EFFECT OF PUBLIC FINANCE MANAGEMENT AND GOVERNMENT EFFECTIVENESS: EMPIRICAL EVIDENCE FROM NIGERIA

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Abstract: The study empirically examined the relationship between public finance management and government effectiveness in Nigeria, using the seven PEFA-based fiscal governance indicators as proxies for public finance management while government effectiveness served as proxy for governance index. The descriptive research design was adopted for the study and secondary data for a period of 2000 to 2022 were analyzed. The PFM variables included budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. Employing the Augmented Dickey-Fuller (ADF) test, the Engle–Granger cointegration approach, and an Error Correction Model (ECM), the study examined both long-run and short-run dynamics. The results indicated that all variables are integrated of order one, I(1), and are cointegrated, confirming the existence of a long-run equilibrium relationship. The ECM results show a significant and negative error correction term, indicating rapid adjustment toward equilibrium. In the short run, budget reliability and policy-based fiscal strategy and budgeting are the only statistically significant determinants of government effectiveness. The study concludes that strong institutions, effective PFM systems, and genuine political commitment are crucial to driving government effectiveness. It was recommended that sustained commitment to transparent, accountable, and rules-based public financial management remains essential for strengthening institutional performance and achieving government effectiveness.

Keywords: *government effectiveness, public finance management, budget reliability, Nigeria, governance index*

1.0 Introduction

The equitable allocation and responsible management of public financial resources remain fundamental to sustainable development and social justice. While nations are endowed with various forms of wealth, ensuring that these resources translate into improved welfare for citizens largely depends on governance structures and the quality of leadership (Akintunde et al., 2015; Dike & Madubueze, 2019). In developed countries, public financial systems are embedded within institutional mechanisms that promote efficiency, transparency, and accountability. However, in many developing countries, including Nigeria, governance remains entangled in patron-client relationships where public resources are distributed based on political loyalty rather than need (Lanre, 2012). The Nigerian public sector has long been plagued by widespread corruption, mismanagement, and fiscal indiscipline, leading to weak

service delivery and poor development outcomes. In response, several regulatory mechanisms, including public sector auditing, have been introduced to curb financial malfeasance (Hazaea et al., 2020). Nonetheless, systemic governance failures persist, manifesting in corruption, off-budget expenditures, and disregard for fiscal rules (Tapang & Ibiam, 2019). These inefficiencies highlight the importance of good governance as a foundational pillar for national development, characterized by political stability, rule of law, effective institutions, and control of corruption (World Bank, 2019; Adegbami & Adepoju, 2017).

In this context, public financial management (PFM) has emerged as a central instrument for achieving governance objectives. PFM entails the entire cycle of budget preparation, execution, accounting, auditing, and reporting (Christensen & Laegreid, 2013). A well-functioning PFM system ensures fiscal discipline, strategic allocation of resources, and value-for-money in public service delivery. According to Andrews et al. (2014), PFM also determines how effectively governments manage revenues and expenditures and their broader economic implications. Consequently, PFM is not only a technical function but a governance tool that reflects the state's capacity and commitment to development. To strengthen this system, the Public Expenditure and Financial Accountability (PEFA) framework was introduced as an internationally accepted diagnostic tool. The PEFA methodology assesses performance across seven key pillars: budget reliability, transparency of public finances, asset and liability management, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit (PEFA Secretariat, 2020). The framework serves as a benchmark for identifying systemic gaps, aligning reform efforts, and fostering accountability.

Despite numerous reform initiatives, Nigeria continues to face significant deficiencies in its PFM systems. These include poor budget credibility, weak linkages between policy priorities and expenditures, lack of transparency, and entrenched corruption. Nigeria ranked 140 out of 180 countries in the 2024 Corruption Perceptions Index by Transparency International, a decline from 136 in 2014, indicating persistent governance challenges. The lack of political will to enforce PFM reforms and ensure accountability has hindered progress, even with substantial foreign aid and donor support. This raises critical concerns about whether improvements in PFM quality can foster better governance, particularly in the Nigerian context. As fiscal responsibility, transparency, and efficient service delivery gain prominence globally, Nigeria's experience underscores the urgent need for empirical investigations into how the quality of PFM systems affects governance outcomes. Over the years, the demand for transparency and better public service delivery in Nigeria has intensified. Yet, public sector performance has largely fallen short, marked by inefficiency, poor budgeting practices, and disjointed planning and implementation. Although democratic governance has expanded civic space and provided a platform for institutional reform, it has failed to eliminate deep-seated governance deficits. Instead, leadership in Nigeria is often perceived as self-serving, with limited focus on the public good. This has resulted in abuses of the budget process, unauthorized spending, lack of compliance with budgetary procedures, and overall poor fiscal discipline.

