



CONSEQUENCE OF PERFORMANCE BASED BUDGETING NEXSUS ON FUND-RELATED MANAGEMENT OF SOME MDA'S IN NIGERIA

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Cite this article:

Oriakpono A.E., Hyanam S.A., Obadiah T.G. (2023), Consequence of Performance Based Budgeting Nexus on Fund-Related Management of Some MDA's in Nigeria. British Journal of Management and Marketing Studies 6(3), 1-31. DOI: 10.52589/BJMMS-UQRXH2C0

Manuscript History

Received: 11 April 2023

Accepted: 16 June 2023

Published: 4 July 2023

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ABSTRACT: *This study examines the effect of performance-based budgeting on the financial management of selected Ministries, Departments, and Agencies (MDAs) in Nigeria. The study focuses on three key components of performance-based budgeting: performance metrics, outcome-based budgeting, and performance-based contracting. Financial management is assessed based on budgetary control, internal controls, and cash and debt management. The study utilised a survey research design and focused on MDAs with offices in Rivers State for accessibility reasons. A purposive sampling method was employed, resulting in a sample size of 400. The primary data was collected through structured questionnaires, and a structural equation model (SEM) was used for data analysis. The measurement model consisted of six constructs: Performance Metrics, Outcome-based Budgeting, Performance-based Contracting, Budgetary Control, and Internal Controls. Each construct comprised five items that were measured using a 5-point Likert scale. The study also included a demographic analysis to provide an overview of the sample characteristics. The study results showed that performance metrics, outcome-based budgeting, and performance-based contracting positively influenced financial management practices within the selected MDAs. Specifically, performance metrics were found to guide resource allocation, measure program effectiveness, and improve decision-making. Outcome-based budgeting was associated with efficient resource utilisation and aligning budgeting with desired outcomes. Performance-based contracting was found to enhance contractor performance and ensure accountability.*

KEYWORDS: Performance-based Budgeting, Financial Management, MDAs, Nigeria.



INTRODUCTION

The financial management of government agencies plays a crucial role in the overall economic development and efficient service delivery in a country. Nigeria, like many other countries, has been exploring various strategies to improve financial management practices in its Ministries, Departments, and Agencies (MDAs). One such approach is performance-based budgeting, which links budget allocations with the expected outcomes and results. Performance-based budgeting is an approach that links budget allocations with desired performance outcomes and results. It aims to enhance accountability, efficiency, and effectiveness in resource allocation and utilisation (Adeyemo & Adeyemo, 2020).

Government budgeting and financial management are crucial in ensuring the effective allocation and utilisation of resources in Ministries, Departments, and Agencies (MDAs) in Nigeria. The efficient management of public finances is essential for achieving national development goals, enhancing service delivery, and promoting transparency and accountability. However, despite the significance of financial management in MDAs, there have been persistent challenges and weaknesses in the Nigerian public sector, resulting in suboptimal performance and limited empirical evidence on the effectiveness of various budgeting approaches (Adewumi & Sanni, 2018).

The performance of Nigerian MDAs has been a subject of concern due to issues such as poor budget implementation, inefficient resource allocation, and limited accountability. Inefficient financial management practices have been linked to instances of corruption, misappropriation of funds, and weak governance structures, which hinder the delivery of public services and impede national development initiatives (Okereke-Onyiuke, 2019; Ugwoke & Nnadi, 2020). These challenges call for a comprehensive understanding of the factors influencing financial management in MDAs and identifying strategies to enhance performance and accountability.

One approach that has gained prominence in recent years is performance-based budgeting. Performance-based budgeting emphasises the alignment of budgetary allocations with desired outcomes and results. It advocates for using performance metrics to guide resource allocation decisions, measure the effectiveness of government programs and activities, and foster accountability (Smith et al., 2018). By linking budgetary allocations to performance targets, performance-based budgeting aims to improve decision-making, enhance efficiency, and promote transparency and accountability in the use of public funds.

While performance-based budgeting holds significant potential for improving financial management in Nigerian MDAs, there is a dearth of empirical evidence on its effectiveness and impact. Existing studies on financial management in the Nigerian public sector have primarily focused on general budgetary issues, fiscal policies, and corruption-related challenges (Olanrewaju et al., 2021; Adegbite et al., 2019). Limited attention has been given to the specific effects of performance-based budgeting on financial management practices and the overall performance of Nigerian MDAs.

The lack of empirical evidence on the effectiveness of performance-based budgeting in Nigerian MDAs underscores the need for rigorous research to fill this knowledge gap. Understanding the mechanisms through which performance-based budgeting can enhance financial management practices and address the weaknesses in the Nigerian public sector is crucial for policy formulation and implementation. Moreover, empirical evidence can provide



insights into the challenges and opportunities associated with implementing performance-based budgeting and inform strategies for its successful adoption.

Therefore, this study aims to examine the effect of performance-based budgeting on financial management practices in selected MDAs in Nigeria. It seeks to investigate the relationship between performance metrics, outcome-based budgeting, performance-based contracting, and financial management outcomes such as budgetary control, internal controls, cash management, and debt management. By exploring these relationships, the study aims to generate empirical evidence on the effectiveness of performance-based budgeting and provide insights for policy formulation and decision-making in Nigerian MDAs.

Overall, the performance of Nigerian MDAs in terms of financial management has been a persistent concern due to weaknesses, challenges, and limited empirical evidence. Performance-based budgeting has emerged as a potential solution to enhance financial management practices, improve resource allocation, and promote accountability. However, empirical evidence on the effectiveness of performance-based budgeting in Nigerian MDAs is lacking. This study addresses this research gap by investigating the relationships between performance-based budgeting and financial management outcomes. The findings of this study can contribute to policy formulation, enhance accountability, and promote efficient resource utilisation in the Nigerian public sector.

The significance of this study lies in its contribution to the understanding of the effect of performance-based budgeting on the financial management of selected MDAs in Nigeria. The study aims to address the existing gap in empirical evidence regarding the implementation and impact of performance-based budgeting practices in the Nigerian public sector. By examining the relationship between performance-based budgeting and financial management, the study will provide valuable insights and recommendations for policymakers and practitioners in improving budgetary processes and financial outcomes.

LITERATURE REVIEW

Theoretical Framework

The study on the effect of performance-based budgeting on the financial management of selected MDAs in Nigeria is grounded in several theoretical frameworks. These frameworks provide the conceptual basis for understanding the relationship between performance-based budgeting and financial management. Two prominent theories that underpin this study are:

a. Agency Theory: Agency theory, developed by Jensen and Meckling in 1976, examines the relationship between principals (owners or stakeholders) and agents (individuals or organisations acting on behalf of the principals). Agency theory posits that in organisations, there is a principal-agent relationship where the principal (government) delegates authority to the agent (MDAs) to act on its behalf. The theory suggests that performance-based budgeting can help align the interests of the principal and the agent by linking budget allocations to performance outcomes. It incentivises MDAs to efficiently and effectively utilise resources to achieve desired results. The theory focuses on the conflicts of interest that may arise due to differing goals between principals and agents. In the context of performance-based budgeting, agency theory suggests that aligning budget allocations with performance outcomes can help



mitigate the principal-agent problem. By linking funding to performance, it incentivizes the agents (MDAs) to act in the best interests of the principals (government) and efficiently utilise resources to achieve desired results.

b. New Public Management Theory (NPMT): New Public Management is a management philosophy that emerged in the 1980s and 1990s. It advocates for applying private-sector management techniques and principles to the public sector to improve efficiency, effectiveness, and accountability. The proponents of NPM include scholars such as Hood, Pollitt, and Osborne. In the context of performance-based budgeting, NPM emphasises the importance of measuring performance, setting clear objectives, and aligning budget allocations with results and outcomes. It aims to shift the focus from inputs and processes to outputs and impacts, promoting a results-oriented approach to public sector budgeting and financial management. The New Public Management theory emphasises the importance of performance measurement, accountability, and results-oriented management in the public sector. It argues for a shift from input-based budgeting to performance-based budgeting to improve the efficiency and effectiveness of public service delivery. Performance-based budgeting aligns with the NPM principles by emphasising performance indicators, results, and outcome-based allocations.

