

# Performance Budgeting, its Planning, Implementation and Monitoring Processes: The Case for Nigeria's Science, Technology and Innovation (STI) Budget

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**Abstract** The limitations imposed on science, technology and innovation (STI) research and development (R&D), and technology transfer by the fiscal problems of the day need to be overcome in Nigeria. This requires a carefully co-ordinated approach, which recognises in general the less wasteful nature of a simpler fiscal policy, while appreciating the absolute necessity of encouraging innovation in the private sector. Frameworks to promote linkages between universities, science, engineering and technology institutions (SETIs) and the private sector are needed with a view to sharing risks, resources and insights with respect to precompetitive research. This paper addresses these challenges and make policy suggestions on how best to go about the process through performance budgeting.

**Keywords** Performance Budgeting, Nigeria, STI, NIS

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## 1. Introduction

In Nigeria, the limitations imposed on science, technology and innovation (STI) research and development (R&D), and technology transfer by the fiscal problems of the day need to be overcome. This will require a carefully co-ordinated approach, which recognises in general the less wasteful nature of a simpler fiscal policy, while appreciating the absolute necessity of encouraging innovation in the private sector. Frameworks to promote linkages between universities, science, engineering and technology institutions (SETIs) and the private sector are needed with a view to sharing risks, resources and insights with respect to precompetitive research.

Government performs its role in a national system of innovation (NSI) by means of a set of functions which enables it to influence an environment, within its jurisdiction, in which innovation is being promoted. Some of the tools at a government's disposal which enables its ability to stimulate an enabling environment include the right to establish laws and regulations; allocate public resources according to a set of priorities which it establishes and initiate and implement programmes related to these functions such as the Research and Technology Foresight

and Audit exercises (DACS&T, 1996). Therefore, in order to arrange for the co-ordinated implementation of policies relating to innovation, and in particular to the governments own role in R&D and in the provision of scientific services, a new management and budgetary system for all SETIs should be introduced. This system is expected to incorporate a regular process of external review of all government SETIs. Since government spending plays an important role in the functioning of a national system of innovation, a new Science Budget, displaying all STI spending by government SETIs, is required in order to permit Ministers to better assess relative priorities, on a multi-year basis, across the full spectrum of government's activities in support of innovation.

To make the national system of innovation a reality, the promotion of innovation and the support for SETIs activities in general, will need to permeate the actions of all parts of government. It will be a responsibility of Federal Ministry of Science and Technology (FMST) and the relevant agency such as the National Centre for Technology Management (NACETEM) to promote such an integration of innovation-oriented thinking throughout government.

To meet this challenge of having a financially healthy STI system which takes cognisance of the comprehensive measurement of the inputs and outputs of STI research and development, and its impact on the goals of national policy objectives, both in STI and other critical areas of the country's endeavours, the proper point of departure for the consideration of the topic of this paper could not be more

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appropriate than a synoptic discussion of the relevance of finance and its management to efficacious governance of men and institutions within our polities and STI in particular.

The traditional finance function (the treasury-function) in any organization was until recently viewed simply as the task of providing the funds needed by the organization on terms most favourable in the light of the objectives of the organization (Omopariola, nd). However, the increasing complexity, size, technology, inflation, recession, government controls and the uncertainty of modern business (Omopariola, nd) has rendered this traditional concept of finance unsuitable and call for a broader definition. Thus, the focus of finance has shifted from the treasury function to the concept of managerial finance, which is concerned not only with the acquisition but also with the application, conservation, timing, volume and composition of funds in order to ensure an effective utilization of funds (Omopariola, nd).

Consequent on the above, whichever way finance is conceived, it is very paramount in any organization, be it private, public or quasi-public. This is always the case in all polities of the world irrespective of the system of government or ideological beliefs or persuasion (Akindele 2000). Finance plays an important role in the life of any organization. It embodies all actions of raising and spending money through prudent budgeting, management of available resources and efficient allocation of values (Mukoro, 2000).

It is a vital ingredient that sustains the life and motion of an organization that enable it to perform its most essential function (Aluko 1987). Finance dictates the development trends, shapes the real topography of the political landscape of all polities and its operational tool – (money) – has been, in the view of Akindele (2000) variously in euphemistic context, described as the “root of all evil” on one hand and, as the “conqueror of all evil” on the other hand, meaning that what money could not do will be permanently left undone.

The above eulogies of money as the principal component of finance according to Akindele (2000) are not mere flukes but real promoter of its indispensability to the economic survival of mankind and its multiplier effects on other aspects of man's systemic existence, a combination of which calls for its proper sourcing and management especially within the public sector of the political economy. Thus, the issue of public finance particularly as it concerns the healthy relation of revenue with expenditure is crucial to the success or otherwise of any sector of an economy and the prosecution of the imperative of its existence within any polity of the world.

This relation of revenue with expenditure, in economic parlance denotes fiscal policy defines as the use of government tax and expenditure patterns to influence economic activities with a view to avoiding fiscal stress or crisis. This is always prosecuted through a balanced budget and its neutral effect on total spending (Akindele, 2000).

Thus, using the foregoing as a premise, we find it necessary at this juncture, without any disregard for various tomes of disputations on the issue of fiscal politics, to discuss the concept of budget against the backdrop of the fact that:

*“As government expenditure constitute a large and larger share of total spending in ...capitalist countries, economic theorists and (Government or Government functionaries) who ignore the impact of the state budget do so at their own peril (Musgrave and Musgrave, 1973).”*

## **2. The Concept of Budgeting: Practical Aspect of the Planning, Implementation and Monitoring Process**

The basic and essential responsibilities of public financial management include the planning, financing, safeguarding, utilization, analyses and reporting and at the centre of this process is the government budget (Awe, 2001). Therefore any systemic discussion of public financial management must start with the institutional issues surrounding the budget process (NISER, 1977).