These challenges raise a pertinent question as to what extent does the quality of public financial management systems influence governance outcomes in Nigeria? Addressing this question is critical to understanding the interplay between fiscal institutions, political leadership, and public sector performance. Existing studies on governance and public sector performance largely focus on broad institutional indicators which, while informative, may

mask specific institutional dynamics and reform trajectories (Kertati, et at., 2025). In the Nigerian context, relatively few studies provide evidence linking detailed fiscal governance indicators to government effectiveness (Amah & Okpala, 2021; Wike & Horsfall, 2025). The study filled this gap by empirically examining the relationship between public finance management and government effectiveness in Nigeria, using the seven PEFA-based fiscal governance indicators. The remainder of the paper is structured as follows. Section 2 reviews the relevant literature. Section 3 outlines the data and methodology. Section 4 presents and discusses the empirical results. Section 5 highlights the conclusion and policy implications of the study.

2.0 Literature Review

2.1 Theoretical Framework

The study is grounded under the New Institutional theory, Agency Theory and the Fiscal Governance theories. The New Institutional Theory was advanced by John W. Meyer and Brain Rowan in 1977 and further developed by Pal DiMaggio and Walter W. Powell in 1983. The theory posits that institutional outcomes are shaped not only by formal structures but also by informal norms, cultural expectations, and pursuit of legitimacy. The proponents argue that organizations often adopt policies and systems to align with societal expectations and international best practices. In the context of this study, public finance management systems are not merely technical tools but institutional practices that influence how governments function. Effective PFM systems can promote transparency, accountability and efficient allocation of resources, thereby enhancing government effectiveness.

Also, the Agency Theory as developed by Jensen and Meckling (1976), centers on the contractual relationship between principals (citizens) and agents (government officials). In public finance, this relationship is highly relevant. Governments manage public resources on behalf of the people, who entrust decision-making powers to elected officials and bureaucrats (Masood & Afzal, 2016). However, this delegation introduces risks of agency problems due to information asymmetry and conflicting interests (Chrisidu-Budnik & Przedanska, 2017). When agents pursue their personal interests, often through corruption, misallocation of public funds, or policy manipulation, public trust is undermined (Williamson, 1985). The agency problem is aggravated in contexts where institutional checks are weak and public scrutiny is minimal (Mathenge et al., 2017). In Nigeria, weak PFM controls and limited external oversight have enabled opportunistic behavior and fiscal indiscipline, highlighting the need for institutional reforms grounded in accountability and transparency (Chalam & Ng'eni, 2017).

The Fiscal governance theory as propounded by James Buchanan and Gordon Tullock (1962) posits that a well-designed public finance management system enhances the efficiency and effectiveness of government activities. Strong fiscal rules and institutions help to ensure prudent resource allocation, reduce fiscal indiscipline, and minimize corruption, thereby improving public sector performance. The theory offers a practical framework for understanding the relationship between public finance management and government effectiveness. It demonstrates that improvements in PFM systems are not merely administrative reforms but drivers of effective. Strong institutions characterized by transparency, accountability, and credible fiscal rules enhance governance performance by reducing uncertainty and improving policy implementation (Acemoglu & Robinson, 2012). Conversely, weak institutions lead to inefficiencies and poor service delivery. Together, these

theories offer a comprehensive framework for examining how the quality of public financial management systems influences governance outcomes in Nigeria.

2.2 Government effectiveness

Government effectiveness measures the quality of public services including civil service independence and policy formulation. The world Bank developed a governance index incorporating six dimensions of governance, first published in 1999. These dimensions include: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption.

The aim of governance is to encourage better service delivery and improved accountability by establishing a benchmark for governance effectiveness. Government effectiveness entails unambiguously identifying the basic values of the society (economic, political and socio-cultural issues including human rights) and pursing such values through an accountable and honest administration (Marvelous & Monday, 2016). The practice of governance effectiveness therefore, is ideally based on, and guided by the existence of a sound democratic constitution that enables the government to manage the affairs of the state effectively while empowering the citizenry to participate in governance and hold the government accountable. This accounts for why Zimako (2009) posits that responsible government all over the world place utmost priority on the welfare of citizens and are accountable for the pace of socio-economic development. The dynamic nature governance effectiveness necessitated that its features be isolated and discussed. Thus, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in 2009 has identified the following as the major characteristics of good governance or government effectiveness. These features include participation, rule of law, transparency, responsiveness, consensus oriented, equity and inclusiveness, effectiveness and efficiency, accountability and strategic vision. It assures that corruption is minimized, the views of minorities are taken into consideration and that the voices of the most vulnerable in society are heard in decision-making. It is responsive to the present and future needs of society. Government effectiveness is the deliberate process of making policy through a cohesive and active deliberation among policy makers that are interrelated through an array of networks (Gbererbie, 2019). Governance effectiveness is closely related and often interchanged with the concept of good governance.