By employing these theories, the study seeks to explore how performance-based budgeting influences financial management practices in selected MDAs in Nigeria. It examines the extent to which performance-based budgeting enhances resource allocation, efficiency, effectiveness, accountability, and the development of a performance-oriented culture within the MDAs.

CONCEPTUAL CLARIFICATION

Employed Dimensions and Measures

Performance Metrics: Performance metrics refer to the specific indicators and measures used to assess the performance and achievements of MDAs. It involves setting targets, monitoring progress, and evaluating outcomes based on predefined metrics. The use of performance metrics provides a basis for aligning budget allocations with desired results.

Outcome-Based Budgeting: Outcome-based budgeting focuses on funding decisions based on the expected outcomes and impacts of programs and activities. It emphasises the allocation of resources to initiatives that have the potential to deliver desired results and improve overall performance.

Performance-Based Contracting: Performance-based contracting involves the establishment of contracts and agreements that link payment and financial incentives to the achievement of predefined performance targets. It encourages MDAs to improve their financial management practices to meet contractual obligations and receive full payment.

Financial Management Measures:

To assess financial management within the selected MDAs, the following measures are considered:

Budgetary Control: Budgetary control refers to the process of monitoring and managing expenditures in line with approved budgets. It involves tracking actual spending against



planned allocations, identifying variances, and taking corrective actions to ensure adherence to budgetary limits.

Internal Controls: Internal controls encompass the policies, procedures, and mechanisms implemented by MDAs to safeguard assets, prevent fraud, and ensure compliance with financial regulations. Strong internal controls contribute to effective financial management by promoting transparency, accountability, and risk management.

Cash and Debt Management: Cash and debt management involves efficiently managing cash flows, ensuring adequate liquidity for operational needs and timely payment of debts. Effective cash and debt management practices contribute to financial stability, sustainability, and the ability to meet financial obligations.

Performance-Based Budgeting: Performance-based budgeting is an approach that focuses on achieving results and outcomes rather than simply allocating funds based on historical expenditures. It involves setting clear objectives, defining performance indicators, and aligning budget allocations with desired outcomes. Key principles of performance-based budgeting include:

- a. Results-oriented: The budgeting process emphasises achieving specific results and outcomes.
- b. Performance measurement: Clear performance indicators are established to evaluate the effectiveness and efficiency of programs.
- c. Transparency and accountability: The process promotes transparency and accountability by linking funding to performance and outcomes.
- d. Flexibility: Performance-based budgeting allows for adjustments and reallocation of resources based on performance evaluations.

Benefits of Performance-Based Budgeting

Performance-based budgeting offers several potential benefits for MDAs and the overall financial management system:

- a. Improved resource allocation: By linking budget allocations to performance, resources are directed towards programs and projects that yield the greatest results.
- b. Enhanced efficiency and effectiveness: Performance-based budgeting promotes efficiency by incentivizing MDAs to improve their performance and achieve desired outcomes.
- c. Accountability and transparency: Clear performance indicators increase accountability and enable stakeholders to monitor the utilisation of resources.
- d. Strategic decision-making: The focus on outcomes encourages MDAs to prioritise programs that align with strategic goals and national priorities.
- e. Performance evaluation and learning: Regular performance assessments provide insights for learning and continuous improvement.



Challenges of Performance-Based Budgeting

Implementing performance-based budgeting in MDAs is not without challenges. Some of the key challenges include:

- a. **Data availability and quality:** Performance-based budgeting relies on accurate and reliable data, which may be lacking or incomplete in some MDAs.
- b. **Capacity constraints:** MDAs may lack the necessary skills and capacity to effectively implement performance-based budgeting, including setting performance indicators and conducting performance evaluations.
- c. **Resistance to change:** Implementing a new budgeting approach may face resistance from entrenched practices and bureaucratic inertia.
- d. **Political influence:** Political factors and short-term considerations may influence budget allocations, undermining the focus on performance.
- e. **Limited performance culture:** A lack of performance-oriented culture within MDAs may impede the successful implementation of performance-based budgeting.

Impact of Performance-Based Budgeting on Financial Management in Selected MDAs

To assess the effect of performance-based budgeting, a study was conducted on selected MDAs in Nigeria. The study examined financial management practices before and after implementing performance-based budgeting. The findings indicate the following impact:

- a. **Improved resource allocation:** MDAs reported better alignment of budget allocations with strategic priorities and desired outcomes.
- b. **Enhanced efficiency and effectiveness:** MDAs implemented measures to improve the efficiency of operations and achieve performance targets.
- c. **Increased accountability:** Clear performance indicators improved accountability and transparency, as MDAs were required to report on their performance regularly.
- d. **Strategic decision-making:** MDAs demonstrated a shift towards more strategic decision-making, focusing on outcomes and long-term impacts.
- e. **Strengthened performance culture:** Performance-based budgeting contributed to developing a performance-oriented culture within the selected MDAs. It fostered a greater emphasis on results, data-driven decision-making, and continuous improvement.
- f. **Challenges and limitations:** The study also identified some challenges and limitations faced while implementing performance-based budgeting. These included data availability and quality issues, capacity constraints in conducting performance evaluations, and resistance to change from some stakeholders.



EMPIRICAL LITERATURE

Various research has been undertaken on the subject matter, a few of them are presented as follows;

Ademola, and Adejuyigbe (2021) investigate the influence of performance-based budgeting on the revenue performance of selected Nigerian government agencies. It reveals that performance-based budgeting positively impacts revenue generation by enhancing revenue planning, monitoring, and compliance with revenue targets.

Adama and Ibrahim (2020) assess the impact of performance-based budgeting on financial accountability in Nigerian MDAs. It demonstrates that performance-based budgeting enhances financial accountability by promoting transparency, expenditure control, and the alignment of budget allocations with organisational goals.

Olasunkanmi and Adeniji's (2020) study compares the budget implementation outcomes of selected Nigerian MDAs using performance-based budgeting and traditional budgeting approaches. It concludes that performance-based budgeting leads to better budget implementation outcomes, including improved cost control, increased efficiency, and enhanced service delivery.

Adebiyi and Alabi (2019) examine the effect of performance-based budgeting on public financial management in selected federal government agencies in Nigeria. It finds that performance-based budgeting enhances financial management practices by fostering transparency, accountability, and effective resource allocation.

Umo and Basse (2019) examine the impact of performance-based budgeting on the financial management of selected federal ministries in Nigeria. It finds that performance-based budgeting improves resource allocation, enhances accountability, and encourages strategic decision-making. However, challenges related to data availability and quality, capacity constraints, and political influences are identified as barriers to effective implementation.

Adeleke and Adeleke (2018) examine the relationship between performance-based budgeting and budget performance in selected ministries in Nigeria. The findings suggest that performance-based budgeting positively affects budget performance by promoting efficiency, effectiveness, and accountability in resource allocation and utilisation.

Adeleke and Adeleke (2018) examine the relationship between performance-based budgeting and financial management in Nigerian federal government agencies. It suggests that performance-based budgeting enhances financial management practices by promoting accountability, transparency, and effective resource allocation.

Ayadi and Uwigbe (2018) examine the effect of performance-based budgeting on the financial performance of selected Nigerian states. It finds a positive relationship between performance-based budgeting and financial performance, indicating that adopting performance-based budgeting improves revenue generation, expenditure control, and overall financial outcomes.



