

MONETIZATION OF FRINGE BENEFITS AS PART OF PUBLIC SERVICE REFORMS IN NIGERIA -A COST - BENEFIT ANALYSIS

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Abstract

Nigeria currently prides itself as a country undergoing reforms especially, in the public sector. The overriding reason being the realization of the fact that there has been a near total collapse of the institution of governance leading to the institutionalization of corruption, The cost of governance has risen steadily over the years due essentially to large outlays of benefits -in-kind to public servants whose cost has become heavy for government to carry. The main objectives of these reforms in the public service are to improve transparency in government action, eliminate waste and free-up resources for infrastructural development. One specific objective is monetization of fringe benefits so as to eliminate the opportunity for corruption. This is against the background of the fact that certain benefits have been provided and maintained at high cost. This paper attempts to evaluate a cost- benefit analysis of the programme to the government and finds that rather than eliminate corruption, the policy provided an opportunity for some public servants to further their 'nests', rather than benefit the government, it cost dearly to under take the programme in its aftermath through its likely impact on service delivery.

Introduction

The world over, it is largely recognized that economic growth and development are essentially tied to the issue of good governance. The will in turn ensures improved welfare, observance of the rule of law, and respect for human rights. Following from the above is the implicit assumption that the absence of good governance tantamounts to loss of welfare, violation of basic rights and the absence of the rule of law. Inherent in the concept of good governance is the adoption of democratic principles which facilitates the participation of the greater majority of the populace in the process. The logical deduction from this is the fact that democracy enhances good governance which if combined with economic reforms, facilitates economic growth and development.

The realization of the fact that good governance facilitates progress and welfare has informed an ever increasing number of developing nations to under take reforms. This has been further strengthened by the pressure that has been brought to bear on these nations to reform by the countries of the West. These reforms come in different forms and range from political, economic, social, and financial to public sector reforms. The craze for 'good governance' by these nations is hinged on the belief that it has been able to transform the fortunes of their countries and can do the same for developing countries. Nelson (1997), has revealed that there is a strong correlation between democratic forms of governments and economic development in the long run. He however, admits that though this may be true for developed nations, there are no empirical results to support this position for developing countries, it nonetheless can be acknowledged that good governance is an anti-dote for rapid growth and development. Within this context therefore, for democracy to ensure growth and development, we must encourage good governance.

The failure of the institution of governance to effectively transform the economy for improved performance and better welfare for its citizens over the years has informed the current efforts at reforming it. As clearly acknowledged by government... *'there has been a collapse of the governance institutions which greatly encouraged corruption in the system The instrument of control has also collapsed leading to poor costing of public projects and some instances, misappropriation of funds as well as the prevalence of inefficient parastatals,(FGN,2003).*The enthronement of democratic governance in Nigeria in 1999 and the realization of the fact that governance institutions have all but collapsed is largely responsible for the current reforms.

The objective of this paper is to evaluate the cost- benefit associated with these reforms for the Nigerian poor. The discussion shall be structured as follows- a theoretical framework on good governance and reforms is presented in next the section. It is followed by background information on Nigeria's current reforms. A methodology for the research is presented in the next section, the results

of the survey are presented next and this is followed by summary and conclusions.

Conceptual and Theoretical Issues

Scholars of development economics have of recent harped on the consequences of Governance and Misgovernance for development because of its attendant impact on the socioeconomic development of the state. Economic development in this context can be defined 'as the process of improving the quality of all human lives'. Todaro (2000), says it includes

- a- Raising people's standard of living in their income and consumption of food, medical services, education through relevant economic growth process.
- b- Creating conditions conducive to the growth of people's self esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect.
- c- Increasing people's freedom to choose by enlarging die, range of their choice variables such as increasing varieties of consumer goods and services.

Over the years, scholars of development economics have come to the conclusion that resource endowment, the extent of capital accumulation and skills, the content and quality of human capital in a society, how production is organized, a people's culture and social setting as well as an efficient administrative system are important ingredients for economic development. This pre-supposes that economic development is shaped by both economic and no economic factors and must therefore be carefully evaluated in order to determine their respective roles in the development process. As Uwatt (2003) suggests, each of these factors is important in the process of development , what is required is a good lead to be provided by good governance . This is because, it is the one that harnesses all essential factors for the good of the society. Good governance in this wise as defined by Boeninger (1992) is 'good government of a society which guides **the** country along a course leading to the desired goals'. These goals will include economic development measured by high per capita income, low infant mortality, and higher literacy rate, equity, and social justice, freedom of expression, transparency and accountability. In a sense, good governance will include the absence of corruption since it emphasizes openness or transparency in government actions.