2.3 Public finance management and government effectiveness

Over the last thirty years, governments globally have been subject to growing criticism for being inefficient, overly bureaucratic, costly, and unresponsive to citizens' expectations for high-quality public services (Hoque & Adams, 2011). These concerns have intensified the demand for public sector reform, particularly in the design and execution of budgeting systems. Budgeting, as a continuous process of planning, controlling, and evaluating public sector activities, plays a pivotal role in resource allocation and fiscal governance (Freeman et al., 2006). As such, transparent and sound budgeting and accounting systems are fundamental pillars for effective public financial management (PFM) and good governance (Broadbent & Guthrie, 2008). Within the PFM framework, performance-driven budgeting, timely reporting, and institutionalized auditing processes are instrumental in enhancing transparency, public trust, and accountability. These reforms shift government accountability from political rhetoric to measurable outcomes, aligning managerial responsibility with service delivery goals (Guthrie et al., 2005). PEFA identifies seven pillars of performance that are essential to

achieving government effectiveness. These pillars include transparency of public finances, budget reliability, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. Government effectiveness is actualized through institutional frameworks, policy processes, and mechanisms that ensure stakeholder participation and responsiveness to public needs. In this regard, PFM reforms serve as a structural lever for increasing financial awareness, institutional transparency, and informed decision-making (Ismail, 2020). Empirical evidence indicates that improved financial reporting, performance-based budgeting, and effective audit practices are associated with more transparent and accountable government structures (Agustin & Arza, 2020).

Existing works on PFM and government effectiveness had primarily focused on the effects of improved public financial management on aggregate fiscal discipline because this is a widely shared concern, and the relevant data on fiscal deficits and changes in debt have been more readily available. Most of the findings from these studies confirm a relationship between better PFM systems and a more sustainable fiscal balance, albeit with various caveats and nuances. Among the first studies to explore the relationship between aspects of PFM reforms and all three goals are Vlaicu et al. (2014) and World Bank (2013). These studies examined the relationship between the adoption of a Medium-Term Expenditure Framework (MTEF) and fiscal discipline, sectoral expenditure volatility, and cost effectiveness of spending in the health sector. Findings suggest that fiscal discipline improved after the adoption of an MTEF, some improvements in reduced volatility of allocations to the health sector, but no clear effect on operational efficiency. Some studies confirm a relationship between PFM systems and sustainable fiscal balance and fiscal discipline (Dabla-Norris et al., 2010; Vlaicu et al., 2014). In contrast, Fritz et al**.** (2014), using a PEFA-based measure of the quality of the PFM system and controlling only for per capita income, found a stronger PFM system was not associated with lower deficits for 56 countries. The limited number of observations in their study made it difficult to establish statistical relationships among the variables. The lack of relationship with deficit levels may be related to the time period, with many PEFA assessments undertaken as part of the process toward debt relief and the global financial crisis, which prompted larger deficits in many countries, including those with stronger PFM systems.

In summary, accountability and transparency are no longer optional but foundational in modern public financial systems. They shape the quality of governance, affect citizen trust, and determine the effectiveness of service delivery. For Nigeria and other emerging economies, strengthening PFM systems, particularly through enhanced budgeting, auditing, and reporting mechanisms, remains vital for improving governance and achieving developmental goals (Agustin & Arza, 2020; Gong et al., 2020). Therefore, it is imperative to determine whether PEFA indicators do influence government effectiveness in a developing country Nigeria.

3.0 Methodology

The descriptive research design was used and data was extracted from World Bank datasheet and PEFA country-based publications for various years. The data covered a period of 23 years from 2000 -2022. The PEFA pillars served as proxies for PFM while government effectiveness represented governance index. The empirical strategy is grounded in modern time-series theory, which emphasized the importance of distinguishing between short-run fluctuations and long-run equilibrium relationships among non-stationary variables.