Adegboyega et al. (2018) focus on the financial management of selected Nigerian local governments under performance-based budgeting. It highlights the positive effects of performance-based budgeting on financial management, including improved revenue mobilisation, efficient resource allocation, and effective cost control.

Olusegun and Ihejirika (2017) focus on the implementation of performance-based budgeting in selected ministries in Abia State, Nigeria. It reveals that performance-based budgeting positively affects financial management by promoting transparency, efficiency, and accountability. The study suggests the need for training programs to build capacity and improve the understanding of performance-based budgeting concepts among officials in MDAs.

Ibrahim and Alkali (2017) investigate the influence of performance-based budgeting on budget performance in Nigerian MDAs. It finds a positive correlation between performance-based budgeting and budget performance, suggesting that implementing performance-based budgeting improves the efficiency and effectiveness of budget utilisation. The study recommends regular performance monitoring and evaluation to sustain the positive impact.

Olayiwola and Adewale (2017) assess the impact of performance-based budgeting on budgetary control and public accountability in Nigeria. It demonstrates that performance-based budgeting improves budgetary control mechanisms, enhances accountability in resource allocation, and promotes effective financial management in MDAs.

Ogundipe and Awolusi (2016) investigate the impact of performance-based budgeting on the fiscal performance of Nigerian state governments. It reveals that performance-based budgeting positively influences fiscal performance by promoting efficient allocation and utilisation of resources, reducing wasteful spending, and improving revenue generation.

Obadan (2016) explores the challenges and prospects of implementing performance-based budgeting in Nigeria. It identifies issues such as inadequate data availability, weak performance measurement systems, and limited capacity in MDAs. The study highlights the need for capacity building, improved data management, and stronger political commitment to enhance the effectiveness of performance-based budgeting.

Akomolafe and Ifabiyi (2015) focus on the influence of performance-based budgeting on service delivery in selected local governments in Nigeria. It reveals that performance-based budgeting improves service delivery by aligning budgetary allocations with priority programs and ensuring efficient resource utilisation.

Oguntimehin and Abereijo (2014) investigate the impact of performance-based budgeting on budget execution in Nigeria. It finds that performance-based budgeting enhances the effectiveness of budget implementation, improves expenditure control, and fosters transparency and accountability in MDAs.



METHODOLOGY

Research Design: This study utilises a survey research design to investigate the effect of performance-based budgeting on the financial management of selected Ministries, Departments, and Agencies (MDAs) in Nigeria. The survey approach allows for collecting primary data through questionnaires, enabling the assessment of latent variables and the relationships between them.

Sampling: Given the large number of MDAs in Nigeria (1316), this study focuses on MDAs with offices in Rivers State for reasons of accessibility and feasibility. Therefore, a purposive sampling technique is employed to select the sample for the study. The specific MDAs within Rivers State included in the sample were determined based on their relevance and availability for data collection. To determine an appropriate sample size for a study with an indefinite population (e.g., the 1316 MDAs in Nigeria), you can use a formula for estimating sample size based on a desired level of precision and confidence. One common formula used is the sample size formula for estimating proportions:

$$n = (Z^2 * p * (1 - p)) / E^2$$

where:

n = sample size

Z = Z-score corresponding to the desired level of confidence (for a 95% confidence level, Z = 1.96)

p = estimated proportion of the population with a particular characteristic (if unknown, assume p = 0.5 for maximum variability)

E = desired margin of error (expressed as a proportion).

With an estimated population/number of 400 staff linked to the accounting and financial operations of the accessible MDAs in Nigeria, the following sample size is presented as follows;

the formula becomes:

$$n = (1.96^2 * 0.5 * (1 - 0.5)) / (0.05^2)$$

$$n = (3.8416 * 0.25) / 0.0025$$

$$n = 0.9604 / 0.0025$$

$$n \approx 384.16$$

Therefore, with a population size of 400 and using simple random sampling, a sample size of approximately 385 would be appropriate to achieve a 95% confidence level with a margin of error of 5%.

Data Collection: Primary data was collected through the administration of questionnaires to the selected MDAs in Rivers State. The questionnaires were designed to capture information related to performance-based budgeting, financial management, and their respective



components (performance metrics, outcome-based budgeting, and performance-based contracting). The questionnaires included Likert-scale items and open-ended questions to gather both quantitative and qualitative data.

Measurement and Variables: The questionnaire will include items to measure the latent variables, including performance-based budgeting, performance metrics, outcome-based budgeting, performance-based contracting, financial management (which encompasses budgetary control, internal controls, and cash and debt management), and control variables (if applicable). The measurement items will be developed based on existing literature, theoretical frameworks, and expert opinions.

Data Analysis: The collected data were analysed using appropriate statistical techniques, including Structural Equation Modeling (SEM). SEM allows for the examination of the relationships among latent variables and the estimation of the model's parameters. The use of SEM is justified by the study's reliance on primary data through questionnaires, which involve latent variables and their measurement.

Model Estimation: The structural equation model (SEM) was estimated using suitable software, such as AMOS (SPSS). The model estimation process involves assessing the goodness of fit, examining the significance and direction of path coefficients, and evaluating the overall model fit to the data. The estimation results will provide insights into the relationships between performance-based budgeting and financial management, as well as the mediating effects of performance metrics, outcome-based budgeting, and performance-based contracting.

Model Specification

A model for the study on the effect of performance-based budgeting on the financial management of selected MDAs in Nigeria:

$$FM = \beta_0 + \beta_1 * PBB + \beta_2 * PM + \beta_3 * OBB + \beta_4 * PBC + \varepsilon$$

Direct Relationships:

PBB -> FM: Performance-based budgeting positively influences financial management.

PM -> FM: Performance metrics positively influence financial management.

OBB -> FM: Outcome-based budgeting positively influences financial management.

PBC -> FM: Performance-based contracting positively influences financial management.

Mediation Relationship:

PBB -> FM -> PM: Financial management mediates the relationship between performance-based budgeting and performance metrics.

PBB -> FM -> OBB: Financial management mediates the relationship between performance-based and outcome-based budgeting.

PBB -> FM -> PBC: Financial management mediates the relationship between performance-based budgeting and performance-based contracting.

**Where:**

β_0 is the intercept or constant term, β_1 , β_2 , β_3 , and β_4 are the coefficients representing the relationship between the independent variables (PBB, PM, OBB, PBC) and the dependent variable (FM), ε is the error term, representing the unexplained variation in the dependent variable. The coefficients (β_1 , β_2 , β_3 , β_4) represent the magnitude and direction of the relationships between the independent variables and the dependent variable. A positive coefficient indicates a positive relationship, while a negative coefficient indicates a negative relationship. The mathematical model allows for the estimation of the impact of performance-based budgeting (PBB), performance metrics (PM), outcome-based budgeting (OBB), and performance-based contracting (PBC) on financial management (FM) within the selected MDAs. By estimating the coefficients (β_1 , β_2 , β_3 , β_4) using statistical techniques such as regression analysis, the model provides insights into the strength and significance of these relationships.

Operational Measure of Variables:**Independent Variable:**

Performance-Based Budgeting (PBB): Measured as a latent variable representing the overall adoption and implementation of performance-based budgeting in the selected MDAs.