Besides, formulation of public policies would not be meaningful, effective and efficient if the financial resources needed to transform them into concrete and practical realities through budgeting are not available. Public budgeting, although characterized by a lot of confusion due to many different and often conflicting ways in which it has been defined by different authors (Omopariola, 1997), is the allocation of financial resources among the multifarious alternative policies, programmes and activities of government (Alabi, 1987). In the view of Key (1967), budgeting is seen as “applied economics that deals with policies of economic allocations”. In more technical sense,

*“it is a process for systematically relating expenditure of funds to accomplishment of planned objectives” (Alabi, 1987).*

Thus, as could be discerned from the above, budgeting involves not only allocation but also planning, management and control. This position tallies with that expressed by the United Nations Manual for programme and Performance Budgeting which are virtually the same, according to Omopariola, (nd), is the most appropriate definition for governments in developing country like Nigeria. According to UNM- PPB (1956), budgeting is an “operational activities” that must be contrasted to a plan which is a “blue print for action”. By this definition, economic policy questions are not expected to be dealt with by budgeting only but rather, by planning (Omopariola, 1997). Patterson (1972) in his own defined budgeting as the “translation of the longer term performance and resource use plan in to a more detail and precise plan for the year ahead” while Nigrot (1969) sees it as “the process of converting the goals, programmes and projects into money terms”

Budgeting is more than a mere economic term. For the purpose of this paper it has to be understood in its most inclusive politico – administrative sense. It is on the basis of the above that Wildavsky (1976) views budgeting as a part of political process. Decision strategies are premise on each agency's historical base and involve:

- i. defending the base against the cuts in old programme;
- ii. increasing the base by inching ahead with existing programmes and;
- iii. expanding the base by adding new programmes;

These strategies are used by different agencies in competing for the scarce resources of government. Budgeting is, thus, not a static phenomenon. It is a process and a lot of politics goes into its formulation. It is on the basis of this that patience and caution have to be exercised by those involved in its formulation and implementations as its process reflects the dynamics of political forces in the system or organization.

A budget, which is the output of budgeting is derived from old French word "bougette" (meaning a small bag), has been tentatively used to describe fiscal expectation, expenditure and future planning of an individual, organization, or government within a given period of time.

Comparison of the relative values of alternative uses of funds allows decision makers to know the opportunity costs of funding alternative courses of action. According to Dempster and Wildavsky (1979), a new budget represents an 'added on' or 'incremental change' over its predecessor. Along the same line, Charles Lindblom (1959) posits that because it is never possible to identify all actions or alternative policies for accomplishing results, incremental decision-making becomes inevitable in budgeting. This method of incremental analysis can be employed in considering how to allocate scarce resources among alternative uses by dividing available resources into increments and considering which of alternative uses of each increment would yield the greatest return. This is the concept of utility.

Natchez and Bupp (1973) do not reason along this line. They argued that by concentrating on the underlying regularities of the administrative process, Wildavsky (1964, 1975) and Lindblom miss the real changes in programme priorities which occur within the total budget. Also John Wanat (1974, 1978) argues for a shift in emphasis from aggregate descriptive representative on to the pragmatic portion of the budget.

In concrete term, budget analysis asks the question: On what basis will it be decided to allocate X naira to project A instead of allocating them to project B? The worth of any public expenditure programme concerns not only its individual virtues but also and more importantly the return from every money spent on it must worth its cost in terms of sacrificed alternatives. It is in this sense that budget analysis is construed to be "basically a comparison of relative merit of alternative uses of funds" and is designed to enable governments and entrepreneurs allocate resources for projects and other cost items (Alabi, 1987).

From the foregoing, it is clear that public finance, its sourcing, spending and management through budgeting and budgetary process cannot be ignored or taken for granted without severe and detrimental economic and political consequences within any polity. This is particularly so, because the budget is usually the pillar upon which the finances of the state or organisation is fully erected for any given year.

In other words, finance as viewed within the context of this discussion and the need for its prudent management as well as its indispensability to effective governance, brought about the need for proper and appropriate budgetary decision-making process. This budgetary decision-making goes through different phases thus:

- i. executive preparation and submission of budget proposals to the budget office;
- ii. legislative authorization and appropriation; the approval by the legislature, in its capacity as the "chelem writer", of the appropriation bill(s) of the executive.
- iii. the execution of the approved estimates.
- iv. auditing of accounts to ensure that the budget is executed as approved (Alabi, 1987).

The budgetary process is not without its own problem which (may) hinder its successful undertaking. Some of these hindrances include the difficulty and near impossibility of getting necessary data in precise figures for budget compilation. Budget decision entails forecasting of the future needs which may be right or wrong; accomplishments in relation to costs cannot be precisely measured even after the programme might have been implemented; and that administrators have no means of calculating the relative usefulness of governmental activities because the activities have no prices in the market place. These hindrances notwithstanding, budget and budgetary process is still a mechanism through which a particular system is given meaningful financial, economic and political directions.

From the discussions in the immediate last two paragraphs it becomes obvious that two major institutions/actors are traditionally and constitutionally involved in budgetary decision-making process in Nigeria and indeed in most polities of the world. These actors, the executives and the legislature, in the view of Akindele (2000) could be regarded as the institutions or organs of government responsible for making budgetary decision. Besides, it also clearly shows from our discussion that the budgetary procedure/process must be dedicatedly pursued in accordance with laid down historical, constitutional, legislative, political, economic and administrative procedures as can be discerned from the phases involved (Akindele, 2000).

### **3. Performance-Based Budgeting: Meaning and Practical Aspect of the Planning, Implementation and Monitoring Process**

Budgeting systems reflect the dynamics of political situation in an organisational setting. Consequent to the pressure on government to solve existing and future problems in the most economical and efficient way possible, analysts started the search for different budgeting systems.