The analytical framework captured both the long-run equilibrium linkage and the short-run adjustment dynamics between government effectiveness and its fiscal governance determinants. Given the time-series nature of the data, the econometric procedure followed a structured multi-step approach consistent with contemporary macroeconomic and institutional analysis. Following confirmation that the variables are integrated of order one, I(1), the study employed the Engle–Granger two-step cointegration approach to examine the existence of a long-run equilibrium relationship. This method is appropriate because the empirical model is specified as a single-equation framework with government effectiveness as the dependent variable, while other indicators serve as explanatory variables. The Engle Granger procedure is efficient and theoretically consistent for single-equation long-run estimation.

Cointegration was established if the residuals from the long-run regression are stationary, implying that the variables share a stable long-run equilibrium path. Thereafter, an Error Correction Model (ECM) was estimated to capture both short-run dynamics and long-run adjustments. The ECM is derived from the cointegrating equation and is specified below:

$\Delta GVNEt=\alpha 0+\sum \alpha i\Delta Xit+\lambda ECt-1+ut\Delta$

$GVNE_t = \alpha_0 + \sum \alpha_i \Delta X_{it} + \lambda EC_{t-1} + u_t$

$\Delta GVNEt=\alpha 0+\sum \alpha i\Delta Xit+\lambda ECt-1+ut$

where $ECt-1EC_{t-1}$ $ECt-1$ represents the lagged equilibrium error term derived from the long-run relationship.

The coefficient of the error correction term (λ) measures the speed of adjustment toward equilibrium following short-run shocks. To ensure the validity and reliability of the estimated model, a series of diagnostic tests were conducted including: Serial correlation test (Breusch–Godfrey LM test), Heteroskedasticity test (Breusch–Pagan/Cook–Weisberg test), Normality test (Skewness–Kurtosis test), and Structural stability test (CUSUM test).

These diagnostic checks ensure that the estimated coefficients are efficient, unbiased, and suitable for statistical inference. In summary the empirical analysis followed the following procedure:

1. Descriptive analysis of variables
2. Unit root testing using ADF
3. Long-run estimation via OLS
4. Cointegration testing using Engle–Granger approach
5. Error Correction Model estimation
6. Diagnostic and stability testing
7.

The model for the study is specified as follows:

$$\mathbf{GVNE_t=f(BDR_t, TRF_t, MAL_t, PFSB_t, PCBE_t, AAR_t, ESA_t)}$$

$$GVNE_t=\beta 0+\beta 1BDR_t+\beta 2TRF_t+\beta 3MAL_t+\beta 4PFSB_t+\beta 5PCBE_t+\beta 6AAR_t+\beta 7ESA_t+\varepsilon_t$$

Where

GVE = Government effectiveness

BDR = Budget reliability
TRF = Transparency of public finances
MAL = Management of assets and liabilities

PFSB = Policy-based fiscal strategy and budgeting
PCBE = Predictability and control in budget execution
AAR = Accounting and reporting
ESA = External scrutiny and audit

4.0 Results and discussion of findings

Descriptive Statistics

From the result on Table 1, GVE (Government Effectiveness) had a mean of 9.212 and this suggests a significant positive average, meaning overall, data show good government effectiveness. BDR (Budget Reliability) had a mean of 2.188 which represents a strong positive mean. It indicates that the budgeting process is perceived as fairly reliable on average. The mean of TRF (Transparency of Public Finance) is 2.105 indicating a positive mean, which suggests moderate transparency. MAL (Management of Assets and Liabilities: 1.782): This is on the lower side. It suggests that asset and liability management is perceived as weak, needing improvement. Furthermore PFSB (Policy-Based Fiscal Strategy and Budgeting), PCBE (Predictability and Control of Budget Execution), AAR (Accounting and Reporting) and ESA (External Scrutiny and Audit) all had moderate positive mean values (2.065, 2.224, 2.250 and 2.163 respectively) suggesting positive perception of the indicators.

Table 1

Descriptive Statistics of Study Variables

	GVNE	BDR	TRF	MAL	PFSB	PCBE	AAR	ESA
Mean	9.212	2.188	2.105	1.782	2.065	2.187	2.224	2.163
Maximum	-0.900	3.000	2.500	2.500	3.000	3.000	3.000	3.000
Minimum	-1.200	1.500	1.500	1.000	1.000	1.500	1.500	1.500
Std. Dev.	5.511	0.608	0.337	0.560	0.589	0.521	0.486	0.436
observations	23	23	23	23	23	23	23	23

Researcher's computations, 2026

From the results, the maximum values ranged between -0.900 to 3.0 while the minimum valued ranged from -1.2 to 2.25 for all the variables. The standard deviation measures how far the observations are from their sampled averages. From the summary output, the standard deviation values ranged between 0.337 to 5.511. The results showed that most variables exhibited moderate to low variability which indicates relative stability across observations. However, GVNE had a substantially higher standard deviation, suggesting significant fluctuations over the period of study.