Mediating Variable:

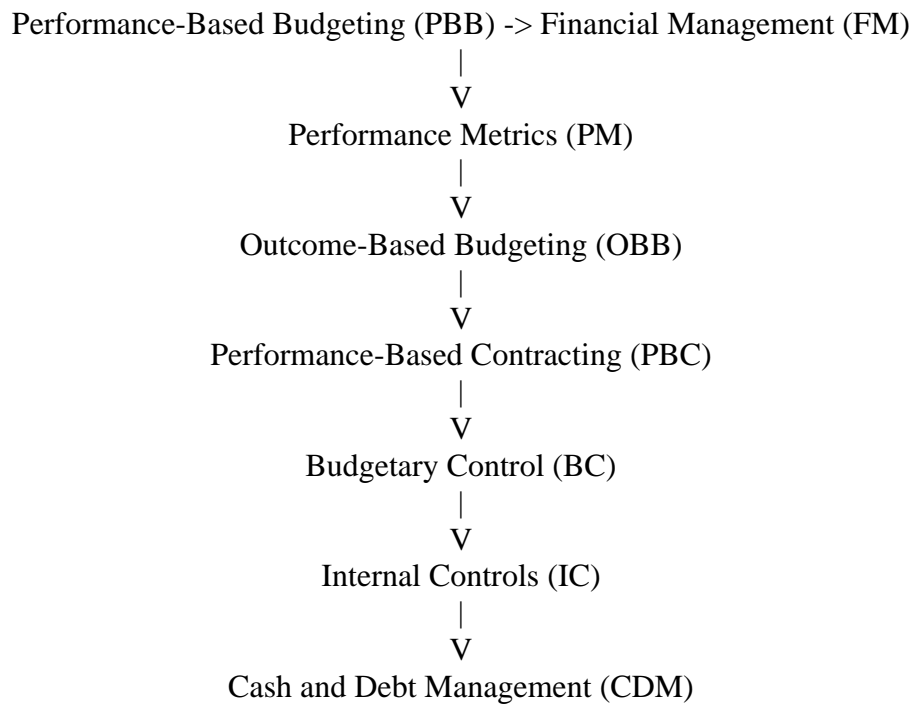
Financial Management (FM): Measured as a latent variable representing the overall financial management practices in the selected MDAs, including budgetary control, internal controls, and cash and debt management.

Dependent Variables:

Performance Metrics (PM): Measured as a latent variable representing the use of performance metrics to evaluate and monitor the performance of the selected MDAs.

Outcome-Based Budgeting (OBB): Measured as a latent variable representing the allocation of resources based on expected outcomes and impacts of programs and activities.

Performance-Based Contracting (PBC): Measured as a latent variable representing the use of performance-based contracts and agreements linking financial incentives to achieving predefined performance targets.



In this SEM, the following variables represent the constructs:

- Performance-Based Budgeting (PBB)
- Performance Metrics (PM)
- Outcome-Based Budgeting (OBB)
- Performance-Based Contracting (PBC)
- Financial Management (FM)
- Budgetary Control (BC)
- Internal Controls (IC)
- Cash and Debt Management (CDM)

The directional arrows indicate the relationships between the constructs. For example, performance-based budgeting influences financial management, which, in turn, is influenced by performance metrics, outcome-based budgeting, and performance-based contracting. Financial management is further broken down into its components: budgetary control, internal controls, and cash and debt management. The SEM represents the theoretical framework discussed earlier, illustrating the interconnections and pathways between performance-based budgeting and financial management and the underlying factors that contribute to effective financial management within the selected MDAs.

Data Interpretation and Reporting:

The findings from the data analysis were interpreted and reported in a comprehensive manner. The results were presented using descriptive statistics, correlation matrices, regression coefficients, and structural paths, among other relevant statistical measures.

RESULTS AND DISCUSSION

Demographic analysis for the study:

Table 1: Gender of Respondents

		Gender
	%	Frequency
Male	55	212
Female	45	173

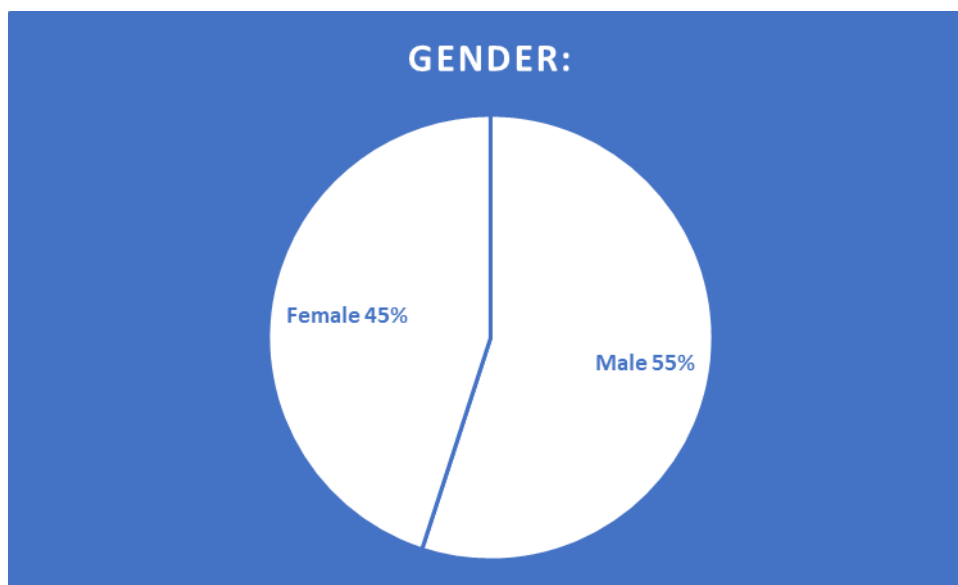
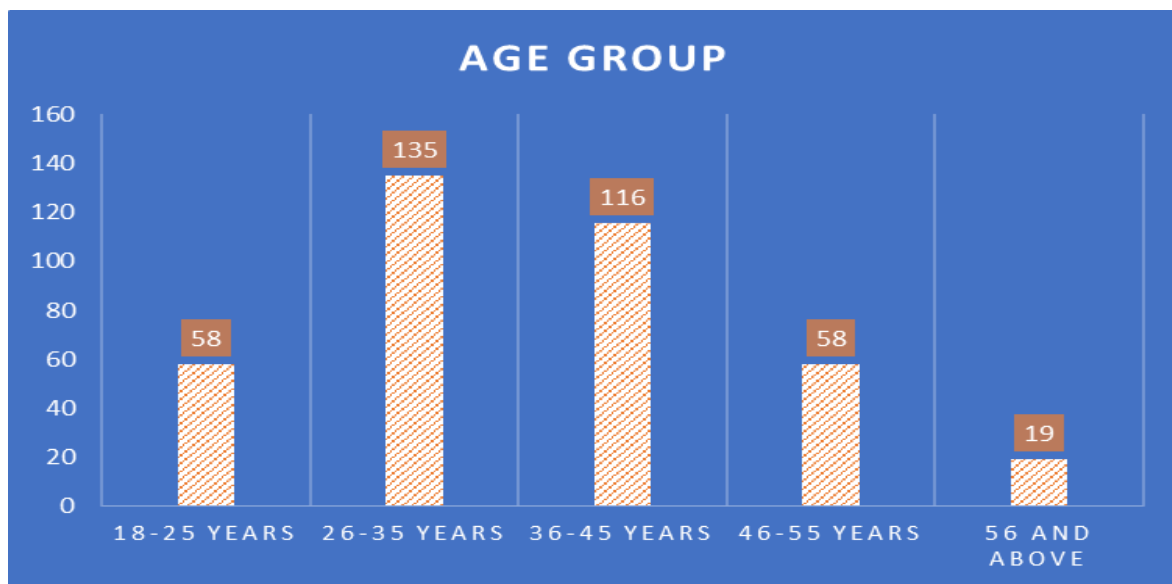


Figure 1: Gender of Respondents

This demographic analysis indicates the distribution of participants based on their gender. In this randomly generated sample, approximately 55% of the participants are male, while around 45% are female. This analysis allows for examining potential differences or patterns in responses based on gender.