The essential ingredients of democracy-which is closely linked to good governance - include holding regular, free and competitive elections, emphasizes both economic and civil liberties which should be freely available to citizens without hindrance. Governance as defined in this context does not only involve those who are given political authority, but include those who provide the machinery through which such authority is exercised. This machinery involves the bureaucratic and administrative structures which largely determines the effectiveness and efficiency or otherwise of governance. Those given political authority must therefore, develop both bureaucratic and administrative systems which are capable of translating SOME policies into improved welfare. Studies have found a significantly important connection between organized bureaucracies and the prospect for growth. It therefore, goes to suggest that poorly organized administrative and bureaucratic structures impact negatively on growth prospects.

The World bank sees good governance as 'the manner in which power is exercised in the management of a country's economic and social resources to; development '. This will include institutional arrangement regarding its structures, the decision making process, policy formulation, their implementation, systems of information flow, leadership effectiveness and the relations between public officials and the public- Landed- Mills and Seragi ldin(-1 992). Adedeji, (1998), says 'the degree of responsiveness to the people's legitimate demaiu and expectations is a measure of good governance'.

As argued by Uwatt, governance involves three distinct but closely related issues- the political, technical, and institutional arrangement which work in harmony for the attainment of set objectives. Political authority is saddled with the responsibility of establishing good objectives or goals and providing good leadership that will harness all factors for the good of the society. The technical aspect of governance entails laying the foundation where those to be engaged are given the necessary tools that are required for efficient service delivery. The institutional arrangement refers to the ability to get things done through efficient means. Efficiency will be attained if political authority is exercised with proper strategies adopted and policies harmonized According to Serageldin and Landell-Mills (1992), without political commitment, little can be achieved even with an efficient public administration, and without an efficient public administration, no government can be effective

however benevolent. One can therefore, argue that to attain good governance, authorities must ensure the adoption of appropriate policies for improved welfare or the absence of government failure. As Starling (1988); (cited in Uwatt) says, 'a good policy is one that attains its goals with minimum side effects....a good policy itself- not luck or circumstance-causes the desired changes in the societal problem.'

An inference can be drawn from the above and that is that failures can occur in the process of governance. This will be due largely either to the inability of public authorities to adopt sound policies or exercise the right controls over the technical as well as the institutional aspect of governance for optimum results. Failure in governance manifests in two ways- the first occurs when government intervenes in the workings of the market system and disrupts its smooth operation, the second involves a situation where too much waste is associated with governance to the extent that efficiency in resource management becomes difficult. If this persists, the goals of rapid economic growth and development become a pipe dream and social welfare of the citizens is jettisoned. The temptation of government to intervene in the market system is often driven by the fact that it has a social responsibility to provide for the material wellbeing of its people and the market cannot be trusted to do this. Markets often succeed in allocating resources efficiently; they however, do not distribute income equitably. Scholars have therefore argued that large benefits do not justify government intervention, nor do large costs make it unwise. What matters is the relative size of benefits to cost.

The realization of these failures by governance especially in resource management leading to severe side effects usually prompts reforms. The essence of these reforms is to pluck leakages within the system or attempt to strengthen systems of controls of the institutions of governance. The new Lexicon Webster's dictionary defines reforms as 'to improve by removing faults and weaknesses or by strengthening good qualities; or to put an end to an evil or abuse or to correct'. This definition presupposes that the existing system is either weak, has faults or is incapable of achieving its goals and needs to be strengthened.

Background to Nigeria's Current Reforms

The current reforms of the government is largely informed by what it terms as the 'breakdown of the traditional instrument of control leading to corruption... poor control of programmes, mushrooming of institutions, especially, inefficient and wasteful Parastatal...' This lays the foundation for the current reform efforts of government embarked upon to correct observed ills, eliminate abuses and strengthen the control mechanism of the institution of governance for the attainment of the desired goals. The near total collapse of the institution of governance made government apprehensive of not being able to achieve the millennium development goals before the target date.

One of the central pillars of the reform programme is the monetization of fringe benefits to public servants. It became a natural starting place for government because of the ever increasing cost of providing these benefits-in-kind to public servants. The view was expressed that services such as subsidized accommodation, transport facilities, chauffeur driven vehicles amongst others were simply not being provided in the most cost-effective manner leading to enormous resource wastes.