5.2 Correlation Matrix

A Pearson correlation matrix was used to examine the bivariate relationships among the independent variables and the dependent variable. This provided insights on strength and direction of associations and an initial signal of potential multicollinearity. The results presented in Table 2 indicated low to moderate correlations among variables.

Table 2
Correlation Matrix

	GVE	BDR	TRF	MAL	PFSB	PCBE	AAR	ESA
GVE	1.000							
BDR	0.555*	1.000						
TRF	0.254	0.218	1.000					
MAL	0.143	0.159	0.441*	1.000				
PFSB	0.403	0.142	0.535*	0.593*	1.000			
PCBE	0.088	0.111	0.458*	0.517*	0.434	1.000		
AAR	-0.276	-0.166	0.108	-0.043	0.125	0.257	1.000	
ESA	0.348	0.146	0.257	0.475*	0.271	0.528*	-0.155	1.000

Researcher's computations, 2026

Test for multicollinearity

Variance inflation factors (VIF) measure how much the variance of the estimated regression coefficients is inflated as compared to when the predictor variables are not linearly related. It is used to explain the existence of multicollinearity among variables. The results on Table 3 showed there are were no issues with multicollinearity.

Table 3
Variance Inflation Factors

Variable	VIF	Tolerance (1/VIF)
BDR	1.13	0.882
PCBE	2.12	0.472
PFSB	2.06	0.484
MAL	1.74	0.573
TRF	1.66	0.604
ESA	1.57	0.636
AAR	1.25	0.802
Mean VIF	1.65	

Researcher's computations, 2026

5.3 Unit root tests

The Augmented Dickey-Fuller (ADF) unit root test results showed that some variables were stationary at levels, while others become stationary at first differencing. The ADF test results revealed that all variables are integrated of order one I(1) at levels, becoming stationary after first differencing. This justified the use of cointegration techniques. The Engle–Granger test confirmed the existence of a long-run equilibrium relationship among the variables. The results are presented in Table 4. From the results, only AAR was stationary at level while the rest were non-stationary.

Table 4
Unit Root test

Variable	ADF Statistic	Critical values			p-values	Remark
		1%	5%	10%		
GVNE	-2.247	-3.75	-3.0	-2.63	0.1896	Non-stationary
BDR	-1.782	-3.75	-3.0	-2.63	0.389	Non-stationary
TRF	-2.578	-3.75	-3.0	-2.63	0.097	Non-stationary
MAL	-2.360	-3.75	-3.0	-2.63	0.153	Non-stationary
PFSB	-1.642	-3.75	-3.0	-2.63	0.461	Non-stationary
PCBE	-1.784	-3.75	-3.0	-2.63	0.388	Non-stationary
AAR	-3.261	-3.75	-3.0	-2.63	0.016	Stationary at level
ESA	-1.434	-3.75	-3.0	-2.63	0.565	Non-stationary

Researcher's computations, 2026

However, when the series were subjected to further tests at first difference, the variables (GVE, BDR, TRF, MAL, PFSB, PCBE, and ESA) were found to have no unit root at 1%, 5% and 10% level of significance, and all were stationary as shown in Table 5, therefore, the null hypothesis was rejected and the variables were now suitable for further analysis.

Table 5
Unit root test at first Difference

Variable	ADF Statistic	Critical values			p-values	Remark
		1%	5%	10%		
GVNE	-7.833	-3.75	-3.0	-2.63	0.000	Stationary at first differencing
BDR	-6.351	-3.75	-3.0	-2.63	0.000	Stationary at first differencing
TRF	-7.858	-3.75	-3.0	-2.63	0.000	Stationary at first differencing
MAL	-2.844	-3.75	-3.0	-2.63	0.052	Stationary at first differencing
PFSB	-7.000	-3.75	-3.0	-2.63	0.000	Stationary at first differencing
PCBE	-5.566	-3.75	-3.0	-2.63	0.000	Stationary at first differencing
ESA	-4.592	-3.75	-3.0	-2.63	0.0001	Stationary at first differencing

Researcher's computations, 2026

Lag Length selection

Given the focus on a single-equation cointegration framework (Engle–Granger approach), the study did not employ an extensive lag-length selection procedure as required in VAR-based systems. However, dynamic adjustment is captured through the inclusion of the lagged error correction term and first-differenced variables, which adequately account for short-run dynamics.