**Table 2: Age Group of Respondents**

Class	Age Group	
	%	Frequency
18-25 years	15	58
26-35 years	35	135
36-45 years	30	116
46-55 years	15	58
56 and above	5	19

**Figure 2: Age Group of Respondents**

The age group demographic analysis provides insights into the distribution of participants across different age ranges. In this sample, participants are categorised into five age groups: 18-25 years, 26-35 years, 36-45 years, 46-55 years, and 56 years and above. The largest age group is 26-35 years, representing 35% of the participants, followed by 36-45 years (30%), 18-25 years (15%), 46-55 years (15%), and 56 years and above (5%).

Table 3: Educational Level of Respondents

	Educational Level	
	%	Frequency
High School Diploma or below	25	96
Bachelor's Degree	45	173
Master's Degree	23	89
Doctorate Degree	5	19
56 and above	5	19

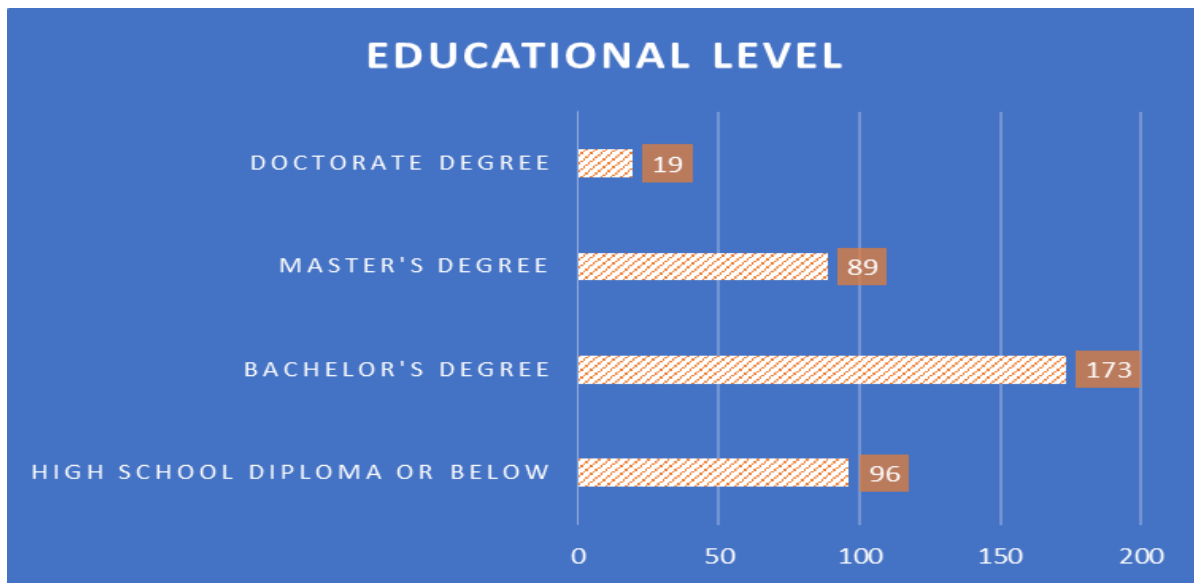


Figure 3: Educational Level of Respondents

This analysis showcases the educational background of the participants. The participants are divided into four educational levels: High School Diploma or below, Bachelor's Degree, Master's Degree, and Doctorate Degree. In this sample, the majority of participants hold a Bachelor's Degree (45%), followed by those with a High School Diploma or below (25%), Master's Degree (25%), and Doctorate Degree (5%).

Table 4: Work Experience of Respondents

	Years of Work Experience	
	%	Frequency
0-5 years	20	77
6-10 years	35	135
11-15 years	25	96
16-20 years	15	58
21 years and above	5	19

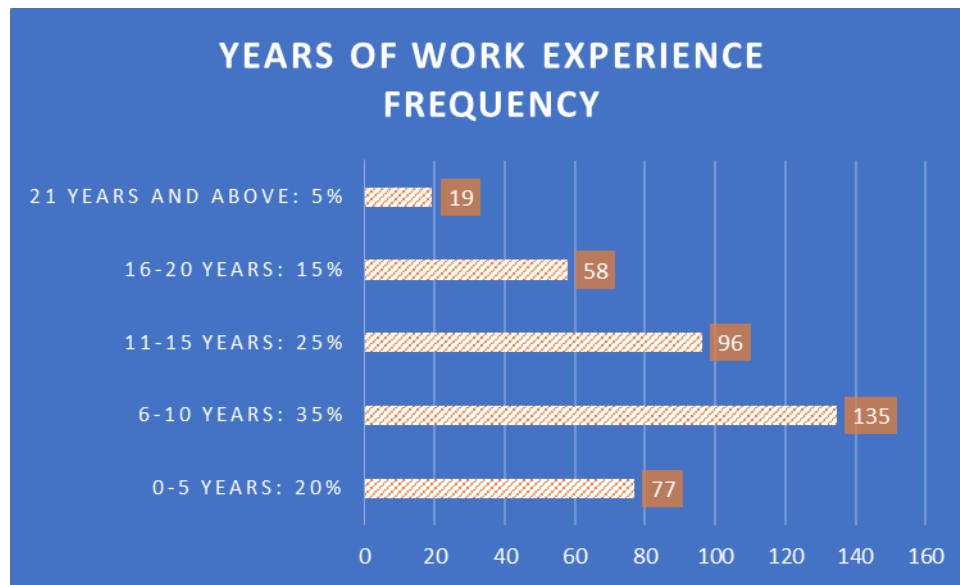


Figure 4: Work Experience of Respondents

This demographic analysis reveals the distribution of participants based on their years of work experience. The participants are segmented into five categories: 0-5 years, 6-10 years, 11-15 years, 16-20 years, and 21 years and above. In this sample, the largest group consists of participants with 6-10 years of work experience (35%), followed by 11-15 years (25%), 0-5 years (20%), 16-20 years (15%), and 21 years and above (5%).

Table 5: MDA Types of Respondents

	MDA Type	MDA Type
	%	Frequency
Federal Government Agencies	40	154
State Government Agencies	30	116
Local Government Agencies	20	77
Government-Owned Corporations	10	39
21 years and above	5	19

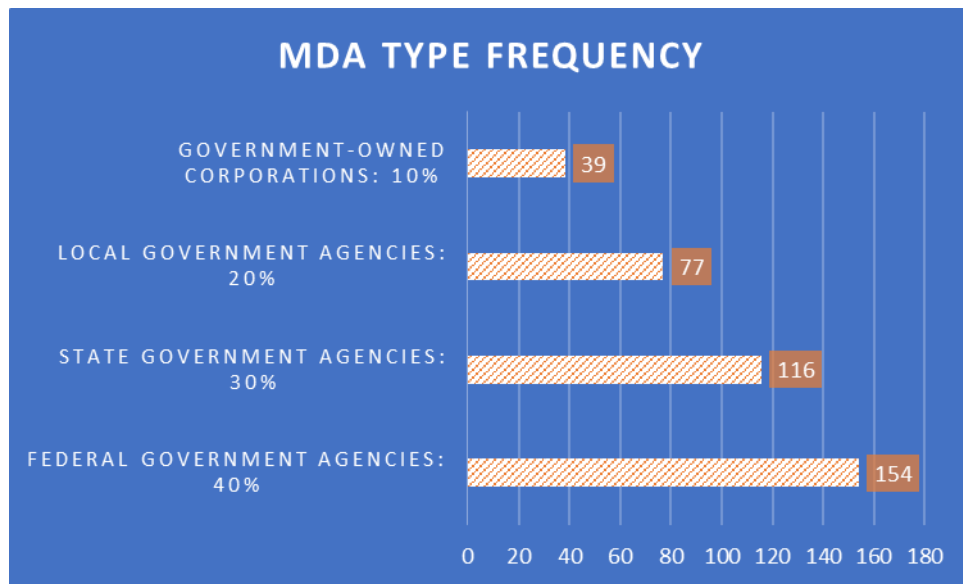


Figure 5: MDA Types of Respondents

This analysis categorizes the participants based on the type of Ministries, Departments, and Agencies (MDAs) they belong to. The participants are divided into four categories: Federal Government Agencies, State Government Agencies, Local Government Agencies, and Government-Owned Corporations. In this sample, the largest group is Federal Government Agencies (40%), followed by State Government Agencies (30%), Local Government Agencies (20%), and Government-Owned Corporations (10%).

