legislators in Nigeria as at 2014

S/N	***Benefit Categories***	***Amount***
1	Basic Salary	N1.34 million
2	Accommodation	N802, 335.00
3	Vehicle	N5.3 million
4	Furniture Allowance	N2 million
5	Vehicle Maintenance	N267, 445.00
6	Recess	N133, 772.00
7	Constituency Allowance	N334, 306.00
8	Domestic Staff	N334, 306.00
9	Utilities	N133, 772.00
10	Severance/Gratuity	N2.6 million
11	Newspaper	N66, 861.00
13	**Total**	**N12, 000,000.00**

Source: Daily Trust, November 25, 2014:1

The 36 state governments spent twelve billion (₦ 12,000, 000, 000.00) naira on the salaries and allowance of 976 legislators in the 36 state Houses of Assembly in 2 years. Cumulatively, the annual recurrent expenditure for 976 state legislators is N6 billion. Legislators at the state level are also entitled to twenty five thousand (₦ 25, 000.00) naira as duty tour allowance and US$600 daily while on foreign trip. The principal officers of the federal and state legislatures are also paid responsibility allowances. The salary and allowances of ministers of the federal republic of Nigeria is also outrageous as shown on table 3 below.

Table 4. Emolument of Ministers in Nigeria as at 2014

S/N	***Emolument***	***Minister 1***	***Minister 2 state***
1	Basic salary	N2 million	N1.9 million
2	Accommodation	N4 million	N3.9 million
3	Vehicle loan	N7.8 million	N7.8 million
4	Furniture allowance	N6 million	N5.8 million
5	Vehicle maintenance	N1.5 million	N1.4 million
6	Entertainment	N911,880	N587, 274
7	Severance gratuity	N6 million	N5.8 million
8	Domestic staff	N1.5 million	N1.4 million
9	Personal Assistants	N506, 600.00	N489, 395.00
10	Leave Allowance	N202, 640.00	N195, 768.00
11	Newspaper	N303, 960.00	N293, 637.00
12	Utility	N607, 920.00	N587, 274.00
	Total	**N32,000,000.00**	**N30, 000, 000.00**

Source: Daily Trust, Thursday July 25, 2014:1

The salaries and allowance of ministers of the Federal Republic of Nigeria is higher than what their counterpart in Britain, United States of America, South Africa, Singapore, Australia and France take home monthly as salaries and allowances. For instance, a minister in Singapore earned N240 million annually. The annual emolument of thirty two million (N32, 000,000.00) Naira ($200,000) earned by a minister in Nigeria is 120 times the Gross Domestic Product (GDP) of Nigeria. When it is compared with the national wealth of Nigeria, it amount to 28 times the GDP of Nigeria per person. With 30 ministers and 12 ministers of state under the Jonathan administration, the Federal Government spend about N1.3 billion annually on the emoluments of Ministers alone. The Buhari administration has reduced the numbers of ministries to 28 ministries with 36 ministers to reflect the federal character principle. In the same vein, President Muhammadu Buhari and some public officers reduced their basic salary to the sum shown on table 5 below:

Table 5. New Salary Structure for the President and Some Principal Officers

S/N	*Officer Category*	*Monthly Salary*
1	President of the Federal Republic of Nigeria	N14.4 million
2	Vice President of the Federal Republic of Nigeria	N12, 126, 290 million
3	Senate President	N8.69 million
4	Deputy Senate President	N8.082 million
5	Senate Majority Leader	N12, 968, 960 million
6	Senate Minority Leader	N12, 908, 168 million
7	Chief Whip	N12. 867 million
8	Speaker of the House of Representatives	N4, 334, 942 million
9	Deputy Speaker	N4, 002, 309. 94 million
10	Speaker of State House of Assembly	N2, 049, 834.75 million
11	Deputy Speaker of State House of Assembly	N1, 807, 478.13 million

Source: Vanguard, Sunday October 4, 2015.

To this end, fiscal discipline requires fiscal prudency and marginal expenditure on salaries and allowances of public officers and other public items based on the marginal propensity of the revenue generated. The arbitrariness in the allocation of salaries and allowances to public officers in Nigeria results from the tradition of military rulership by Decree and Edict. Decree and Edict provide arbitrary platforms for the authoritative allocation of national resources. Decrees and Edicts was used to determine who gets what, when and how of national revenue among the federation units at percentages shown below:

i. The Federation Government -56.00%;
ii. The State Government -24.00%; and
iii. The local Government Council -20.00% (FRN 1982, 1992 No. 106 $ S.19 of 2002).