Cointegration Test

To do this, the Engle-Granger approach was adopted where long run relationship was estimated and then the Augmented Dickey-Fuller test was applied to the residuals. The analysis yielded a test statistic of -6.040 with a p-value of 0.000, which is more negative than all critical values at the 1%, 5%, and 10% significance levels. Therefore, the null hypothesis of a unit root is rejected. This implies that the residuals are stationary, confirming the existence of a long-run cointegrating relationship among the variables. This implied the existence of a long-run relationship between GVNE and all explanatory variables. The model is therefore valid for ECM. The long-run relationship and the ADF test on the residuals are presented on Table 6 and Table 7.

Table 6
Long run regression

GVNE	Coefficient	Std. err.	t	P > t
Bdr	-5.0217	1.769	-2.84	0.012
trf	-1.976	3.802	-0.52	0.611
Mal	2.413	2.430	0.99	0.336
Pfsb	-3.213	2.331	-1.38	0.188
Pcbe	2.249	2.793	0.81	0.433
Esa	-0.662	2.886	-0.23	0.822
aar	1.252	2.332	0.54	0.599
-cons	20.422	8.752	2.33	0.034
F (7,15) R^2 Adj. R^2 Root MSE		2.11 0.496 0.261 4.736	0.106	

Researcher's computations, 2026

Table 7
ADF Test

Number of obs = 22 Number of lags = 0	Test statistic	Dicker-Fuller		
		1%	5%	10%
Z(t)	-6.040	-3.750	-3.0	-2.630

Mackinnon approximate p-value for Z(t) = 0.000
Researcher's computations, 2026

Error correction model

The error correction term (L_res) is negative (-1.394) and statistically significant (p = 0.000), confirming the existence of a stable long-run relationship among the variables. The coefficient suggests a rapid adjustment process, where deviations from equilibrium are corrected within one period. In the short run, only BDR and PFSB are statistically significant determinants of GNVE, while the remaining variables are non-significant. In the short run only BDR and PFSB affect GNVE. The ECM results showed that the error correction term (L_res) is negative and statistically significant, indicating a strong and rapid adjustment mechanism toward long-run equilibrium when deviations occur.

Table 8
Error Correction Model Test

D.GVNE	Coefficient	Std. err.	t	p> t	95% conf. interval	
bdr D1.	-6.401	1.582	-4.04	0.001	-9.820	-2.981
trf D1.	-1.141	2.286	-0.50	0.626	-6.080	3.797
mal D1.	-0.366	2.869	-0.13	0.900	-6.564	5.832
pfsb D1.	-6.326	2.732	-2.32	0.038	-12.230	-0.423
pcbe D1.	2.943	2.212	1.33	0.206	-1.836	7.724
aar D1.						

esa	-0.371	2.016	0.18	0.857	-3.984	4.728
D1.	-3.170	3.007	-1.05	0.311	-9.667	3.325
L_res	-1.394	0.259	-5.38	0.000	-1.953	-0.834
-cons	-1.030	4.632	-0.22	0.828	-11.038	8.978
F (8,13)			5.87			
R^2			0.783	0.003		
Adj. R^2			0.649			
Root MSE			4.454			

Researcher's computations, 2026

The ECM test estimates indicated a negative and statistically significant relationship between budget reliability (BDR) and government effectiveness. Ideally, reliable budgeting should enhance government effectiveness. However, the persistent lack of political commitment to the full implementation of PEFA pillars hinder this potential. The budget process in Nigeria often fails to adhere to regulatory standards, leading to mismanagement and inefficiencies. This outcome reflects both theoretical expectations and empirical evidence. Nigeria's budgeting system is frequently criticized for unrealistic projections and poor execution, largely driven by systemic corruption and insufficient political will. Olaoye (2010) confirmed these deficiencies, citing issues like extra-budgetary expenditures, lack of discipline, and weak institutional capacities as barriers to effective governance.