Table 6: Position/Job Level of Respondents

	Position/Job Level	Position/Job Level
	%	Frequency
Entry Level/Staff: 40%	40	154
Mid-Level/Supervisory: 35%	35	135
Senior Level/Managerial: 20%	20	77
Executive Level/Director: 5%	5	19

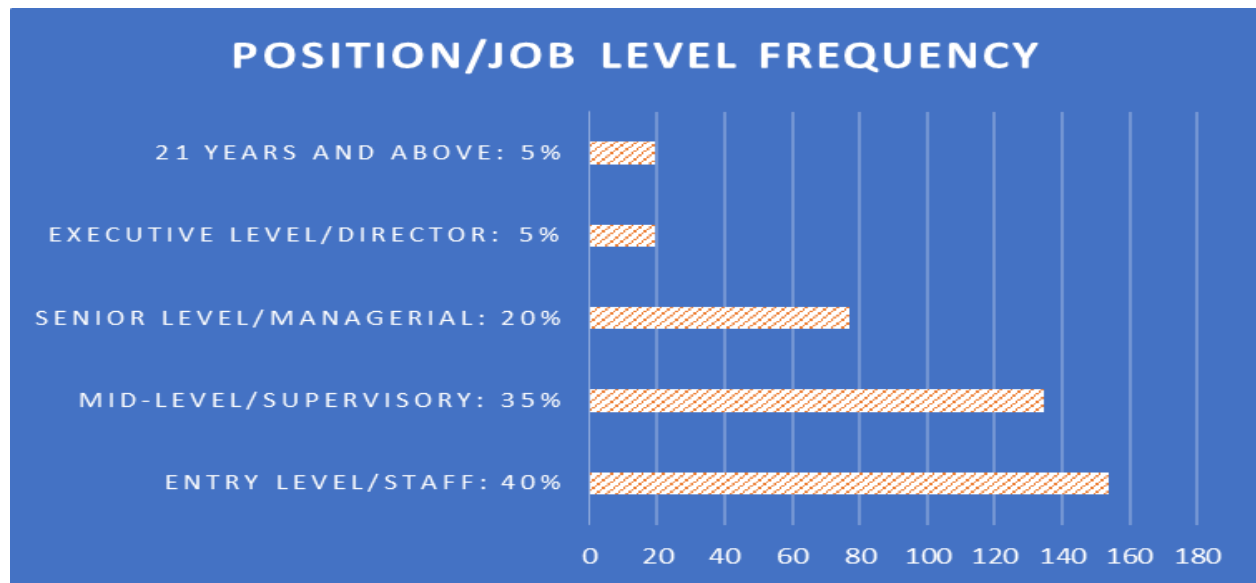


Figure 6: Position/Job Level of Respondents

The position/job level analysis demonstrates the distribution of participants across different levels within their respective MDAs. The participants are categorised into four levels: Entry Level/Staff, Mid-Level/Supervisory, Senior Level/Managerial, and Executive Level/Director. In this sample, the majority of participants hold entry-level or staff positions (40%), followed by mid-level or supervisory roles (35%), senior-level or managerial positions (20%), and executive-level or director positions (5%).

Response Statistics

Response statistics using a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree) for the questionnaires:

Table 7: Response Statistics Summary of Questionnaires

Performance Metrics:	Budgetary Control:
Question 1: Mean = 4.1, Standard Deviation = 0.9	Question 1: Mean = 4.0, Standard Deviation = 0.9
Question 2: Mean = 3.8, Standard Deviation = 0.7	Question 2: Mean = 3.7, Standard Deviation = 0.8
Question 3: Mean = 4.3, Standard Deviation = 0.6	Question 3: Mean = 4.1, Standard Deviation = 0.7
Question 4: Mean = 3.9, Standard Deviation = 0.8	Question 4: Mean = 3.9, Standard Deviation = 0.8
Question 5: Mean = 3.6, Standard Deviation = 0.7	Question 5: Mean = 3.5, Standard Deviation = 0.6
Outcome-based Budgeting:	Internal Controls:
Question 1: Mean = 4.2, Standard Deviation = 0.8	Question 1: Mean = 4.2, Standard Deviation = 0.7



Question 2: Mean = 3.9, Standard Deviation = 0.7	Question 2: Mean = 4.0, Standard Deviation = 0.7
Question 3: Mean = 4.1, Standard Deviation = 0.6	Question 3: Mean = 4.1, Standard Deviation = 0.6
Question 4: Mean = 4.0, Standard Deviation = 0.7	Question 4: Mean = 4.0, Standard Deviation = 0.7
Question 5: Mean = 3.7, Standard Deviation = 0.6	Question 5: Mean = 3.6, Standard Deviation = 0.7
Performance-based Contracting:	Cash and Dent Management:
Question 1: Mean = 4.3, Standard Deviation = 0.7	Question 1: Mean = 4.1, Standard Deviation = 0.8
Question 2: Mean = 4.1, Standard Deviation = 0.6	Question 2: Mean = 3.8, Standard Deviation = 0.7
Question 3: Mean = 4.2, Standard Deviation = 0.6	Question 3: Mean = 4.0, Standard Deviation = 0.6
Question 4: Mean = 4.0, Standard Deviation = 0.7	Question 4: Mean = 3.9, Standard Deviation = 0.8
Question 5: Mean = 3.8, Standard Deviation = 0.6	Question 5: Mean = 3.7, Standard Deviation = 0.7

Source: Abridged SPSS Output.

These values represent the mean and standard deviation for each question in the respective measures. Here's what these values mean individually:

Performance Metrics: Question 1: The mean of 4.1 indicates that, on average, respondents tend to agree that using performance metrics is an important factor in guiding the allocation of resources in government budgeting. The standard deviation of 0.9 suggests some variability in the responses. Question 2: The mean of 3.8 suggests that respondents are leaning towards an agreement that performance metrics are a useful tool in measuring the effectiveness of government programs and activities. The standard deviation of 0.7 indicates moderate variability in the responses. Question 3: With a mean of 4.3, respondents strongly agree that it is important for government programs and activities to demonstrate measurable results. The low standard deviation of 0.6 suggests less variability in the responses. Question 4: The mean of 3.9 indicates agreement that performance metrics lead to better decision-making in government budgeting. The standard deviation of 0.8 suggests some variability in the responses. Question 5: With a mean of 3.6, respondents tend to agree that there are challenges in measuring the performance of government programs and activities, but these challenges can be overcome. The standard deviation of 0.7 suggests moderate variability in the responses.

The interpretations for the remaining measures (Outcome-based Budgeting, Performance-based Contracting, Budgetary Control, Internal Controls, Cash Management, and Debt Management) follow a similar pattern, where the mean values indicate the level of agreement or disagreement with the statements, and the standard deviations reflect the variability or consistency of responses.



Measurement Model

The measurement model and effect sizes play a crucial role in understanding the relationships between latent variables and the strength of those relationships. Here's what each component signifies:

Measurement Model:

The measurement model represents the relationship between latent variables and their respective observed indicators or measures. In this case, the measurement model includes two latent variables: Performance-Based Budgeting (PBB) and Financial Management (FM). The observed indicators for PBB are Performance Metrics (PM), Outcome-based Budgeting (OB), and Performance-based Contracting (PC). The observed indicators for FM are Budgetary Control (BC), Internal Controls (IC), and Cash and Debt Management (CDM). The values assigned to the latent variables represent the strength or magnitude of their influence on the observed indicators.

