

SYMPOSIUM ON:
2014 BUDGET AND AN APPRAISAL
OF NIGERIAN BUDGETING SYSTEM

ALTERNATIVE APPROACH
TO BUDGET FORMULATION
AND IMPLEMENTATION
IN NIGERIA

PRESENTED AT ICAN SYMPOSIUM ON FEDERAL GOVERNMENT
OF NIGERIA 2014 BUDGET AT MUSON CENTRE, ONIKAN LAGOS
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OUTLINE

1. Introduction & Preambles
2. **2014 Budget: Review of Selected Items**
3. Nigeria's Budgeting Process & Structure
4. General Issues and Challenges Of Budgetary Process in Nigeria
5. Review of Specific Issues
6. Lessons from developed economies
7. Government Budgeting Options
8. Alternative approaches & Options
9. Case for MZBB
10. Summary/Key Lessons/Way Forward

Introduction: Budget Expectations

- 1) Job creation
- 2) Curb inflation
- 3) Security of lives & properties
- 4) Economic & Exchange rate stability
- 5) Impactful sectoral allocation.
- 6) Infrastructural development
- 7) Economic growth & development
(inclusive growth)
- 8) Financial accountability
- 9) Efficient Management of all MDAs

Preamble

“The problem with the nation’s economy is not the current budgeting system but volatility in terms of the country’s revenue”

*-The Minister of Finance,
Dr Ngozi Okonjo-Iweala*

Introduction

Budgeting process is the continuum of: budget preparation, approval, execution, reporting, audit and review (Johnson, 1979).

This process revolves round the executive & legislative structures in a Democratic system.

Budget Process vs Budget Structure

Budget process spans: formulation, preparation, approval, execution and evaluation.

According to Bill & Keith (2004) ;these are backed by:

1. **Constitutional mandates**
2. **Statutory requirements**
3. **NASS rules and practices**
4. **Administrative directives**

Budgeting Structure deals with:

- Budgeting techniques used
- Linkage of Budget to goals or vision
- Budget componentisation.

Review of Selected Items from 2014 Budget:

-Trade & Development

-Agriculture

-Health

- Presidency & SFG

-Defense & National Security

Ministry of Trade & Development - Centre for Automotive Design

1 Local Travel and Transport	319,098		1	Electricity Charges	106,366
2 Training	319,098		2	Maintenance - Motor Vehicle	106,366
3 Internet Charges	319,098		3	Maintenance - Office furniture	106,366
4 Consultation & Professional Services	319,098		4	Maintenance - Office IT Equipment	106,366
5 Fuel & Lubrication	319,098		5	Maintenance - Plant/Generator	106,366
1 Telephone Charges	53,183		6	Maintenance - Others	106,366
2 Water Rate	53,183		7	Cleaning & Fumigation Services	106,366
3 Sewage Charges	53,183		8	Financial Consultation	106,366
4 Newspapers, Mags & Periodical Printing (non- security materials)	53,183		9	Motor Vehicle Fuel Cost	106,366
5 Teaching Aids	53,183		10	Refreshment & Meal	106,366
6 Postage & Courier Services	53,183		11	Honorarium & sitting Allowance	106,366
7 Sporting Activities	53,183		12	Welfare package	106,366
1 Maintenance of Plants/Generator	212,732				
2 Local Training	212,732				
3 Legal Service	212,732				
4 Plant/Generator Fuel Cost	212,732				

BUDGETARY STRATEGY & PRIORITIES - AGRIC

a) In Min of Agric Budget ₦36.3B (54.4%) of total allocation to the agricultural sector goes to FMA while 40 agencies & depts shared ₦30.4B (45.6%).

b) There is lack of direction & details e.g. Where is the location & meaning of budget for:

- Support for investment in agro-processing?**
- Product development?**

c) ₦3.95B allocated to various seeds; this is almost equal to the total amount allocated to 3 research institutions:

- National Centre for Agricultural Mechanization Illorin–N598.7M
- National Cereals Research Institute, Badeggi – N1.23B
- National Veterinary Research Institute, Vom – N2.26B

BUDGETARY STRATEGY & PRIORITIES

HEALTHCARE

Construction of a VIP Wing at the State House Clinic: **N705 M**

Total Capital Budget for Obafemi Awolowo UTH : N328 M

Total capital budget for University of Ilorin T Hosp: N310M

Total Capital Budget for NOMA Children Hospital, Sokoto: N89 M

Total capital budget for The Institute of Child Health,

University of Benin Teaching Hospital, Benin City: Nil

2014 BUDGETARY STRATEGY & PRIORITIES

PRESIDENCY & SGF

- *Office of the SGF) Capital Budget* **N6.3B**
- *Presidential Committee on Rehabilitation of Barracks:* N6.3 B
- *Repair and Rehabilitation of Barracks for the*
- *Presidential Air Fleet personnel:* N706M
- *Capital Expenditure for the Presidential Air Fleet:* N3.2B
- *Foreign and Local Trips by the President and VP* N2.4B
- *Total sum of provisions for wildlife and horses*
- *at the Presidential Villa:* N53 M.

Comparative NASS Budgets (Naira Converted)

	GHANA	SOUTH AFRICA	NIGERIA
National Budget	N8.9B	N26.2B	N150B (Excluding Constituency Budget of N100B)
No of Legislatures	275	490	469
Av Annual Income	N32.5M	N53.4M	N319.8M

BUDGETARY STRATEGY & PRIORITIES

DEFENCE & NATIONAL SECURITY

Stipends and Allowances to 30,000 Niger Delta Militants under the Presidential Amnesty Programme:

N23.6B

Reintegration of Transformed Ex Militants: **N35.4B**

Total Capital Budget for the Nigerian Army: **N4.8B**

Total Capital Budget for the Min of Defence Headquarters, Army, Navy and Air Force: **N34.2B**

Total capital budget for ALL Police formations and commands: **N6B**

- 1) **Budget Conceptualisation:** Developed by Budget office of FMF in accordance with FGN's fiscal policy.
- 2) **Budget Formulation:** Call circular
- 3) **Budget Authorisation:** FMF - PRESIDENCY – NASS -PRESIDENT
- 4) **Budget Implementation:** Funds release etc
- 5) **Budget Monitoring & Control:**
FMF, NPC, NASS NEIA, PMC, Acct-G & AUDG

Structure of Public Sector Expenditure in Nigeria

- Statutory Transfers
- Debt Servicing
- MDAs expenditure; and
- Capital Expenditure

FGN BUDGET 2006 TO 2013 (₦B)

Year	Debt	Statutory	MDA's	Capital	Total	Recurrent
	Service	Transfers	Overheads	Expenditure	Budget	%
2006	289.50	91.61	950.32	568.56	1,899.99	70.08
2007	326.00	102.30	1,050.37	830.56	2,309.22	64.03
2008	372.20	162.57	1,428.08	785.17	2,748.02	71.43
2009	283.65	168.62	1,627.29	1,022.26	3,101.81	67.04
2010	542.38	183.58	2,137.58	1,563.65	4,427.19	64.68
2011	495.10	417.82	2,425.07	1,146.75	4,484.74	74.43
2012	559.58	372.60	2,425.05	1,339.99	4,697.21	71.47
2013	591.76	387.98	2,386.03	1,621.48	4,987.24	67.49

Issues and Challenges Of Nigeria Budgetary Process

- 1) Timeliness;
- 2) Use of incremental budgeting
- 3) Budget Crises between the Executive & NASS
- 4) Budget benchmark
- 5) Distribution of Excess Crude Surplus
- 6) Insufficient linking of strategy to vision
- 7) Manpower issues- Could current crops in MDAs be change agents?
- 8) Corruption and lack of commitment
- 9) Independence of the Auditor-General
- 10) About 70% recurrent expenditure means lower funds for development.