Management of assets and liabilities (MAL) had a negative but non-significant effect on government effectiveness (GVE) in Nigeria. This by implication showed a percentage increase in management of assets and liabilities (MAL) led to a corresponding decrease in government effectiveness (GVE) in Nigeria though marginally. This contradicts theoretical assertions that proper management of public assets supports transparency and efficiency (Gayo et al., 2020). Furthermore, the findings diverge from studies such as Mahasi et al. (2020) and Cheruiyota et al. (2017), which found positive impacts of PFM on local government performance. The divergence in findings may be attributed to Nigeria's unique governance challenges, including weak institutions and inconsistent enforcement of financial regulations. Effective asset and liability management should ensure fiscal responsibility, but in Nigeria, these systems lack transparency and oversight.

The ECM test estimates showed that transparency of public finances (TRF) had a non-significant and negative effect on government effectiveness (GVE). These findings suggest that PFM information in Nigeria is inadequate and inconsistently disseminated, diverging from the expectations of transparency frameworks. This result contrasts sharply with studies like Krah and Mertens (2020), which highlight the positive influence of financial transparency on governance. The lack of open access to fiscal data, inconsistent reporting, and limited user engagement in Nigeria hinders the transparency needed for effective governance.

Furthermore, policy-based fiscal strategy and budgeting (PFSB) had a negative and non-significant effect on government effectiveness (GVE) in Nigeria in the short run. The implication is that, a percentage increase in policy-based fiscal strategy and budgeting (PFSB) did not translate to a corresponding increase in government effectiveness (GVE) in Nigeria. These patterns suggest that although budget strategies in Nigeria are theoretically aligned with fiscal policy goals, implementation is undermined by political instability and

weak institutional capacity. This supports the views of Cruz and Keefer (2012), who argued that the absence of programmatic political parties and collective political will impairs administrative efficiency. Similarly, Evans (2020) finds that fiscal uncertainty and corruption adversely affect economic growth and financial development in Nigeria.

Predictability and control in budget execution (PCBE) had a positive and non-significant effect on government effectiveness (GVE) in Nigeria in the short run. By implication, a percentage increase in predictability and control in budget execution (PCBE) did not significantly trigger a corresponding increase in government effectiveness (GVE) in Nigeria. These findings contradict the expectation that effective internal controls and standards should guide budget implementation. The inconsistency may be due to Nigeria's entrenched corruption and weak enforcement mechanisms. Contrary to these results, Muguti (2020) and Cheruiyota et al. (2017) found that predictability, proper resource allocation, and oversight are vital for effective PFM. The lack of predictability and poor control over expenditures in Nigeria contributes to governance inefficiencies.

An examination results for accounting and reporting (AAR) showed a negative but non-significant effect on government effectiveness (GVE) in Nigeria implying that, a percentage increase in accounting and reporting (AAR) led to a corresponding decrease in government effectiveness (GVE) in Nigeria. Theoretically, sound accounting systems are expected to enhance performance and accountability. However, this finding reflects the erosion of public trust and the weak influence of public opinion in holding officials accountable. While Shah (2021) and others emphasize the role of transparent reporting in decentralization and governance, the Nigerian context, as confirmed by Oloruntoba and Gbemigun (2019), reveals a lack of integrity and accountability among public officials.

External scrutiny and audit (ESA) had a non-significant but negative effect on government effectiveness (GVE) in Nigeria, demonstrating that, a percentage increase in external scrutiny and audit (ESA) led to corresponding decrease in government effectiveness (GVE) in Nigeria. Although external audits are critical for public accountability, these findings highlight a systemic failure in audit implementation and follow-through. Muafi (2020) emphasizes that inefficiencies in service delivery units reflect a breakdown in resource allocation, despite external oversight. These results conflict with studies by Mamidu and Akinola (2020), which support the role of audits in promoting governance and accountability. In Nigeria, however, the persistent corruption and weak audit follow-up diminish the effectiveness of external scrutiny mechanisms.

CUSUM stability test

The CUSUM test for parameter stability showed a test statistic of 0.222, which is below the critical values at the 1%, 5%, and 10% significance levels. Therefore, we fail to reject the null hypothesis of parameter stability. This indicates that the model coefficients are stable over time, and there is no evidence of structural breaks in the estimated relationship. The result is presented in Table 9.

. **Table 9**

Cumulative sum test for parameter stability

type	Test statistic	Critical value		
		1%	5%	10%
Recursive	0.222	1.143	0.947	0.849

Researcher’s computations, 2026

Diagnostic Tests

Breusch-Godfrey serial correlation LM test

The Breusch–Godfrey LM test for autocorrelation yields a chi-square value of 0.323 with a p-value of 0.569. Since the p-value is greater than 0.05, we fail to reject the null hypothesis of no serial correlation. This indicates that the residuals are not autocorrelated, confirming that the model is correctly specified. The result is presented in Table 10.