Scholars such as Levis discuss a number of budget analysis strategies viz: open-ended, fixed ceiling, increase-decrease analysis, priority listing, and item by item control (See Levis as cited in Key, 1967; Lee, 2000; Harrison, 2003). However, none of these allows one to make decisions on the basis of incremental analysis of relative values. The remedy lies in establishing an alternative budget procedure wherein a basic budget estimates would be supplemented by skeletal plans for alternative amounts.

The continuation of the pursuit of systems budgeting took budget analysis into the orbit of Planning Programming Budgeting System (PPBS), Management By Objective (MBO) and Zero-Based Budgeting (ZBB) (Key, 1967). The superiority of systems budgeting over the traditional process budgeting lies in the fact that it allows analysis of alternative opportunities, emphasizes allocation an rationing of values and resources, favour central allocation, permits a part to be viewed in relation to the whole, and takes a holistic view of objectives (Alabi, 1987). The change to this budgeting system came at a time (in the 1960s) when the great concern of policy analyst shifted from the need for accountability and efficiency to the issues of impact of government programme on society.

### 3.1. Performance-Based Budgeting (PBB)

PPBS, MBO and ZBB, thus, belong to the new concept of systematic budgeting in government which defines objectives and qualifies data. In this, the reasons for programmes are stated and justified, and their efficiency, effectiveness, priority ranking, etc measured by their outputs relative to objective criteria (Lee, 2000; Harrison, 2003).

#### 3.1.1. Performance-Base Budgeting: Background and Conceptual Analysis

Public sector budgeting in both developed and developing economies is evolving. The traditional budget approach has focused on *inputs*, such as the resources (funding and staff) that are available to an agency. Expenditures were controlled through incremental line item budget changes. This approach does not always give attention to actual achievements of government programs.

In the private sector, efficient resource allocation relies upon the free-flow of information between consumers and producers, price signals reflect consumer preferences, customer satisfaction, and supplier costs and producer performance while competition eliminates poor performers and shifts resources to those entities that improve efficiency and elevate utility (Nilsen, Alfred, Ball, Dinehart, Greer and Walthers, 1999).

Public entities, however, do not typically receive performance information through price signals. Public sector revenue is generated through means related to equity and not

necessarily reflecting preferences, satisfaction, or performance. Therefore, governments generally use past funding levels to determine future resource allocation (Nilsen, et al, 1999).

In recent time, the principles of Performance Based Budgeting (PBB) have gained popularity due to the fact that budget decision-makers and the general public have demanded better accountability for not just the use of resources, but for results public programs are to generate. This has made performance budgeting to be on the agenda of public budget management in the last few decades. Specifically, since the 1990s, it has become a top priority for budgeting reforms in advanced as well as developing and transition countries (Harrison, 2003).

Although PBB has been implemented by various states in the advanced countries particularly the United States, there is no common definition of the term (Harrison, 2003). The concept of PBB dates from the 1950s and has been used under many labels: Management By Objective (MBO); Zero Based Budgeting (ZBB); Planing Programing Budgeting System (PPBS) and Total Quality Management (TQM) to name a few (Nilsen, et al; 1999). Generally, PBB relies on a common framework to measure results. These frameworks, according to Nilsen, et al (1999) include:

1. Vision or Mission statement of a preferred future giving purpose for an organization's existence;
2. Goals - results toward which an endeavour is directed;
3. Objectives - specific deliverables to be produced in pursuing a goal; and,
4. Measures - quantitative or qualitative indicators used to assess performance or progress towards an objective. Types of measures include:
  - Outcome: Measures the actual impact, result, or public benefit of an agency's actions. Example: percent of clients rehabilitated;
  - Output: Counts the goods and services produced by an agency. Example: number of clients served or the number of investigations completed;
  - Efficiency: Measures the unit cost of a given outcome or output. Example: average cost per client served or average time to respond to a call;
  - Input: Resources used to produce services. Example: Number of employees;
  - Quality: Measures effectiveness in meeting expectations of constituents and clients. Example: Customer satisfaction survey of service provided;
  - Explanatory: Defines agency's environment and explains relevant factors in interpreting other agency measures (Nilsen, et al; 1999).

The National Conference of State Legislatures, for example, defines PBB in the following way:

Performance budgets use statements of missions, goals and objectives to explain why the money is being spent... [It is a way to allocate] resources to achieve specific objectives based on program goals and measured results... Performance Budgeting differs from traditional approaches because it focuses on spending results rather than the money spent - on

what the money buys rather than the amount that is made available (Carter, 2003).

According to Segal and Summers (2002), the Reason Public Policy Institute (RPPI), on the other hand, offers a more formal definition that is perhaps more acceptable to accountants and budget analysts thus: Performance Budgeting is an exercise that “costs out” various activities that attempt to achieve an end outcome. It enables the correlation of results to expenditures (Segal and Summers, 2002).

There are three components of Performance budgeting viz: the result (end outcome), the strategy (ways to achieve the end outcome), and activity/outputs (what is actually done in order to achieve the end outcome) (Segal and Summers, 2002). Performance budgeting establishes a link between the rationales for specific activities and the end outcome results. Note that the result is not costed out, but individual activities or outputs are. This information enables policymakers to determine what activities are cost-effective in reaching their end outcome (Segal and Summers, 2002).

Joyce and Sieg (2002) view PBB as “a continuum that involves the availability and use of performance information at each of the various stages of the budget process – budget preparation, budget approval, budget execution, and audit and evaluation.” This definition is said to be somewhat broader than the first two, emphasizing the importance of information *availability and use* throughout a very fluid budget process.

Performance Based Budgeting attempts to deliver market-like information to the public sector by sending results to budget decision makers in much the same way profits send investment indicators to financiers in the private sector (Nilsen, et al; 1999). PBB injects information on accomplishments into the resource allocation process.