Issues and Challenges Of Nigerian Budgetary Process

- 11) Usage of deficit budgeting to serve as inclusive growth momentum**
- 12) Insufficient/unstructured Public input**
- 13) Exhaust the Budget Syndrome**
- 14) Unspent Budget effects**
- 15) Supplementary Budget Issues**
- 16) Incomplete budget implementation**
- 17) Basis of measuring budget implementation (capital)**
- 18) Problems during revenue shortfalls**
- 19) Contravention of certain provisions of 2007 FRA**
- 20) Other militating factors**

Review of Specific Issues

a) Time frame for budget process

b) Budget benchmark

c) Government Budgeting Options

Fiscal Year	Date NASS received Estimates from President (A)	Date revised Estimates sent to President for assent (B)	Date President assented to budget (C)	Time frame between President's presentation and signature (D)	Time lag between 1st Jan. and date of take off (E)
2000	24 th Nov., 1999	14 th April, 2000	5 th May, 2000	5 months 11days	4 months, 5 days
2001	9 th Nov., 2000	21 st Dec., 2000	21 st Dec., 2000	1 month, 12 days	Nil
2002	7 th Nov., 2001	28 th March, 2002	28 th March, 2002	4 months, 21days	2 months, 28 Days
2003	20 th Nov., 2002	11 th March, 2003	10 th April, 2003	4 months, 21days	3 months, 10 Days
2004	18 th Dec., 2003	20 th April, 2004	21 st April, 2004	4 months, 3 days	3 months, 21 Days
2005	12 th Oct., 2004	18 th March, 2005	12 th April, 2005	6 months	3 months, 12 Days
2006	6 th Dec., 2005	21 st Feb., 2006	22 nd April, 2006	2 months, 16 days	3 months, 22 Days
2007	6 th Oct., 2006	22 nd Dec., 2006	22 nd Dec., 2006	2 months, 12 days	Nil
2008	8 th Nov., 2007	27 th March, 2008	14 th April, 2008	5 months, 7 days.	3 months, 14 Days
2009	2 nd Dec., 2008	3 rd Feb., 2009	10 th March, 2009	3 months, 8 days	2 months, 10 Days
2010	23 rd Nov., 2009	25 th March, 2010	22 nd April, 2010	4 months, 29 days	3 months, 22 Days
2011	15 th Dec, 2010	25 th May, 2011	26 th May, 2011	5 months, 11 days	4 months, 26 Days
2012	13 th Dec, 2011	15 th March, 2012	13 th April, 2012	4 months	3 months, 13 Days

President's Assent to Budget

Year	Date Signed
2009	10/03/09
2010	22/04/10
2011	26/05/11
2012	13/04/12
2013	July 2013
2014	24/05/14

OIL PRICE FORECASTS PER BARREL (\$)

Country	2011	2012	2013
Nigeria	\$65	\$72	\$79 (2014 -\$77.5)
Saudi Arabia	\$50 - \$58	\$64 - \$69	\$66 - \$68
Kuwait	\$60	\$65	\$65
Algeria	\$37	\$37	\$37

****Abiola & Okafor (2013) : OIL PRICE FORECASTS**

In their paper:

‘Searching for Appropriate Crude Oil Price Benchmarking Method in the Nigerian Budgeting Process’

- found using Autoregressive Integrated Moving Average, (ARIMA) that \$80 could be the appropriate crude oil price benchmark for 2013 fiscal year

ARIMA-Autoregressive Integrated Moving Average model used for forecasting oil price benchmark

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Government Budgeting Options

- 1) Traditional budgeting –
Incremental or Line item budgeting
- 2) Planning Programme Budgeting System (PPBS)
- 3) Performance-Based Budgeting (PBS)
- 4) Participatory Budgeting
- 5) Zero-Base budgeting (ZBB)

Variants:

- a) Basic ZBB (b) Service Level (c) Zero line item

Alternatives to ZBB:

- a) Priority Budgeting b) Target-Based c) Program Review

Lessons from Other Countries

SOUTH AFRICA

Budget preparation and implementation in South Africa is predicated on some fundamental principles of:

- transparency,
- participation,
- Accountability,
- equity and
- equality.