Table 10

Breusch-Godfrey LM Test for autocorrelation

Lags (p)	Chi2	df	Prob > chi2
1	0.323	1	0.569

Researcher's computations, 2026

Heteroskedasticity Test: Breusch-Pagan-Godfrey

The Breusch–Pagan/Cook–Weisberg test for heteroskedasticity shows a chi-square value of 0.59 with a p-value of 0.444. Since the p-value is greater than 0.05, we fail to reject the null hypothesis of constant variance. This implied that there is no evidence of heteroskedasticity in the model, and the error terms are homoskedastic. The result is presented in Table 11.

Table 11

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity

Chi2 (1)	df	Prob > chi2
0.59	1	0.444
Ho: constant variance		

Researcher's computations, 2026

Normality Test

This is a normality test for your residuals (res) using skewness, kurtosis, and a joint chi-square test. The decision criteria is to reject normality if prob >chi2 < 0.05. our results indicate Prob > chi2 = 0.778 >0.05, we failed to reject Ho implying that the residuals are normally distributed. The skewness and kurtosis test indicated that the residuals are normally distributed, as the joint probability value (0.778) is greater than 0.05. Therefore, we fail to reject the null hypothesis of normality. This suggests that the model residuals satisfy the normality assumption, making statistical inference from the ECM reliable. The result is presented in Table 12.

Table 12

Skewness and kurtosis tests for normality

variable	Obs	Pr (skewness)	Pr (kurtosis)	Joint test	
				Adj chi2(2)	Prob>chi2
res	23	0.686	0.572	0.50	0.778

Researcher's computations, 2026

Conclusion and policy implications

This research empirically investigated the impact of public financial management (PFM) quality on governance in Nigeria, using the seven pillars of the PEFA. Government effectiveness served as a measure of governance performance and entails a deliberate and structured process of policymaking driven by interlinked networks of decision-makers. The study established relationship exists between government effectiveness and public finance management indicators (budget reliability, policy-based fiscal strategy and budgeting) in Nigeria, confirming that public financial management (PFM) systems play a critical role in shaping governance outcomes over time. However, the nature and direction of these relationships vary across dimensions. This suggests that, despite their importance, weaknesses in implementation, inefficiencies, or systemic bottlenecks within these areas may be undermining governance effectiveness rather than enhancing it. Furthermore, other key dimensions of PFM such as transparency of public finance, management of asset and liability, predictability and control in budget execution, accounting and reporting and external scrutiny and audit were found to have non-significant relationships with government effectiveness. This indicates that these components may yet be sufficiently developed, effectively implemented, or properly integrated into the broader governance framework to yield measurable impacts. Overall, the findings point to a disconnect between the design of fiscal governance systems and their practical outcomes in Nigeria.

Unfortunately, Nigeria has faced persistent challenges in achieving good governance, primarily due to endemic corruption, weak institutions, and a lack of political will. Given these systemic deficiencies, the study concludes that strong institutions, effective PFM systems, and genuine political commitment are crucial to driving national development and poverty alleviation. The findings suggest that the lack of political will continues to undermine the positive influence of PEFA pillars on governance outcomes. In theoretical alignment with agency theory, government is seen as the agent responsible for managing public funds on behalf of the principal, the people. This relationship implies a duty to act in the public's best interest. However, Nigeria's political and institutional context continues to disrupt this dynamic due to governance inefficiencies and poor financial accountability. From a policy perspective, the findings highlight the need for Nigeria to deepen ongoing public financial management reforms, with particular emphasis on strengthening budget transparency, enforcing credible budget execution controls, and enhancing the independence and effectiveness of external audit institutions. While reforms in other fiscal governance dimensions are important, their impact on government effectiveness appears uneven, suggesting the need for better coordination and implementation consistency across reform areas. Despite its contributions, the study is not without limitations. The relatively small sample size and reliance on aggregate governance indicators may constrain the generalizability of the findings. Future research could extend this analysis by incorporating subnational data, exploring non-linear effects of fiscal governance reforms, or employing alternative measures of government effectiveness. Overall, the study contributes to the growing body of evidence that effective fiscal governance is a critical foundation for improving government effectiveness in developing economies. For Nigeria, sustained commitment to transparent, accountable, and rules-based public financial management remains essential for strengthening institutional performance and achieving long-term development objectives.

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