Implementation of the PBB framework can differ depending on the types of measures used (Nilsen, et al; 1999). If PBB is output oriented, the focus is on the product or service being provided. For example, output oriented PBB would ask “How many police officers can be hired at a certain budget level, and how much will it cost taxpayers?”

PBB, on the other hand, defines results as the impact of a given product or service on a constituency. In this sense, it would ask “How will the crime rate be impacted by a certain budget level and what is the public benefit?” Similarly, the way results data are used can differ depending on the approach to PBB (Nilsen, et al; 1999). In influential PBB, results data are used by decision-makers as one of many factors in determining budgets through a political process. However, if PBB is implemented in a determinative manner, results information automatically triggers increases or decreases in budgets through formula or standards (Nilsen, et al; 1999).

Finally, PBB can be incremental, in which case results information impacts marginal increases (building blocks), or comprehensive where results information impacts entire budget (base and building blocks) (Nilsen, et al; 1999).

In this paper, we will focus on Performance Based

Budgeting that is outcome oriented, influential, and comprehensive. We define a Performance Based Budget as one that provides information regarding the impact of a given activities on commonly accepted objectives, goals, and missions as an additional factor for use in the existing budget process.

While we are not oblivious of the existing plethora of definition of PBB, most experts, however, agree that, in the broadest sense of the term, “PBB is the allocation of funds to achieve programmatic goals and objectives as well as some indication or measurement of work, efficiency, and/or effectiveness.” (Young, 2003).

Young (2003) identified several characteristics common to PBB. These include the following:

1. PBB sets a goal, or a set of goals, to which monies are “connected” (i.e. allocated). From these goals, specific objectives are delineated and funds are then subdivided among them.

2. PBB provides information and data on past performance and thereby proceeds to allow for meaningful comparisons between “expected” and “actual” progress.

3. Adjustments to programs are made either at this point or during a future budget preparation cycle to close any performance gaps that may exist.

4. PBB provides an opportunity for regular or special (ad hoc) program evaluations. When utilized, these evaluations are valuable in that they give independent and verifiable information to budget decision-makers and program managers’ alike (Young, 2003).

According to California’s Legislative Analyst (1997), Performance Budgeting differs from the traditional approach to budgeting in that it attempts to determine whether a program is achieving its goals by focusing on outcomes, rather than processes or inputs. In order to implement Performance Budgeting, there is need to identify Performance *goals*, or outcomes, and the Performance *measures* that will be used to determine whether progress is being made toward achieving the desired outcomes. Resources are then allocated to departments in order to achieve specific goals”. The primary objective of the system is, thus not to produce programme budgets, but to obtain better programme description, better performance data and standard, and better programme evaluation.

Data gathering is the first requirement of PBB. A departmental head, for example, needs facts not only to justify requests for funds but also to justify his programme’s existence as well. Moreover, it requires heavy usage of computer data processing as basic elements include identification of future year’s implications, analysis of all pertinent costs, and systematic analysis of alternative courses of actions and anticipated outcomes. It involves definition of missions, analysis of comparative advantages of alternative of actions, continuous updating of programmes and finances, review of programmes and effecting necessary changes on a year-round basis, and testing of progress by testing the validity of the plan and its execution. Thorough PBB, in the view of Babunakis (1976), should have:

(a). Programme Memorandum (PM) to include identification of the problem, that is, the major issues in the programme, solution to the problem during the fiscal year, costs and benefits of each programme, effectiveness of alternative courses of action, and the reason for policy choices;

(b). Programme and Financial Plan (PFP) in which are stated multi-year estimate of costs, output and financial needs over a planning period covering the programme year and some subsequent years (usually five years), output and financial needs for the "out year" (those years beyond the planning period), and annual records of all departmental programmes; and,

(c). Programme Analysis (PA) involving the statement of the reasons for the choices stated in the PM. Here, cost-benefit and cost-effectiveness studies of alternative means of reaching objectives are carried out. Programme Analysis is the cornerstone of PBB. It is the point at which actual selection are made as to which of the alternatives are to be employed. PBB is thus:

a systematic method of linking long-range planning with yearly budgeting and evaluation. It involves definition of public needs; preparation of programmes with objectives to respond to those needs; and programme implementation by the most efficient means possible (Babunakis, 1976).

### 3.1.2. Performance Based Budgeting: Benefits and Challenges

According to Babunakis (1976), the basic merit of PBB lies in its achievement of more efficient and economical government by utilizing numerous techniques, including reorganization, priority setting, management improvement programmes, better coordination and cooperation, and capital improvements. Moreover, the system allows more objective analysis of capital project priorities.

PBB is vital to decision-making process in that it helps in sharpening issues, instituting annual review of programme, and long-range planning, providing more objective decisions, making evaluation easier, and providing understandable data.

When properly implemented, it has been argued that PBB can signal the effectiveness of a program and create baseline data against which to measure improvement. It shifts an agency's focus from inputs (budget and staff) to outcomes (the results an agency produces) (Nilsen, et al, 1999). PBB clearly defines major purposes for which funds are allocated and tells the manager how program results will be measured.

To Nilsen, et al (1999), PBB has many virtues in that as a technique, it permits the evaluation of:

- a. the efficiency and economy of programmes;
- b. alternative programmes and alternative way of implementing the same programme; and
- c. giving priority to various programme to determine their overall effectiveness.

PBB attempts to establish the value of a government product or service rather than just its cost. Used in combination with cost data, this value or benefit information

can improve the efficiency of product/service delivery (Nilsen, et al, 1999).

