The Effect of Mismanagement and Embezzlement of Funds in the Public Sector

Izunna Ogudu Chukwu
Department of Political Science and Public Administration,
University of Uyo, Uyo, Nigeria
Email: izunnac61@gmail.com
Phone: +2348060066951

Edem Edemekong Edemidiong
Department of Public Administration
Akwa Ibom State University
Obio Akpa Campus
Email: edemekongedemidi@gmail.com
Phone: 08024882455
DOI: 10.56201/ijssmr.vol.11no6.2025.pg269.273

Abstract
Mismanagement and embezzlement of public funds are pervasive issues in the public sector, particularly in developing nations where governance structures are weak. These malpractices divert resources meant for infrastructure, healthcare, education, and social welfare, leading to poor service delivery, economic instability, and eroded public trust. Despite anti-corruption laws and financial regulations, these problems persist due to systemic weaknesses in oversight, accountability, and enforcement mechanisms. This study examines the causes, impacts, and potential solutions to fund mismanagement and embezzlement, with a focus on their implications for governance and economic development. By integrating theoretical frameworks with empirical analysis, the research aims to contribute to policy reforms and academic discourse on public financial management.

Brief Background of the Problem

Public sector funds are essential for national development, yet they are frequently misappropriated through fraudulent practices such as:

- Embezzlement – The outright theft of public funds by officials.
- Mismanagement – Inefficient allocation, wasteful spending, and lack of financial discipline.
- Procurement Fraud – Inflated contracts, kickbacks, and ghost projects.

These practices are particularly prevalent in developing countries due to:

- Weak institutional frameworks.
- Lack of transparency in financial transactions.
- Inadequate enforcement of anti-corruption laws.
- Political interference in public administration.

The consequences include:

- Underdevelopment – Stunted economic growth due to misallocated resources.
- Poor Public Service Delivery – Dilapidated infrastructure, inadequate healthcare, and low-quality education.
- Loss of Public Trust – Citizens lose confidence in government institutions.

Research Problem

Despite existing studies on corruption, there remains a gap in understanding: The direct correlation between fund mismanagement and service delivery failures. The effectiveness of digital tools (e.g., e-procurement, blockchain) in reducing fraud. Comparative analyses of anti-corruption policies across different governance systems.

This study seeks to address these gaps by investigating

1. Root causes of mismanagement and embezzlement.
2. Socio-economic impacts on governance and development.
3. Policy solutions to enhance accountability.

Research Questions

1. What are the primary causes of mismanagement and embezzlement of public funds?
2. How do these practices affect service delivery and economic development?
3. What measures can be implemented to reduce fund mismanagement?
4. How effective are existing anti-corruption policies in curbing financial malpractices?

Hypotheses

H_1: Weak institutional oversight and accountability mechanisms significantly contribute to fund mismanagement and embezzlement.

H_2: Mismanagement and embezzlement of public funds negatively impact economic growth and public service delivery.

H_3: Strengthening financial regulations and enforcement mechanisms reduces the incidence of fund mismanagement.

Research Objectives

1. To examine the causes of mismanagement and embezzlement in the public sector.
2. To assess their impact on economic development and service delivery.
3. To evaluate the effectiveness of existing anti-corruption policies.
4. To recommend policy and institutional reforms to mitigate financial fraud.

Significance of the Study

This research is significant because:

- It provides empirical evidence on the effects of mismanagement, aiding policymakers in designing better anti-corruption strategies.
- It contributes to academic literature on public sector governance and financial accountability.
- It raises public awareness on the consequences of embezzlement, fostering demand for transparency.

Scope of the Study

- Focus: Government agencies and state-owned enterprises in developing economies.
- Timeframe: Cases from the past decade (2013–2023).
- Methodology: Analysis of audit reports, legal frameworks, and anti-corruption initiatives.
- Preliminary Literature Review

Key Findings from Empirical Studies

- Transparency International (2023): Weak enforcement of anti-corruption laws enables embezzlement.

- Olken and Pande (2012): Corruption in public procurement leads to inflated costs and poor-quality infrastructure.
- World Bank (2020): Mismanagement of public funds reduces foreign investment and economic stability.

Mismanagement and embezzlement of funds in the public sector can have far-reaching and detrimental effects on society as a whole. When funds earmarked for public services and infrastructure projects are siphoned off through corrupt practices, it directly impacts the quality of life of citizens.