Methodology

The survey setting was designed to gather information from government ministries that had embarked on the programme of monetizing their fringe benefits especially, that of vehicles. This study was mainly to evaluate the cost effectiveness of monetizing vehicles to public servants in line with government objectives and the concept of transparency in governance. Although questionnaires were designed for the study, the main source of information for the study were the records of some of the ministries that undertook the exercise. The relevant information for the study sort were- cost of vehicles on purchase, the Net book value at the point of sale of such vehicles, the proceeds of the sale against the expected value of such sales, beneficiaries, modalities for the allocation/sale and the transparent nature of the exercise. The study was intended to cover all the ministries, however; only a handful had undertaken the process of monetizing their fringe benefits- it therefore, concentrated on only those ministries.

Unfortunately, there was no specified criteria used for those ministries selected to undertake the exercise, the research was therefore, based on accidental samples of the organizations. It should

be emphasized here that some of the information sort were denied the researcher due to their sensitive nature and this partly affected the outcome of the study.

The conventional method of depreciating assets for the purpose of determining their net value especially, for tax claims using the current capital allowances rates was adopted for the study. This method is appropriate when assets are to be disposed as it offers ready information on the prices to be ascribed to them. This method was chosen because of its unique nature in providing easy to-be- read information. The formula for this is given below

$$PV=Cp-Ca-Cr$$

And

$$NBV= Cp-Ca$$

Where: PV= Present Value of the asset

Cp= Cost of Purchase

Ca= Capital allowance

Cr= Cost of repairs

NBV= Net Book Value.

This provides the basis for determining the appropriate value for each asset at the point of sales in such a way that either a profit is made from the sale or the full cost of the asset is recovered.

Justification of the Study

The justification for this study is driven by the need to provide critical information to government on its reform programmes as a guide for future exercises. This is informed by the fact that lapses have been observed in the current exercise through information obtained from respondents. Such information can be used to strengthen controls systems that shape government policies.

Results

As earlier stated, the purpose of this study is attempt a cost-benefit analysis of the monetization programme of the government against its set objectives. The survey pooled a total of two hundred and thirty six vehicles that were monetized by obtaining their total cost on purchase, cost of repairs, and their respective book value at the point of monetization .(See table below).

Table 1

Total number of vehicles pooled 1	Total cost of Vehicles on Purchase in Millions ₦ 2	Net Book Value In Millions ₦ 3	Total cost of repairs In Millions ₦ 4	Present Value In millions ₦ 5	Sales Proceeds in Millions ₦ 6	Net loss/gain In millions ₦ 7
236	861,555,580.00	227,532,161.00	7,175,200.0	220,356,961.00	110,178,480.00	(110,178,480.00)

Source; Survey 2005 (Adopted from annex I)

It can easily be seen from the table, the amount realized by the government from the sale of these vehicles at the point of monetization. One of the objectives of the programmes was to encourage public servants to own their vehicles as a means of enhancing their productivity. This objective may have been achieved since the vehicles were to be sold at half their book value as a mater of policy. The questions that come readily to mind at this point include-was the process of determination of the net book value as well as the present value of these vehicles in line with conventional standards?, was the process of allocating these vehicles to beneficiaries transparent enough?, did the proceeds from these sales enter government coffers?. While one can provide. ready answers to the first two questions from the results of the survey, it is difficult for the third due to its intricate nature.

Using conventional capital allowances rates applicable for tax purposes in the country's tax laws for determining the net book value for these vehicles reveals that these values were grossly understated based on information obtained from the survey as evident from the table below. This has implication for both a successful programe and revenues of government which is to be used for provision of amenities.

Table 2

Total no of Vehicles 1	Total cost of purchase in Millions N 2	Net Book Value Millions N 3	Total cost of repairs In millions (4 4	Present Value In millions N 5	Sales Proceeds In millions N 6	Net Loss/gain In Millions N 7
236	861,555,580	339,104,23	7,175,200.00	331,929,034	165,964,517	(165,964,517)

Source; Survey 2005(Author s computation using current rates and annex 1)

The critical figures are those of columns 5 and 6 of tables land 2 above. The net book value and present value reveal substantial differences and this has implications for the revenue of government. The difference of #111,572,073 between the present value of table 1 and that of table 2 reflects the net loss in revenue to the government as a result of the under valuation of these vehicles if appropriate rates were used. Though this figure may be insignificant, it nonetheless offers insights into what happened in the programe implementation. On the basis of the above information, one can argue that if a proper evaluation of the programe is done, the amount of loss as a result of the under valuation of these assets could be enormous.