PBB is important to governments for a number of reasons, including the following:

- Provides accountability to the public.
- Drives redesign of programs (focuses on improvements).
- Helps rationalize budget allocations (uses performance information as a basis of evidence).
- Improves understanding of crosscutting programs in government.
- Helps agencies link their daily activities to overall government outcomes and similar activities of other agencies.
- Compares cost effectiveness between programs.
- Helps align government spending with overall goals (www.performance.hapawash.org)

Government can equally use performance measurement as a guide for decisions to fund or cut programs, for budget presentation and justification, to assess efficiency of programs, to determine service costs, to streamline program and budget structures, to curb departmental flexibility regarding fund transfers, and to eliminate or sunset programs illustrated by the measures as poorly performing (Willoughby, 2002)

Willoughby, in her 2002 study of state performance budgeting efforts, found that performance measurement initiatives had their greatest impact on improving communication and understanding among budget players internal to the government, while such initiatives were *not* effective in changing legislative budget deliberations, influencing spending decisions that might put different programs against each other, and changing appropriation levels (Legislative Analyst, 1997).

This findings reinforce her (Willoughby) earlier research with Melkers (cited in Harrison, 2003) in that performance budgeting does not change the budget process despite significant implementation costs. PBB has its greatest use in day-to-day agency management decisions and is most important from a budgetary standpoint for decision-making in the early stages of budget development.

However, it has been argued by scholars, especially Sarsfield (1978); O'Roark (2000); Jacqueline (2001); Willoughby (2002); Wendland (2003) that, PBB is faced with some challenges in that it can be misleading. According to these views and which are summarised below, improperly defined measures may lead to pursuit of the measure itself without regard to its associated objective or goal. Furthermore, it may not be clear whether the appropriate response to a measure would be to increase or to decrease funding.

There may be a lack of credible and useful performance indicators. The impact of an activity on a given outcome can be hard to isolate. Many factors may contribute to a goal or objective, only one of which may be the product or service provided by government. Thus, undesired outcomes may not be the result of poor performance, and vice versa.

With attention placed on performance data, agency/local government staff may be tempted to manipulate performance data or be selective in its presentation.

Once difficulties in achieving consensus on goals and measures are overcome, agencies may find PBB to be restrictive. Missions, objectives, and goals tend to develop inertia once they are established. If not properly developed and administered, PBB can be costly and cumbersome. Government entities have limited time and information processing resources. Defining measures, providing training, collecting data and analyzing effectiveness may impose additional costs. Past performance budgeting efforts in the federal and state governments including local governments, ministries, departments, agencies and parastatals have resulted in often voluminous presentations.

In addition, a short legislative session would not allow for a detailed legislative review of large amounts of data. However, it will be the task of the Legislative Fiscal Analyst staff to digest the data and present the information in a useful and concise manner to the Legislature.

The above notwithstanding, in the long run, these challenges can be managed such that the benefits of PBB, in terms of taxpayer satisfaction, improved efficiency, and better government service, will likely out-weigh its costs (Nilsen, et al; 1999).

### **3.2. Performance-Based Budgeting: The Case of Nigeria's STI**

Budgets serve many important functions to government generally. For the purpose of this paper, we shall focus on the importance which budgets serve to government ministries, departments, agencies (MDAs) and parastatals. In the first sense, since budgets are contracts agreed upon annually by the executive and legislative arms, it allows the executive agencies and departments of government to raise and spend public funds in a specified ways for the coming year.

Also, budget serve as a planning device used to translate present scarce fiscal and human resources in the MDAs into future goals and programs. In this respect, budget serves as a vital instrument for tapping and mobilizing human resources, how human talent at this level and public monies will be utilized as well as what tasks government will perform.

Moreover, within the MDAs, budgets are forces for internal coordination and efficiency. This is possible in that given the relative smallness in their sizes, coordination of activities will be easily achieved and efficiency will be more guaranteed. This is also so particularly because of the imposition of choices concerning how public programmes should be under taken, interrelated, and measured in terms of their value, effectiveness, and worth to the general public (Wildavsky, 1976).

In addition, budgets is a political document, reflecting through the allocation of funds the ultimate desires, interest and power of various groups within the body politic as expressed by elected legislative bodies. Thus, budgets reflect the quality and quantity of the MDAs, and the support which the people will give such government MDAs. Provided there

is proper participation, budget at this level encourage goal congruence and increase motivation.

Moreover, budget at the MDAs level provides clear guidelines for both the Directors-General and other members of staff and it is the major way in which the MDAs's objectives are translated into specific tasks and objectives related to various Heads of departments. The budgetary process is an important method of communication and coordination both from the top to the bottom (vertical), one department to the other (horizontal) as well as from the MDAs to the people who are the beneficiaries of its services.

However, the current management and financing system for STIs in Nigeria has some desirable features which should be retained or extended. Nevertheless, it does not meet many important criteria and needs to be amended in such a way that the new mechanisms as provided by the new national STI policy do not obstruct their effective functioning. Specifically, as it relates to management and financing, the scientific and technological activities of government STI institutions, should go beyond mere "support for R&D", but also encompass activities such as natural resource surveys, the development and management of technical libraries and data bases, and the introduction and administration of technical standards and regulations as in most governments, as much is spent on such "related scientific activities" as on R&D (DACs&T, 1996).

Given the fact that it is now the intention of government to put in place a new management system for all STIs, the goals of the system should be to:

- ensure that the activities undertaken within government STI serve to advance national goals and priorities;
- ensure that the governance structures within which STI activities are pursued are standard, and are conducive to promoting a favourable climate for innovation;
- develop and apply a system of performance evaluation by establishing a formal system of peer review, stakeholder input and efficiency auditing into government STI institutions. This system will be linked to output and performance measurement criteria, and it will urge the adoption of "best practice";
- implement a funding and financing system in which public money is handled according to generally accepted accounting practice and in which public money is spent transparently to achieve the desired outputs; and
- reduce the fragmentation of the existing system by introducing improved systems of co-ordination, thereby aligning sectoral distribution to reflect the overall priorities of government as opposed to being a product of "historical incrementalism" (adapted from DACs&T, 1996).