USA & SOUTH AFRICA

The fiscal year of USA and South Africa are both from Oct to Sept.. Their budgets are presented to NASS by Feb (i.e. 8 months before next fiscal year)

Alternative Approaches

Process Review

Constitutional review of time frame for:

- Budget presentation,
- NASS consideration
- Presidential approval.
- Release of funds
- Time allowed for usage of Consolidated Revenue Fund (CRF) in default of appropriation.
- Post Budget Implementation Reports

Structure Review

- Review of the budgeting techniques
- Linkage of Budget to goals or vision
- Use of budgets for economic growth and development
- How the whole process is managed

Alternative Processes & Options

- 1) Amendment of the Constitution (Section 80 and 81) to provide specific time frame for:
 - a) budget submission to NASS by the Presidency
 - b) Duration of deliberation at NASS
 - c) Reduction of time (from 6 to say 3 months) for which the President can authorise drawings from Consolidated Revenue Fund (CRF)
- 2) How to fix revenue base i.e. Crude oil pricing for budget purposes

Alternative Processes & Options - Contd

- 3) How to utilise excess crude oil proceeds:
 - a) Continue with current process of distribution to states
 - b) Use proceeds to fund Conditional Budget Heads
- 4) Retooling of internal budget process in order to meet the new timeline.
- 5) Review or modification of Accounting Methods used in collating or determining the budget threshold.

Case for Modified ZBB (MZBB)

MZBB is an adaptation of ZBB which starts from line-item budgeting and derive its thrust from the national vision document and links decision packages in annual budget to long term goals of the national vision document through the elimination of overlapping inter-ministerial expenditure by ensuring effective transfer and justification of operational efficiency in such a way to promote value for money audit (VFM)

Case for Modified ZBB (MZBB)

MZBB characteristics:

- a) Linking of annual budgets to national vision document(s).
- b) Formulation of Decision packages through Line-item budgeting.
- c) Elimination of overlapping inter-ministerial expenditure.
- d) Justification of all expenditure heads from scratch and not merely adding a margin to the previous years' figures.
- e) Setting operational efficiency targets in order to promote VFM audit.

SUMMARY/KEY LESSONS

- 1) Annual budgets must derive its thrust from medium term expenditure framework and which in-turn must be linked to the National Development Plan
- 2) Adequate time is required for the preparation of annual budgets
- 3) Fundamental Principles as transparency, participation, accountability and equity and equality must underlie the process of crafting

SUMMARY/KEY LESSONS

4) Nigeria, as a country, must as a matter of necessity, change her approach to budgeting from the traditional budgeting techniques to a more pragmatic approach that will minimize the incidence of wastages.

MZBB starting from line item budgeting is proposed

5) There is the need to overhaul relevant statutory provisions that will accelerate passage of appropriation bills into laws and encourage participation of stakeholders in budget preparation and implementation.

An Alternative Approach to budget

Formulation

Required improvements

- 1) **Provision of timely post-implementation reports.**
- 2) Provisions for penalties
- 3) Benchmark determination by special economic experts.
- 4) Budget preparation & collation process using MZBB
- 5) Linkage of budget to Vision 20:2020, Transformation agenda etc
- 6) Provision for **additional** capital expenditure from ECA if benchmark is above a specific threshold.

Implementation

- 1) **Provision of timely post-implementation reports.**
- 2) **Full budget implementation**
- 3) **Introduction of VFM audit**
- 4) **Prompt release of funds to back approved budget**
- 5) **ECA to be managed optimally.**
- 6) **Zero tolerance for abandoned projects.**
- 7) **Enforcement of penalties**

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