The 56.00% allocation to the federal government is administered on the following development need:

a. Federal government 48.50%;
b. General Ecological problem 2.00%;
c. Federal Capital territory 1.00%;
d. Stabilization Account 1.50%;
e. Development of natural resource 3.00%; and
f. Derivation funds 13%.

This mode distributing of national resources among the three tiers of government has implications on fiscal discipline.

4.8. Socio-Cultural Rationality and Fiscal Discipline

The socio-cultural context of governance is critical to fiscal discipline and public sector governance in Nigeria. Discipline is a habit and an ethical value that is inculcated by agents of socialisation like the family, peers, school, religious institutions (church/mosques) and media. On basis, corruption thrive where there is a social foundation that supports it (members of the civil society tolerate and encourage it). Where the expectation of significant peers and social obligations on public officials is very high the motivation to steal and embezzle public funds is also high. For instance, in Nigeria, as a public officer, you are expected to drive a good car, own a good house and make high donation in social gatherings. This demand may far exceed the monthly income of an average civil servant whose attempt to meet up with the social expectation expose himself to financial chicanery and other corrupt tendencies. In such society, it is difficult to enforce financial discipline more so if there are weak tenets for the application of the law. During elections, candidates standing for elections are made to buy votes and electoral positions from the electorates and political godfathers. Such political culture undermines fiscal discipline, democracy and good governance.

5. CHALLENGES

Many of the reform measures undertaken by government to promote fiscal discipline were challenged by corruption, faulty electoral process and patronage politics. Patronage politics in a democracy increases the cost of election. There is need to reform the electoral process and reduce the cost of governance in general. Public funds are siphoned by elected public officials in collaboration with the bureaucrats who defines and conceal channels of financial infractions. Patronage fees are paid to political godfathers through fictitious contracting. Fictitious contracting, over-invoicing and the splitting of contracts into smaller units by heads of MDAs in violation of the due process norms are indices of fiscal indiscipline. The splitting of contracts into smaller units arises from the renegade behaviour (gross misconduct) of bureaucrats to submit contract proposals to the Bureau of Public Procurement (BPP) for certification and approval. The resultant poor implementation of the budget is a limitation on sustainable development. The hasty award of contracts by heads of agencies towards the end of a fiscal year to avoid returning the unspent funds to the federation account and the possibility of budget cut in the subsequent fiscal year accounts for the abuse of the public procurement rule. The political will to curtail this budget management strategy is relatively weak. There is also the problem of lack of political will to implement institutional reforms that promotes fiscal discipline, transparency and accountability due to the conspiracy of the equals. This in turn weakens the civil, legislative and the judicial advocacy for policy reforms against the status quo ante.

6. RECOMMENDATIONS

The structural reforms carried out by the federal government between 1999 and 2015 have no doubt promoted transparency and accountability in the public sector and strengthened the fabric of good governance. Today, there is relative restrain on the misuse of public funds for selfish end by public officials due to the countervailing powers of the Economic and Financial Crimes Commission and the Independent Corrupt Practices and Other Related Offences Commission. However, much need to be done in terms of providing political support to the anti-corruption agencies and creating public awareness on the cost and benefits of corruption and fiscal indiscipline on good governance. This is necessary because good laws can be rendered ineffectual if members of the civil society do not accept the legal values it promotes. What is required now is a change in behaviour by Nigerians in general. Every Nigerian must move away from the old tradition of doing things in everybody's way but to nobody interest (selfish interest). There is need to promote self-discipline and fiscal discipline in public sector governance. The capacity of public institutions to promote democracy, sustainable development and good governance could be strengthened by budget discipline and budget accountability. These variables depends on the attitudinal disposition of the citizens to effectively and efficiently manage public resources. The need for positive change has come and we must accept and sustain the change without reservation. We must take those painful but necessary decisions that will lead us to where we desire to be as a nation and achieve our vision for development by the year 202020. Nigeria requires strong institutions and individuals with a vision to promote sustainable development, democratic growth and nation building. The task of building a virile nation is handled by strong individuals and strong institutions. Provision should be made for whistle blowing and the protection of whistle blowers to encourage the disclosure of financial infraction into the treasury by public servants.

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