These goals notwithstanding, attempts at establishing new management systems for STI have been argued to be subjected to several tensions. A good system will have to harmonise these tensions or run the risk of being paralysed in attempting to resist them.

First, there is a requirement to move away from a formula-based funding system to a "budgeting-from-zero" system, where each programme is motivated and budgeted

for. This requirement, which is based on the need to demonstrate the wise expenditure of public money, must be balanced against the need of STI for financial stability. Research and development activities customarily have fairly distant time horizons and it is inappropriate to expect planning to take place within an annual expenditure framework. The tension here can best be resolved by multi-year budgeting. Federal Ministry of Science and technology (FMST) should work with the Ministries of Finance and National Planning to develop a multi-year budgeting process for STI within the Expenditure Framework developed and agreed by the parties.

Second, a process to arrive at a set of performance criteria needs to be defined which will enable the effective deployment of public resources in the performance of core STI functions and promoting innovation.

Third, the process of budgeting from zero can result in attempts by government officials with limited knowledge of the actual R&D activities to manage STI at the micro level. This can be avoided by applying the system of institutional monitoring and review.

Moreover and as it relates to budgetary decision making, the impetus for public financial management derives from the collapse of the budget process (Awe, 2001). This is as a result of lack of understanding of the roles and powers of the actors involved, and the undue rivalry and mutual distrust which characterized the relationship between the two major actors (the executive and legislature) in the budgetary decision-making process in all the governmental levels in Nigeria.

The legislative and executive arms have the primary role of law making and traditional role of policy execution respectively. However, it is not a disputable fact or assertion that our legislative and executive arms of government in Nigeria, in the past had been unable to efficiently function due to the problem of roles and powers misconception and misinterpretation (Akindele, 2000). These had made the arms of government to be engulfed by fire of political discord and anachronism (Akindele, 1990) most especially on the issue that borders on funds, its allocation and control (that is budget) most especially at the State and Federal levels of government.

It should be noted however that, a proper outcome of the budgetary process demands a properly functioning government accounting system for effective budgetary control and cash management and external audit system which reinforce expenditure control by exposure and sanctions against mis-spending, misappropriation and corruption (Awe, 2001) by stakeholders in budgetary preparation. These cannot be achieved particularly in Nigeria, an atmosphere where budgetary actors do not understand their roles, powers and the limitation(s) therein.

Most of the legislators at all levels had in the past, abused the system of democratic governance to the extent that it had often been used as a device for settling differences between them and their executive counterparts as well as for their emancipation from the manacle of political inferiority

especially when they are not from the same political party, camp or geo-political zone. This crude attitude and behaviour according to Akindele (2000), is unfortunate, antithetical and inimical to the ethics of democratic governance in any polity and should be disallowed in a newly born democracy of Nigeria.

For instance, it has always been the usual habit of the legislators at all levels of government in Nigeria that the executive should seek approval in ramifications even if a particular project had already been approved in the budget. The need for further re-approval is still bent upon before such project could be implemented. This attitude according to Akindele (1990), is untenable in the sense that such unrestricted policing of the executive by the legislature may lead to redundancy and double approval, a practice which, according to him, has rarely being in vogue anywhere in the world.

Besides, these law makers at all levels of government should understand and learn to attach little importance and power to such words as "ratification, authorization, approving, ensuring" etc; as all these are meant to provide a balance of power in a democratic set up and that being a legislator, constitutionally armed with varieties of power is not permanent. In addition, there has been a lot of ambiguity in the use of such words as "vetting and "monitoring" and their interpretations as provided by the constitution. These words in the view of Akindele, (1990) which should not be used as synonyms for the word "approval" was eloquently supported with an assertion by the former Secretary to Osun State government, Adelowokan (1991) that:

*Monitoring is the appraisal of performance which takes place during various stages of execution ... the primary motive of budget monitoring is to assess as the implementation progress, the degree of the achievement of original objective with a view to correcting any negative variance (and as such it does not call for fresh or any approval)."*

Giving the above various misunderstanding of the constitutional stipulations as regards the issue of fund and the various actors, the issue of budget, its preparation and roles expected of it, budgeting and budgetary procedures have been inefficient and ineffective particularly as it relates to financial management. This has been a clog in the wheel of both governmental and budgetary processes and progress in some part of the country. Thus, there is need to arrest the situation and call the concern parties to order before our governmental system becomes addicted to it. While there is need to caution our legislators on the use of their authorization, appropriation and approval powers as regards the control of public funds, the executive too should be made not to see their executive power of approval as a means of sidetracking, neglecting or jumping the necessary laid down procedures of budgetary process. In the view of Akindele, (2000) "the executives need to downplay or completely reduce their psychology of "Chief Executive" as in the state and local government; and "Commander-in-Chief" of whatever at the federal level as well as their unconstitutional



use of power (e.g. prerogative of mercy) under the guise of the executiveness of their positions”.

Consequent on the above, budgetary decision-making within government concerning expenditures on STI is characterised by avoidable politics and still being done on a partial basis, and only with a single year perspective. The basis is partial since the so-called Science Vote encompasses proposed spending only for FMST and its agencies. The perspective is short term since government still operates on an annual budgetary cycle, hence the need for a science budget. A Science Budget will be an important tool for Ministers to use as they allocate resources to competing priorities and will also provide National Assembly with a better overview of the range of government allocations in support of STI activities. To pursue this goal, FMST need to review the government spending on STI. The aim of this exercise will be to maximise the benefits from Ministry budgetary allocations.

If the Honourable Minister of Science and Technology is to make considered and multi-year commitments to expenditures on STI, and government is committed to doing so, then there is need to:

(a) Prepare an annual Science Budget document, constructed using data drawn from departmental budgets, which displays all governmental STI expenditures including specifically:

- . science councils and national facilities;
- . departmental intramural expenditures and transfer payments on STI;
- . transfers in the Defence Sector for S&T; and
- . other departmental transfers for STI, including, in particular, the support offered by the Ministry of Education to institutions in the higher education sector.

