



DEVELOPMENTS IN THE NIGERIAN BUDGETING SYSTEM

*A presentation at the BPSR Lunch Time
Seminar, January 2017 Edition*

By

BEN AKABUEZE

Director General, Budget Office of the Federation

Thursday, 26th January, 2017





Outline

1.0 Introduction

2.0 Federal Government Budgeting Framework

3.0 Key Challenges

4.0 Key Budget Reform Initiatives

5.0 Way Forward

6.0 Conclusion





1.0 Introduction

- Budget is a documented statement of government's expected revenue and planned expenditure over a given period, usually a year
- It is usually accompanied with the framework for its execution and the fiscal policies for the period
- It is a legal instrument for revenue generation, borrowings and allocation over the stated period
- It outlines the aggregate expenditure of government, the expenditures on sub-heads as well as detailed sectoral allocations





1.1 Introduction Cont'd

The fundamental objective of government budget include

- ✓ Maintenance of aggregate fiscal discipline;
- ✓ Achievement of allocative efficiency; and
- ✓ Achievement of operational efficiency.

Overall, budget is used to ensure achievement of government priority goals including:

- Poverty alleviation;
- Employment generation;
- Wealth creation;
- Improvement in standard of living;
- General macroeconomic stability, etc





1.1 Introduction.... Cont'd

- Achieving these budget objectives has however, become very difficult in Nigeria in the recent past
- Policies, projects and programmes of government were mostly not successfully executed as a result of inadequate/improper budget conceptualization/implementation
- These have reduced the competitiveness of the economy and slowed down production, exchange and consumption
- As a result the standard of living of the average Nigerian continued to slide
- This has contributed to the current economic recession in the country with average growth of -1.55% in Q1-Q3 2016
- This Administration is therefore committed to Budgetary reforms that would help turn around the fortunes of the country for good





2.0 Federal Government Budgeting Framework

What are the Key stages in the Budget Process?



- 1. Strategic Plan:** Budget Planning Stage involving development of:
 - The Medium Term Revenue Framework (MTRF);
 - The Medium Term Expenditure Framework (MTEF) / Fiscal Strategy Paper (FSP) &
 - Medium Term Sector Strategy (MTSS)
 - Formulation of key assumptions: Oil Price, Oil production, Exchange rate, GDP growth, Inflation, etc.
 - Holding stakeholders consultative meetings, etc
- 2. Formulation:** Preparation of budget estimates, including
 - Call Circulars – guide MDAs' budget preparation
 - Bilateral meetings with MDAs
 - Finalization of Budget preparation
- 3. Presentation:** Presentation and appropriation
 - Presentation by Mr. President
 - Appropriation processes
 - Defence by MDAs
 - Passage by NASS
 - Assent by Mr. President





2.1 Federal Government Budgeting Framework Cont'd

Key stages in the Budget Process Cont'd



4. **Execution:** Implementation of Budget

- Uploading approved budget on GIFMIS
- Procurement Processes
- Budget release
- Spending by MDAs

5. **Performance:** Budget Evaluation and Analysis

- Monitoring and Evaluation
- Reporting

6. **Future Strategic Direction:** Performance results determine future funding decisions.

- Feedback
- Strategic decisions
- Redefine strategies and goals





2.2 Federal Government Budgeting Framework Cont'd - Budget Planning and Calendar

Stage 1

- MTRF
 - Oil Revenue
 - Non-Oil Revenue
 - Independent Revenue

State 2

- MTEF
 - Aggregate Spending
 - Major Sub-Heads – MDAs, Debt, Transfers & Deficits

Stage 3

- MTSS/FSP
 - Tentative MDAs' Budget Ceilings

Stage 4

- Stakeholders consultations on MTSS & MTEF (MDAs, States, OPS, & CSOs, etc)

Stage 5

- Finalization of MTEF & FSP

Stage 6

- FEC approval of MTEF & FSP

State 7

- Issuance of Budget Call Circular
 - Guidelines to MDAs &
 - MDAs' Budget Ceilings