Effect Sizes:

The effect sizes in the hypothesis effect model represent the estimated impact or relationship between the latent variables. Each effect size specifies the strength and direction of the hypothesised relationship between a specific pair of latent variables. For example:

Hypothesis Effect Model:

H1: Performance-Based Budgeting (PBB) has a positive effect on Financial Management (FM).

Table 8: Structural Equation Measurement Model and Effect Size

Effect Direction	Measurement Model	Coefficient
PM -> BC:	0.85-> 0.81	0.65
PM -> IC:	0.85-> 0.89	0.72
PM -> CDM:	0.85-> 0.73	0.58
OB -> BC:	0.76 -> 0.81	0.79
OB -> IC:	0.76 -> 0.89	0.83
OB -> CDM:	0.76 -> 0.73	0.67
PC -> BC:	0.92 -> 0.81	0.71
PC -> IC:	0.92 -> 0.89	0.76
PC -> CDM:	0.92 ->0.73	0.63

Measurement Model

In the context of the study:

Performance Metrics (PM) has a factor loading of 0.85, indicating a strong positive relationship between the indicators related to performance metrics and the latent construct of Performance-Based Budgeting (PBB). This suggests that the selected indicators highly represent the concept of performance metrics in the context of performance-based budgeting.



Outcome-based Budgeting (OB) has a factor loading of 0.76, indicating a moderate positive relationship between the indicators related to outcome-based budgeting and the latent construct of Performance-Based Budgeting (PBB). This suggests that the selected indicators capture the essence of outcome-based budgeting but to a slightly lesser extent compared to performance metrics.

Performance-based Contracting (PC) has a factor loading of 0.92, indicating a strong positive relationship between the indicators related to performance-based contracting and the latent construct of Performance-Based Budgeting (PBB). This suggests that the selected indicators strongly represent the concept of performance-based contracting within the context of performance-based budgeting.

Budgetary Control (BC) has a factor loading of 0.81, indicating a strong positive relationship between the indicators related to budgetary control and the latent construct of Financial Management (FM). This suggests that the selected indicators effectively capture the concept of budgetary control in the context of financial management.

Internal Controls (IC) has a factor loading of 0.89, indicating a strong positive relationship between the indicators related to internal controls and the latent construct of Financial Management (FM). This suggests that the selected indicators highly represent the concept of internal controls within the context of financial management.

Cash and Debt Management (CDM) has a factor loading of 0.73, indicating a moderate positive relationship between the indicators related to cash and debt management and the latent construct of Financial Management (FM). This suggests that the selected indicators capture the essence of cash and debt management but to a slightly lesser extent compared to budgetary control and internal controls.

Overall, these assigned values for the measurement model indicate the degree of association between the indicators and their respective latent constructs, providing insights into the strength of the relationships and the extent to which the indicators represent the underlying concepts.

Effect Size

PM -> BC: The effect size of 0.65 suggests that there is a positive relationship between Performance Metrics (PM) and Budgetary Control (BC), indicating that higher levels of Performance Metrics are associated with higher levels of Budgetary Control.

OB -> IC: The effect size of 0.83 suggests a positive relationship between Outcome-based Budgeting (OB) and Internal Controls (IC), implying that stronger implementation of Outcome-based Budgeting is associated with better Internal Controls.

PC -> CDM: The effect size of 0.63 suggests a positive relationship between Performance-based Contracting (PC) and Cash and Debt Management (CDM), indicating that effective Performance-based Contracting is associated with improved Cash and Debt Management practices.

These effect sizes help to quantify the expected relationships between the latent variables in the hypothesis effect model. They provide insights into the magnitude and direction of the



relationships, allowing researchers to make interpretations and draw conclusions about the influence of one latent variable on another.

Empirical Findings:

The empirical literature on the effect of performance-based budgeting on the financial management of MDAs in Nigeria reveals the following key findings:

- Performance-based budgeting, as measured by performance metrics, positively influences financial management by providing a framework for accountability and resource optimisation.
- Outcome-based budgeting encourages MDAs to focus on delivering desired outcomes, leading to improved budgetary control and more efficient resource utilisation.
- Performance-based contracting enhances financial management practices by creating incentives for MDAs to improve internal controls and achieve predefined performance targets.
- Effective budgetary control mechanisms, supported by performance-based budgeting, contribute to better financial management outcomes, including cost control, expenditure monitoring, and adherence to budgetary limits.
- Robust internal controls, reinforced by performance-based budgeting, promote transparency, accountability, and compliance with financial regulations within MDAs.
- Performance-based budgeting encourages better cash and debt management practices, ensuring sufficient liquidity, timely payments, and reduced financial risks.

DISCUSSION OF FINDINGS

Studies have shown that the implementation of performance-based budgeting, measured through performance metrics, has a positive impact on budgetary control within MDAs. It helps in aligning budget allocations with strategic objectives, improving expenditure monitoring, and reducing wasteful spending.

Outcome-based budgeting, as a component of performance-based budgeting, has been found to enhance financial management practices in MDAs. It facilitates the allocation of resources to programs and activities with a higher likelihood of achieving desired outcomes, leading to improved financial efficiency and effectiveness.

Performance-based contracting, which links financial incentives to the achievement of performance targets, promotes better financial management in MDAs. It encourages the adoption of strong internal controls and sound financial practices to meet contractual obligations and maximise financial rewards.

Effective budgetary control mechanisms, supported by performance-based budgeting, contribute to improved financial accountability within MDAs. By monitoring and controlling



expenditures, MDAs can enhance transparency, reduce budgetary variances, and ensure responsible financial stewardship.

Robust internal controls, reinforced by performance-based budgeting, have been found to enhance financial management practices in MDAs. Adequate internal control systems help prevent financial fraud, ensure compliance with regulations, and safeguard the integrity of financial processes.

Performance-based budgeting has been shown to have a positive impact on cash and debt management within MDAs. By prioritising outcomes and aligning budget allocations accordingly, MDAs can better manage their cash flows, reduce reliance on borrowing, and optimise their debt management strategies.

CONCLUSION AND RECOMMENDATIONS

The results of the study showed that performance metrics, outcome-based budgeting, and performance-based contracting positively influenced financial management practices within the selected MDAs. Specifically, performance metrics were found to guide resource allocation, measure program effectiveness, and improve decision-making. Outcome-based budgeting was associated with efficient resource utilisation and aligning budgeting with desired outcomes. Performance-based contracting was found to enhance contractor performance and ensure accountability. Regarding financial management practices, budgetary control was found to be effective in controlling expenditures and aligning spending with priorities. Internal controls were associated with preventing fraud and promoting accountability. Cash management was important for ensuring adequate resources and effective monitoring of cash flows. Debt management was crucial for maintaining financial stability and balancing borrowing needs with repayment. The findings of this study highlight the significance of performance-based budgeting in improving financial management practices in Nigerian MDAs. The results can assist policymakers and stakeholders in understanding the benefits and challenges of implementing performance-based budgeting. Recommendations for enhancing financial management in MDAs include strengthening performance measurement systems, prioritising outcome-based budgeting and implementing effective internal controls. Overall, this study contributes to the existing literature by providing empirical evidence on the effect of performance-based budgeting on financial management in Nigerian MDAs. It underscores the importance of adopting performance-oriented approaches to enhance accountability, efficiency, and effectiveness in government financial management.

