

The Budget, Fiscal Policy and Service Delivery

2nd Annual Seminar
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Introduction

This presentation focuses on three key budget-related issues in Nigeria:

- Fiscal policy—impact on macro-economy
- Budget process—the budget cycle
- Service delivery—programme-based budgeting

Background

- **Since 2003, there has been progress in strengthening public financial management of the federal government of Nigeria;**
- **However, in some respects there has been deterioration in fiscal discipline and in the budget process;**
- **There has been limited improvement in service delivery;**



Background cont.

Areas of budgetary and fiscal progress:

- The introduction of an oil price-based rule;
- The introduction of a medium-term fiscal framework (MTFF) and preparation of an annual fiscal strategy paper (FSP);
- The development of medium-term sector strategies (MTSS), including expenditure frameworks (MTEF), to help in identifying priority projects and in developing a performance culture among the civil service;
- The strengthening of budget execution via the adoption an automated transaction, recording, and reporting system (ATRRS);



Background

- steps have been taken to clear pension and contractors' arrears through bond issuance and by making these liabilities explicit in the budget;
- an integrated personnel and payroll information system (IPPIS) has been piloted in six line ministries;
- the enactment, in 2007, of the Public Procurement Act and the establishment of the Bureau of Public Procurement in charge of due diligence on large capital projects; and
- the enactment, at end-2007, of the Fiscal Responsibility Act (FRA).



Macroeconomic implications of the budget

- Budget is key macroeconomic policy instrument:
 - Important to insulate budget from volatility in oil prices and revenue—FRA and Fiscal Rule;
 - Large increases in spending are inflationary, and cause real appreciation of the naira;

Macro economic impact of budget

- Budgets in recent years have become increasingly expansionary, ignoring FRA—deficits of 10 percent of GDP, very large increases in spending, and depletion of excess crude account;
- The FG's fiscal policy formulation does not appear to take sufficient account of the fiscal position and prospects of sub-national government, and there is no information on sub-national fiscal performance in the budget documentation.

The Budget Process

- The budget process in Nigeria has four main stages:
- Drafting;
- legislative approval;
- Implementation;
- monitoring and evaluation

The Budget Process - Drafting

- Drafting begins midway in the preceding year.
- The Budget Office of the FG prepares a Fiscal Strategy Paper (FSP) in consultation with others, which includes macro framework, and revenue and expenditure projections.
- The FMF also prepares a MTEF and MTSS to guide sector spending.
- The FMF presents budget outline to President.

Budget Process - Drafting

- President presents budget outline to Federal Executive Council for consideration and approval.
- At this stage, the legislature, typically the chairs of the House and Senate Finance and Appropriation Committees, are consulted.

Legislative Approval

- The draft budget in the form of an Appropriation Bill is presented by President to joint session of Senate and House.
- Relevant committees review and recommend changes to various parts of the budget:
 - The benchmark price of oil;
 - The allocation for “constituency projects” in local constituencies;
 - Allocation for running the legislature;

Legislative Approval cont.

- Amendments and proposals are subsequently harmonized and the finalized budget is passed as the Appropriation Bill for the given year.
- At the end of the process the President signs the bill into law as the Appropriation Act.

Implementation Stage

- Budget implementation is conducted by ministries, departments and agencies (MDAs);
- Funds for capital projects are released on a quarterly basis from the Consolidated Revenue Fund (CRF);
- Since 2005 the Cash Management Committee of the FMF ensures that funds are available;



Monitoring and Evaluation Stage

- Budget monitoring is to be conducted by various government agencies, including the FMF, NPC, OAGF, and the National Assembly.
- In practice, the capacity of these agencies is severely limited.
- The Budget office has begun preparing quarterly reports on implementation, which includes inspection of completed and ongoing projects; and there is tracking of the “virtual poverty fund”.

Timing of Budget Process

- Process begins in June with a Call Circular to MDAs to send in spending proposals for a given envelope;
- By October, a draft Bill is prepared by FMF and sent to NA by the President;
- Ideally, NA approves bill before end-December and President could sign into law in January;



Timing of Budget Process cont.