Stage 8

- Submission of MTEF & FSP for NASS approval by resolution





2.3 Federal Government Budgeting Framework Cont'd - Budget Planning and Calendar Cont'd

Stage 9

- Submission of Budget Proposals by MDAs; Bi-lateral Meetings

Stage 10

- Evaluation and consolidation of MDAs' submissions by BOF

Stage 11

- Presentation of Draft Budget for FEC approval

State 12

- Transmission of Budget to NASS by Mr. President

Stage 13

- NASS approval and passage of Appropriation Bill

Stage 14

- Assent by Mr. President





2.3 Federal Government Budgeting Framework Cont'd - Budgeting Systems

Types of Budgeting Systems

- a) Incremental Budgeting
- b) Line Item Budgeting
- c) Lapsing Budgeting
- d) Developmental Budgeting
- e) Programme Based Budgeting (PBB)
- f) Zero-Based Budgeting (ZBB)

Budgeting System before Current Administration - Incremental Budgeting

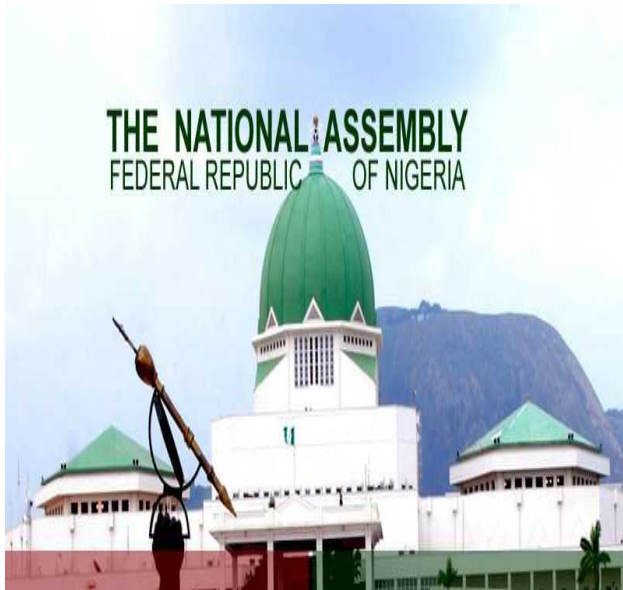
- Immediate past budget is used as a basis for budgetary allocations
- Further increments and review are thereafter considered on the basis of new government policies, inflationary trend, expected wages/salary increases, and general revenue growth, among others
- It is relatively simple and easier to prepare and implement





2.4 Federal Government Budgeting Framework Cont'd - Principles of the Appropriation Act

The Three Dimensions of Appropriation Law



1. Purpose –

- The purpose of the expenditure Items in the Budget.

2. Amount –

- The expenditure must be within the amounts appropriated by the NASS.

3. Time –

- The expenditure and/or activities must be carried out within the time limits applicable to the appropriation.





2.5 Federal Government Budgeting Framework Cont'd - Principles of the Appropriation Act

1



The Purpose of Expenditure Items

Expenditure items must be made pursuant of the purpose for its appropriation

To ensure this, all expenses must meet the following conditions:

- The expenditure must be in line with the authorizing language as stated in the budget.
- The expenditure must not be prohibited by law.
- The expenditure must be in furtherance of Government Policies.
- The expenditure must not be otherwise provided for by a more specific appropriation or from another funding source.





2.6 Federal Government Budgeting Framework Cont'd - Principles of the Appropriation Act

2

Time

- The expenditure has to occur within the time limit applicable to the Appropriation Act.

Determining Time Periods

- **NASS has the authority to extend the validity period of the budget beyond the normal one year**
- **Budget Office and respective MDAs determine when specific expenditures are to be made, subject to FMF/OAGF confirming availability of funds.**





2.7 Federal Government Budgeting Framework Cont'd - Principles of the Appropriation Act

3

Amount – The obligation and expenditure must be within the amounts appropriated by the National Assembly (NASS).

- Additions can be accommodated through
 - Virement; and
 - Supplementary Budget
- These have to be approved by the NASS, adopting a similar process as the Appropriation Bill





3.0 Key Challenges

- What are the key Issues in Nigeria's Budgetary system?
- What are the key challenges to Budget preparation and execution in Nigeria?
- Where are the inefficiencies?
- What reforms are required?