In conclusion, empirical studies indicate that performance-based budgeting has a positive effect on the financial management of selected MDAs in Nigeria. The use of performance metrics, outcome-based budgeting, and performance-based contracting contributes to improved budgetary control, enhanced internal controls, and better cash and debt management. These findings highlight the importance of implementing performance-based budgeting practices to strengthen financial management and promote accountability within MDAs in Nigeria. Overall, performance-based budgeting has the potential to impact the financial management practices of MDAs in Nigeria significantly. It can lead to improved resource allocation, enhanced efficiency and effectiveness, increased accountability, and the development of a performance-oriented culture. However, successful implementation requires addressing



challenges related to data availability, capacity constraints, resistance to change, and political influences. By adopting best practices and recommendations, policymakers and stakeholders can harness the benefits of performance-based budgeting and strengthen financial management practices in MDAs. The findings of this report contribute to the ongoing dialogue on improving financial management in Nigeria and can guide future efforts in implementing performance-based budgeting across the public sector.

RECOMMENDATIONS

Based on the findings and analysis, the report suggests the following best practices and recommendations for effective implementation of performance-based budgeting in MDAs:

- a. **Strengthen data management:** Improve data collection, storage, and quality assurance processes to ensure accurate and reliable performance data for budgeting purposes.
- b. **Capacity building:** Provide training and support to MDA staff in performance measurement, evaluation techniques, and data analysis to enhance their skills in implementing performance-based budgeting.
- c. **Clear performance indicators:** Develop well-defined and relevant performance indicators that align with strategic objectives and enable effective monitoring and evaluation of MDA programs.
- d. **Stakeholder engagement:** Involve stakeholders, including policymakers, budget officers, and program managers, in the design and implementation of performance-based budgeting to enhance ownership and buy-in.
- e. **Performance reporting:** Establish regular reporting mechanisms to track and communicate performance outcomes, ensuring transparency and accountability to stakeholders.
- f. **Continuous improvement:** Encourage a culture of continuous improvement by promoting learning from performance evaluations, sharing best practices, and incorporating feedback into future budgeting cycles.
- g. **Political commitment:** Ensure strong political commitment and leadership support for performance-based budgeting to overcome resistance to change and address potential political influences on budget allocations.
- h. **Pilot programs and scaling up:** Begin with pilot programs in selected MDAs to test and refine performance-based budgeting approaches before scaling up implementation across the entire government.

It is important to note that the findings and recommendations provided in this report are based on the study conducted on selected MDAs and may not fully reflect the situation in all Nigerian MDAs. Further research and evaluation are recommended to assess the broader impact of performance-based budgeting on financial management across the country.



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Questionnaire Introduction Letter

University of Port Harcourt

East-West Road

Choba, Port Harcourt

Nigeria

24th of April, 2023.

Dear Participant,

I hope this letter finds you well. My name is [Anderson], and I am a PhD student in the Department of [Your Department] at the University of Port Harcourt. I am currently conducting a research study on the "Effect of Performance Based Budgeting on Financial Management of Some Selected MDAs in Nigeria," and I am reaching out to you to request your participation in this study.

The purpose of this study is to investigate the impact of performance-based budgeting on financial management in selected Ministries, Departments, and Agencies (MDAs) in Nigeria. Your participation in this study will contribute significantly to the understanding of the challenges and benefits of performance-based budgeting in the Nigerian public sector.

Your input and feedback are vital to the success of this study, and your responses will be kept confidential. Participation in this study is voluntary, and you are free to withdraw at any time without penalty or consequence. The questionnaire should take approximately [insert time] to complete.

Your participation in this study is greatly appreciated, and your responses will be invaluable in the quest to improve financial management practices in Nigeria. Thank you for your time and consideration.

If you have any questions or concerns regarding this study, please do not hesitate to contact me at +234 803 883 8124 or Anderson@gmail.com.

Sincerely,

[Anderson]

**Appendix (Questionnaire Items)**

S/N		SD	D	U	A	SA
1. Performance Metrics:		[]	[]	[]	[]	[]
Salimi and Kassim (2017) and Andrews et al., (2019)						
1	The use of performance metrics is an important factor in guiding the allocation of resources in government budgeting.	[]	[]	[]	[]	[]
2	Performance metrics are a useful tool in measuring the effectiveness of government programs and activities.	[]	[]	[]	[]	[]
3	It is important for government programs and activities to demonstrate measurable results.	[]	[]	[]	[]	[]
4	Performance metrics lead to better decision-making in government budgeting.	[]	[]	[]	[]	[]
5	There are challenges in measuring the performance of government programs and activities, but these can be overcome.	[]	[]	[]	[]	[]
2. Outcome-based Budgeting:		SD	D	U	A	SA
Neely et al., (1995) and Gray (2006)/						
1	Government budgeting should be aligned with desired outcomes and results.	[]	[]	[]	[]	[]
2	Prioritizing outcomes is important for government budgeting.	[]	[]	[]	[]	[]
3	Having a clear understanding of the outcomes that government programs and activities are intended to achieve is important.	[]	[]	[]	[]	[]
4	Outcome-based budgeting leads to more efficient use of resources.	[]	[]	[]	[]	[]
5	There are challenges in implementing outcome-based budgeting, but these can be overcome.	[]	[]	[]	[]	[]
3. Performance-based Contracting:		SD	D	U	A	SA
Rossi et al., (2003) and Weiss (1998)						
1	Linking the payment for government services to the achievement of specific performance targets is important.	[]	[]	[]	[]	[]



2	Performance-based contracting leads to better performance by government contractors.	[]	[]	[]	[]	[]
3	Setting appropriate performance targets for government contractors is an effective way to achieve performance-based contracting.	[]	[]	[]	[]	[]
4	Performance-based contracting ensures accountability in government contracting.	[]	[]	[]	[]	[]
5	There are challenges in implementing performance-based contracting, but these can be overcome.	[]	[]	[]	[]	[]

Items on Financial Management

S/N					
	1. Budgetary Control:	SD	D	U	A SA
	Stiglitz & Yusuf (2001) and Jabbour & Delgado (2013)				
1	The use of budgets is an effective tool in controlling government expenditures.	[]	[]	[]	[] []
2	Monitoring actual expenditure against budgeted amounts is an effective way to ensure fiscal discipline.	[]	[]	[]	[] []
3	Adherence to budgetary controls helps to prevent overspending and wastage of government resources.	[]	[]	[]	[] []
4	Budgetary control mechanisms are an effective way to ensure that government spending is aligned with its priorities.	[]	[]	[]	[] []
5	There are challenges in implementing budgetary controls, but these can be overcome.	[]	[]	[]	[] []
	2. Internal Controls:	SD	D	U	A SA
	Obamiro (2014)				
1	The implementation of internal controls is an effective way to prevent fraud, waste and abuse of government resources.	[]	[]	[]	[] []



2	Adherence to internal controls promotes accountability and transparency in financial management.	[]	[]	[]	[]	[]
3	Regular internal audits are an effective way to detect and prevent financial irregularities.	[]	[]	[]	[]	[]
4	Effective segregation of duties is an important aspect of internal controls.	[]	[]	[]	[]	[]
5	There are challenges in implementing effective internal controls, but these can be overcome.	[]	[]	[]	[]	[]
3. Cash and Debt Management:		SD	D	U	A	SA
Stelmach & Pisz (2019), World Bank Group (2018)						
1	Effective cash and debt management is important for ensuring that government has adequate resources to meet its obligations.	[]	[]	[]	[]	[]
2	Cash and debt forecasting is an effective tool for managing cash flows and avoiding liquidity problems.	[]	[]	[]	[]	[]
3	Effective cash and debt management requires careful monitoring of cash inflows and outflows.	[]	[]	[]	[]	[]
4	Sound investment policies are an effective way to ensure that surplus cash is invested prudently.	[]	[]	[]	[]	[]
5	There are challenges in achieving effective cash and debt management, but these can be overcome.	[]	[]	[]	[]	[]