- Pending an Appropriation Act, President can spend based on previous year's budget within a time limit of six months into the new year;
- In practice, there have been major delays to the budget approval process:
 - The 2008 budget was approved only in mid-April, and its amended version was finally approved by the NA in November 2008.
 - The 2009 and 2010 budgets did not fare much better.

Budget process: need to restore the credibility of the budget

- The legislature is engaged fairly late in discussing the priorities and objectives that shape the budget, with the main focus on the short term.
- Although some tension between the executive and the legislature is in the nature of the democratic process, Nigeria's practices exceeds the norm by a wide margin.
- The aim should be to strengthen the strategic focus of public spending, while building consensus among stakeholders, so as to enable a quicker and less conflict-ridden approval of the Appropriations Bill.

Alternative Budget Cycle

The current budget calendar provides little time for in-depth discussion of government fiscal strategy and policy priorities. Hence:

- **The budget process could start in February-March, with the formulation and issuance of the 2012–2014 FSP no later than mid-April.**
- Cabinet could formally approve the FSP by **end-April**.
- The FSP should then be submitted to the joint finance committees of the National Assembly for their approval by no later than **end-May**.
- **Shortly thereafter, the BoF should issue a budget circular to MDAs.**



Alternative Budget Cycle cont.

By end-June, MDAs submit their MTSS/budget submissions.

Bilateral budget discussions take place between mid-July and mid-August.

- **In late-August**, following the conclusion of bilateral negotiations, the BoF submits an updated FSP first to cabinet then, after their approval, to the National Assembly joint finance committee for formal resolution.

By no later than October 1, the president submits the budget estimates, containing indicative overall and sector ceilings for three outer years, to the National Assembly for final approval

Budget process

- There remains excessive emphasis on the annual budget and the MTFF is yet to be institutionalized as a three-year rolling framework, whereby the second year's ceiling becomes the baseline for rolling forward the MTFF for next year's budget formulation.
- The coverage of the budget needs to be further expanded, particularly by the inclusion of extra-budgetary funds, the federal government's contribution to large infrastructure projects, and external financing.
- MTSS are not yet integrated in the budget process because of a lack of firm top-down sector ceilings and strategic prioritization early on the budget cycle.



Budget Process

- **Goals and objectives** identified in the MTSS do not lend themselves easily to measurable performance indicators, nor match the budget appropriations structure.
- Many **performance indicators** are collected in an ad hoc fashion; there is no systematic use nor monitoring and evaluation of their accuracy.
- There is no clear **allocation for maintenance** associated with capital spending (i.e., the creation or acquisition of physical assets).
- **Monitoring and evaluation** activities, currently carried out by a plethora of institutions and agencies, emphasize formal compliance instead of value for money or performance vis-à-vis stated objectives.

Programme-based budgeting (PBB)

PBB is a powerful tool to improve the quality of government expenditure by facilitating better prioritization and increased pressure on MDAs to deliver results.

To deliver these benefits it is important that:

- **programmes be defined primarily in terms of outputs and outcomes—i.e.,** types of services delivered to the community and the types of impact those services are intended to have;
- **the budget is planned, executed, and monitored in terms of programs.** This requires that programs be an element of the budget classification and accounting system. The primary focus of parliamentary approval and oversight should also shift from line items to programs; and
- **programmes be defined in such a manner that it is possible to cost them with** reasonable accuracy.

Programme-Based Budgeting

- PBB relies on **systematic use of performance information (PI)** to improve the quality of government expenditure. It facilitates better prioritization within a MTFE/MTEF framework by fully costing programmes, activities, and projects while at the same time increasing pressure on government agencies to perform.
- by **focusing on service delivery, PBB fosters a comprehensive “managing for results”** reform agenda, including elements such as civil service reform, organizational reform, and review of roles of government versus private sector.
- PBB requires a **“performing” fiscal policy and PFM, whereby limits for aggregate and each ministry’s spending are clearly set and strictly enforced in a medium-term, rolling context.** This, in turn, requires a well-functioning, fully integrated MTFE/MTEF where top-down considerations inform and guide the bottom-up needs.

summary

This presentation focused on three key budgetary issues:

- Macroeconomic impact of budget—principles of a prudent budget
- Budget process—how to improve it and arrive at a timely budget cycle
- Program based budgeting—main principles; illustrations will be presented later in seminar.

Thank You!