(b) The Ministry of Finance's proposed multi-year fiscal framework for general government budget expenditures needs to be adopted and applied to the Science Budget (adapted from DACS&T, 1996).

In achieving this, the first steps to be taken will involve FMST, Federal Ministries of Finance and National Planning reaching agreement on the definitions of activities to be covered by the Science Budget and on the necessary questionnaire to be used to collect the data from relevant departments during the budget preparation process.

A principal aim of the proposed Science Budget is to enable Ministers involve to consider appropriate budget reallocations within the system in accordance with government priorities, given their knowledge of the results of the country's STI status and needs. It must also be stated that the purpose of the Science Budget is to inform departments of the STI portfolio across government (DACS&T, 1996).

### 3.3. How to guarantee Performance-Based Budgeting in Nigeria's STI

There is no gainsaying that the issue of budgeting in the public sector is the bedrock on which the success or failure of government programmes and projects rest and thus the

realization or non-realization of government goals and objectives.

Given the above therefore, to guarantee effective and efficient performance-base budget in this country, there is need for all stake-holders to really understand their roles, powers and limitation as regards budgetary decision-making. Both the legislators and executives should understand properly the constitutional provisions of the doctrine of separation of powers and their intricacies without interpreting them out of context.

The fiscal relationship between these two organs/ actors must not be coloured with political cleavages (Akindele, 1990) otherwise the goal of the budget would be sacrificed. The constitutional provisions/stipulations as regards public funds and its control should and must be strictly enforced in conformity with the undercurrents of the theory of separation of powers and its accompanying principles of checks and balances (Akindele, 2000) in order to effectively utilize these funds/resources. This is imperative according to Sackey (1997) in that despite its wealth of natural and human resources Nigeria's economic development remains far below its potential” and this is as a result of the fact that:

*Much federal government spending remained outside the budgetary process as the control mechanisms have been incapable of halting unauthorized extra-budgetary spending or political and non-productive programmes (Sackey, 1997).*

It is on the basis of the above that Akindele (2000) symmetrically asserted that:

*“The turbulence in the Nigerian economic system over the past several years, which were caused by the absence of democratic governance and its accompanying ill management of public enterprise by the military and, its primordial and father Christmas extra budgetary spending and donations in flagrant disrespect for the fiscal requirement of accountable governance can only be stopped or checkmated by legislative control based on these constitutional provisions.*

Thus, he further opined that, for multi-dimensionally beneficial national economic policies at all times, the legislative arm must be tolerant and reasonable in the ways they make use of their powers while the executive on the other hand should be reasonable and tolerant in the use of their powers of executive approval and prerogative of mercy on issues of finance and other matters of national importance.

Three critical generic issues among others dominate public sector financial management in Nigeria (at all the three tiers of government). These according to Awe (2001) are:

- i. lack of transparency in financial management, which results in part from the failure to follow provided statutorily required accounting and auditing procedures.
- ii. weak planning and budgetary procedures, which provide the incentives for extra-budgetary discipline.
- iii. non-responsive civil service affected by poor staffing policy, inconsistent personnel management and inadequate incentive.

To really solve these problems as well as the politicization of appointments of management and board of directors, there is need to search for appropriate information gathering technique on budget, proper staff training and the need for transparency and accountability in government business. There is need for proper appraisal procedures and disbursement strategies on investment planning and execution. All government expenditure should be subjected to the same planning, budgeting, accounting, and auditing control. All extra-budgetary spending should be eliminated as well as frequent and regular publication of the outcome of actual expenditures along with their budgeted counterparts (Awe, 2001).

In addition to all the aforementioned, in implementing any PBB initiative, there is need to avoid the pitfalls that befell the traditional budgeting and incorporate the best practices in PBB systems. To do so, according to Harrison, (2003), the following must be considered:

**1). Adopt a comprehensive strategic plan for all agencies prior to implementation of PBB**

A comprehensive strategic plan is essential to successful PBB efforts because it lays out the government's mission, goals and objectives, which are prerequisites to adoption of formal performance measures. The plan should require Ministry Of Finance to immediately initiate performance reviews of *all* state and agencies and report their findings to the Legislature. The plan should be accompanied by a PBB "framework," which includes how the PBB process works and a calendar that clearly states when milestones, target dates, and so forth, should occur (Young, 2003). Only after this process has been completed should PBB be implemented.

**2). Link resources to performance measures using activity-based costing**

It has been suggested that "connecting resources with results implies knowing how much it costs to deliver a given level of outcome. Most public agencies cannot explain how much it costs to deliver an output, in particular because of the problems with allocating indirect costs." (Joyce and Sieg, 2000). They go on to point out that, while activity-based costing "is a more sophisticated mechanism that attempts to measure the full cost of resources consumed in the delivery of a particular service, including allocations for fringe benefits and overhead costs as well as allocations for other indirect costs," instead of implementing activity-based costing.

Thus, governments at any level will need to devote substantial time and resources to the adoption of activity-based costing and create incentives to encourage such costing procedures. Because the budget departments or ministries had very little data against which to measure improvements, they had to establish a means of collecting data in order to make ongoing assessments of improvement. They also had to devise new budget formats that tied requested budget allocations to specific performance areas and outcomes, which was difficult and time consuming (Comett, 1998).

**3). Ensure that performance measures are results-oriented**

Government at all levels must ensure that performance measures focus on outcomes rather than processes. Furthermore, they should focus only on vital performance measures. Too much superfluous information and data will overload the system and frustrate decision-makers (Young, 2003)

**4). Include performance incentives, benchmarking, and oversight provisions**

Any new PBB effort should include gain sharing or similar incentives for agencies to perform as well as disincentives for agencies that perform poorly. In addition, it should include benchmarking and appropriate oversight provisions. To ensure adequate oversight, several states and local governments can create offices to assist in the performance measurement process and to help administer the federal PBB effort and delegate additional oversight responsibility. (Nigerian MDAs may want to pursue a similar policy, which would not only improve the (country's) level's oversight capability, but might also allay some of its concerns about managing the program with limited resources.