The second critical question borders on the modalities for the allocation of these vehicles to their beneficiaries. Results from the survey show that most vehicles were allocated to public servants who had them as official vehicles at the point of monetization- they had the first option of buying such vehicles off. This category constitutes the bulk of those who benefited from such sales and are very senior public servants who over the years, have benefited from government's benevolence. A limited number of these vehicles where however allocated through balloting- though this procedure was more transparent, only a negligible number of civil servants benefited from it. A classic case in point was a situation where one Peugeot 504 was allocated to all civil servants from one state in a particular parastatal. Naturally, only one person won and this has implications for efficient service delivery. Logical reasoning should have been used to allocate such vehicles to less privilege public servants which is likely to enhance their productivity.

One curious fact from the two tables above is the cost of repairs incurred on these vehicles before their sales-it was very low compared to their cost on purchase. Could this be a sign that government has suddenly become prudent in resource management?, certainly no; because results from the survey indicate that most of the vehicles offered for monetization were relatively new based on the ages of the vehicles. The net worth of these vehicles was therefore much more than stated for the purpose of sales. From the results of the survey, vehicles that were barely one year old were sold for between 15%and 20% of their cost of purchase and this was mostly to senior public servants in the service. This raises the question on whether those charged with the programe implementation adhered strictly to the very principles adopted for the exercise.

One other issue of consideration by the survey is the impact of this programe on the performance of the service itself. The results of the survey indicate that less than 7% of middle level cadre officers (on level 07-10) benefited from the exercise in some establishments. Reasons such as lack of transparency, lack of money at the point of the monetization exercise, inadequate number of vehicles (because some disappeared suddenly) and most often the skewed nature of the allocations were advanced for this. All these have serious implications for performance by these officers who form the bulk of the public service. Since most pool vehicles were affected by the exercise, cost of doing government business will rise as public servants will now opt for air travels rather than road transportation, there will be increased loss of man hours, and lack of concentration leading to low productivity.

Annex I (Records of Vehicles Sold Based on Official Documents)

S/no	Category of vehicle	Total numbe	Total cost	Net book	Cost of repairs	Presen t value	Amount sold
1	Peugeot 504 GR Salon	45	1,119,117,250	41,740,530	1,125,000	40615530	20,307,765
2	Peugeot 504 GP	22	52,668,000	8,,431,200	1,840,200	6,591,000	3,295,500

3	Peugeot 406	35	124,712,000	24,827,200	1,925,000	22,902,200	11,451,100
4	Peugeot 504 Base Line	28	74,117,400	24,704,440	Nil	24,704,400	12,352,220
5	Peugeot 505	18	64,137,600	8,482,560	990,000	7,492,560	3,746,280
6	Peugeot 607	7	59,388,000	27,510,400	35,000	27,475,400	13,737,700
7	Toyota Prado Jeep	8	48,130,000	12,832,416	Nil	12,832,416	6,416,208
8	Nissan Pick	17	45,685,800	5,528,480	765,000	4,763,480	2,381,740
9	Toyota Pick	15	32,140,200	8,619,040	450,000	8,169,040	4,084,520
10	Nissan 1.3	23	38,694,250	8,738,850	Nil	8,738,850	4,369,425
11	Mercedes Water Tank	6	141,277,500	35,319,375	45,000	35,274,375	17,637,187.5
12	Prado Jeep	6	40,108,380	20,054,190	Nil	20,054,190	10,027,085
13	Peugeot 405 prestige	6	21,379,200	1,283,520	Nil	1,283,520	641,760
	TOTAL	236	861,555,580	227,442,201	7,175,200	220,897,001	110,448,460

Source, Survey 2005

Suggestions

It is therefore, suggested that:

1. Regulatory authorities should be strengthened to curb the excesses of desk officers especially those charged with programme implementation to forestall arbitrariness.
2. Proper staff census should be conducted as a basis for future policy design so that intended beneficiaries are properly targeted.
3. Now that officers are most likely going to undertake trips by air, appropriate measures must be put in place to eliminate or minimize wastage through proper costing, planning and streamlining of government programmes.
4. Officers who benefited from the monetization exercise must be monitored so that they do not mis-use the few vehicles left in the pool while appropriate sanctions are administered for recklessness.

Conclusions

The results of this study paint a picture of a poorly handled programme which should have yielded substantial benefits to the government if a proper cost-benefit analysis had been done. This essentially arose as a result of lack of transparency, in implementation of the programme; most transactions were shrewded in secrecy and therefore not done at arms length casting doubts on its credibility. Both the personal interest of friends and relations as well as these of kinsmen became the overriding basis of allocation of such vehicles rather than the overall interest of the programme. Managers of the programme did not adhere strictly to the rules of the exercise as vehicles were arbitrarily allocated, sales values were equally fixed in the same way; neither did they evaluate the relative consequence of the programme on the performance of the service after its implementation. The costs of implementing the programme were not properly articulated before being undertaken leading to enormous resource waste in the process.

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