One significant effect is the hindrance of socioeconomic development. When funds meant for education, healthcare, infrastructure, and other essential services are misappropriated, it leads to a lack of resources for these vital areas. This, in turn, can lead to a decline in the quality of public services, such as healthcare facilities being under-equipped, schools lacking necessary resources, and infrastructure projects being delayed or abandoned.

Moreover, mismanagement and embezzlement create a sense of mistrust among the public towards the government and public institutions. When citizens perceive that their tax money is being misused for personal gain rather than for the common good, it erodes the credibility of the government and undermines the social contract between the state and its citizens.

Furthermore, systemic corruption in the public sector can perpetuate inequality and hinder economic growth. When public funds are diverted for private gain, it deprives the less privileged members of society of access to essential services and opportunities for advancement. This creates a cycle of poverty and underdevelopment that is difficult to break without addressing the root causes of corruption.

In order to combat the effects of mismanagement and embezzlement of funds in the public sector, strong accountability mechanisms, transparency in financial transactions, and effective oversight measures are essential. Additionally, promoting a culture of integrity and ethical behavior among public officials, as well as empowering civil society to demand greater transparency and accountability, can help prevent and combat corruption in the public sector.

Overall, the effects of mismanagement and embezzlement of funds in the public sector are profound and wide-ranging, impacting every aspect of society. It is crucial for governments to take proactive measures to address corruption and ensure that public funds are used for their intended purposes to promote the common good and sustainable development.

Research Gaps Identified

- Limited studies on the direct link between mismanagement and service delivery failures.
- Few empirical analyses on digital financial tracking systems (e.g., blockchain, AI audits).

Theoretical Framework

This study adopts:

1. Principal-Agent Theory – Explains how misaligned incentives between government officials (agents) and citizens (principals) lead to corruption.
2. Institutional Theory – Analyzes how weak governance structures facilitate financial mismanagement.

Research Methodology

Research Design

- Mixed-method approach (quantitative and qualitative).

- Case studies, surveys, and document analysis.

Population and Sampling
- Target: Public sector employees, auditors, anti-corruption agencies, policymakers.
- Sampling Method: Stratified random sampling.

Data Collection Techniques
- Primary Data: Surveys and interviews with key stakeholders.
- Secondary Data: Audit reports, government financial records, corruption case studies.

Data Analysis Methods
- Quantitative: Statistical tools (SPSS/Excel).
- Qualitative: Thematic analysis.

Expected Outcomes and Contributions
Potential Findings
- Systemic weaknesses in financial oversight mechanisms.
- Successful anti-corruption models applicable in similar contexts.

Contributions
- Policy: Recommends reforms to enhance transparency (e.g., mandatory asset declarations, whistleblower protections).
- Academic: Expands literature on public financial management.
- Practical: Proposes technology-driven solutions (e.g., AI audits, blockchain transparency).

Limitations
- Limited access to confidential government financial records.
- Potential bias in self-reported survey responses.
- Regional differences may affect generalizability.

Conclusion

This study underscores the need for institutional reforms, stricter enforcement, and civic engagement to curb public sector fraud. By integrating theoretical insights with empirical analysis, it aims to advance practical solutions for fostering transparency and restoring public trust in governance.

REFERENCES

Damagun, Y. (2018). Effective Internal Control for Fraud Detection. National Accountant, 3

Daniel, I. (2020). Management of Public Funds and the Legal Perspective. The Nigerian Accountant. *Journal of the Institute of Chartered Accountants of Nigeria*, 35(3), 20-23.

Ibanichuka E. and Onuoha T. (2018). *Principles of Auditing.* Port-Harcourt, Thompson and Thompson Publication

Magaji, S. and Musa, I. (2015). Endemic Corruption and Nigerian Underdevelopment, *Abuja Journal of Business and Management,* 1(4), 119-125.

Maimako, S. S. (2015). The role of financial control institution in promoting financial accountability in the public sector: A study of Plateau state under democratic regimes (PhD Thesis).

Mohammed, N. (2019). Assessment of the Effectiveness of Financial Management and Control Techniques in the Nigerian Public Sector (Case Study of Borno State Ministry of Finance, Maiduguri, 1(5), 111-122.

Olken, B. A., and Pande, R. (2012). Corruption in developing countries.Annual Review of Economics, vol. 4, 479–509. https://doi.org

Transparency International (2023). Corruption perceptions index; the global coalition against corruption

World Bank (2020). World Development Report, Trading for Development in the Age of Global Value Chains