**5). Communicate results to participating agencies, the Legislature, and the public**

Communicating the results of any PBB initiative to legislators, state agencies, and the public is extremely important, particularly if it is implemented via executive order (O'Roarks, 2000). Prospective readers of budget information will prefer a wide range of information – some financial and some not. They will want to see outcome measures, customer preferences and cost-related information (including efficiency and tax burden). In addition, they will want the information placed into context with comparisons among governmental units (e.g. benchmarking state vs .state) (Wendland, 2003).

**6). Expand the PBB implementation time frame**

Joyce and Sieg (2000) suggest that, in many cases, "reforms are not permitted to germinate and bear fruit before they are prematurely declared to be failures particularly in the developing countries like Nigeria. Seen in this context, therefore, we would argue that it is crucial to view performance-based reforms through a wide, rather than a narrow lens. If we focus only on centralized institutions – such as the central budget office and legislative bodies – as our barometers of success, we may miss a lot of potentially encouraging developments." (Young, 2003). In emphasising the importance of a much longer PBB implementation window, it was suggested that "the Legislature must be willing to accept a longer-term view of implementation and results." (LA, 1995). Although, it will be quite difficult to convince term-limited legislators that they should support PBB if they will not be in office to realize the benefits associated with its implementation.

**7). To the extent possible, implement PBB during a sustained economic expansion to ensure sufficient resources are available to fund the effort**

As Young points out, “adequate resources (sufficient staff, equipment, and funds) are essential to PBB success, second only perhaps to the requirement of ‘good and sustained leadership.’” Unfortunately, some government tend to focus on performance budgeting during fiscal crises, which are the most difficult times to initiate performance audits or establish pilot programs due to the cost of such programs and the relative lack of human capital, administrative support and managerial commitment available to them. While PBB would ostensibly reduce government spending in the long run by improving resource allocation, it is however not advisable to support such an initiative during an economic crisis. Implementation during economic prosperity is not only more feasible, but also more likely to generate buy-in among government agencies, which would have substantially more flexibility to devote time and resources to the project. At the same time, however, the public may not support reforming the budget process unless they feel the economy was moving in the wrong direction or that the government was doing a poor job of fiscal stewardship.

#### **8). Ministry Of Finance (MOF) should coordinate PBB for the states and local governments**

PBB systems are most successful when they are coordinated and assisted by a government’s central administrative unit. This approach lends itself to consistency, coherence, and uniformity of PBB processes among several and variant governmental entities. It also facilitates in providing on-demand, or ‘timely,’ technical expertise or assistance to individual agencies at critical stages during PBB implementation.” (Young, 2003) Thus, Federal Ministry Of Finance (MOF) should administer the program, perhaps with the assistance of the State ministries, an inter-departmental entity or relevant agencies.

The heading of the References section must not be numbered. All reference items must be in 9 pt font. Please use Regular styles to distinguish different fields as shown in the References section. Number the reference items consecutively in square brackets (e.g. [1]). References should be cited in the text and listed in the reference section. Refer simply to the reference number, as in [3]—do not use “Ref. [3]” or “reference [3]” Capitalize only the first word in a paper title, except for proper nouns and element symbols.

## **4. Conclusions**

The above recommendations may provide some general guidance for the government, MDAs inclusive, should they decide to implement PBB. However, based on the identified inadequacies associated with PBB among researchers and scholars, one might be tempted to dismiss PBB entirely. However, as virtually all researchers and scholars point out, PBB takes time to yield results – much longer than expected. Moreover, time may reveal process-related benefits in addition to those specifically related to outcomes. This argues for giving PBB a second chance, albeit with a greatly

expanded time frame.

Of course, time is a luxury that most of today’s policymakers cannot afford. In the absence of tangible results that can be produced relatively quickly, legislators are unlikely to embrace PBB, particularly if it could adversely impact a pet program or project (Harrison, 2003). The central problem confronting PBB advocates remains changing the Legislature’s perspective on budgeting and convincing policy makers that implementation of PBB is worth their time and warrants expenditure of substantial state resources.

Certainly, researchers and scholars recognize the importance of this issue to the success or failure of PBB. The LA (1995), for example, argues that “the Legislature must be willing to accept a longer-term view of implementation and results” and ‘Performance Budgeting’ requires a change in the Legislature’s perspective towards the budget.” Similarly, the Performance Institute cites “the Legislature’s cultural resistance to Performance and accountability” as an obstacle to PBB’s success (Harrison, 2003). These obstacles become even more problematic in an environment where term limits have compressed the window for producing results and staff has assumed a much more prominent role in the budget process (Harrison, 2003).

While authors such as Wendland (2003) highlight reasons for the legislature’s reluctance to cede some of its control over resource allocation in adopting PBB, no suggestions are offered for actually changing the legislature’s current perspective. In fact, the only solution to this problem incorporated into the above recommendations is to circumvent the legislature whenever possible (Harrison, 2003). However, this is likely to cause political problems that could adversely impact the success of PBB over the long term.

Consequent on the above therefore, further research is required to determine how to “sell” PBB to our legislators. While researchers explore these and other issues related to PBB implementation, government at all levels will undoubtedly continue to make strides toward improving service delivery by linking performance information to resource allocation in a variety of ways. It is our firm conviction therefore that, by addressing the issues raised in this paper, we can turn Nigeria’s fragmented and inefficient NSI into a system that will increase the output of products, processes and organisations which are truly and remarkably innovative, and thereby help to build the new Nigeria which the transformation agenda is seeking.

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