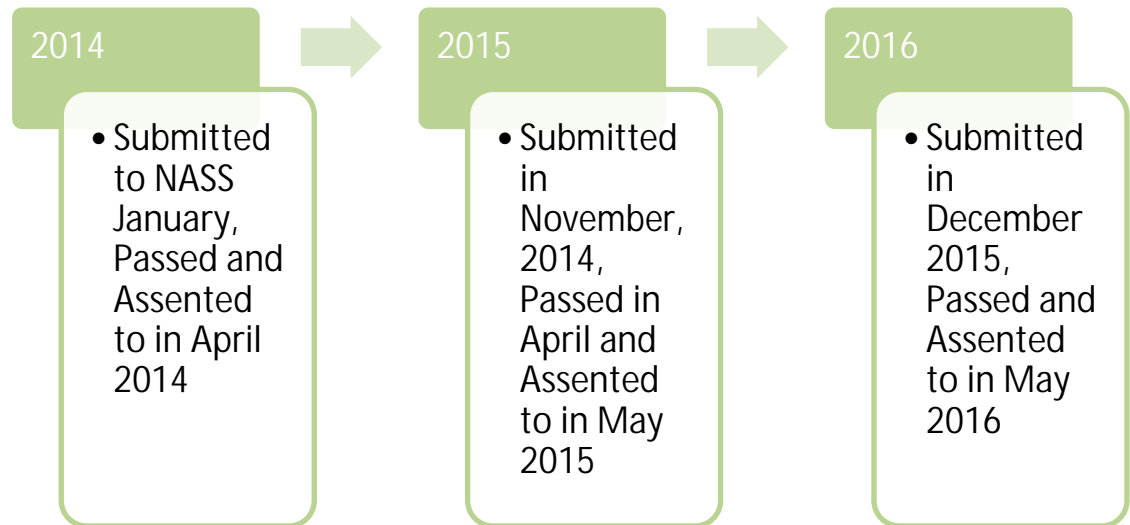




3.1 Key Challenges Cont'd

Non-conformity with Budget Calendar

- Budget processes expected to be concluded, and budget in place by January-beginning of the fiscal year
- Unfortunately, this is usually not the case due to various reasons.
- This has adverse consequences on ability to implement the budget
- It also creates uncertainty in the economy that slows economic activities



- **2017 Budget proposals also now presented late on December 14, 2016**





3.2 Key Challenges

Commencement of Budget Execution



The delay in budget leads to:

- Disruption in the commencement of budget implementation
 - 2016 budget implementation fully commenced in May
- Capital implementation suffers most as:
 - Constitutional provision for 50% expenditure of previous year's recurrent costs till the budget is passed or June 30, whichever is earlier.
 - Personnel, debt service and statutory expenditure usually met
 - However such provisions do not apply to capital expenditure, which are approved in specificity
 - Capital expenditure also suffers further delays due to procurement processes



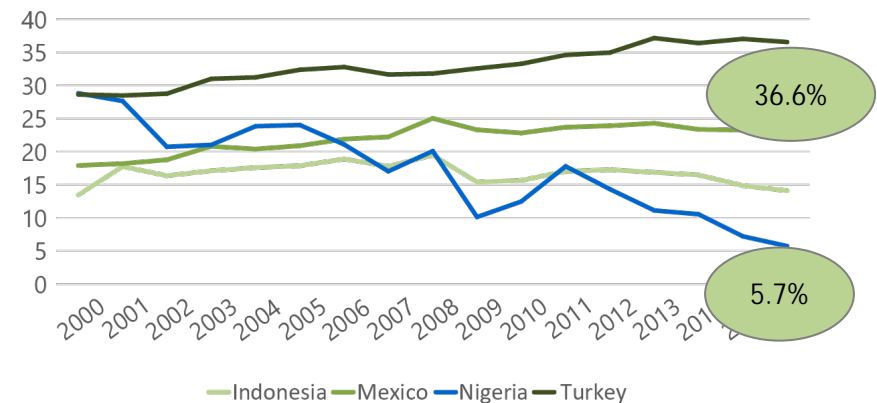


3.3 Key Challenges Cont'd – Revenue Performance

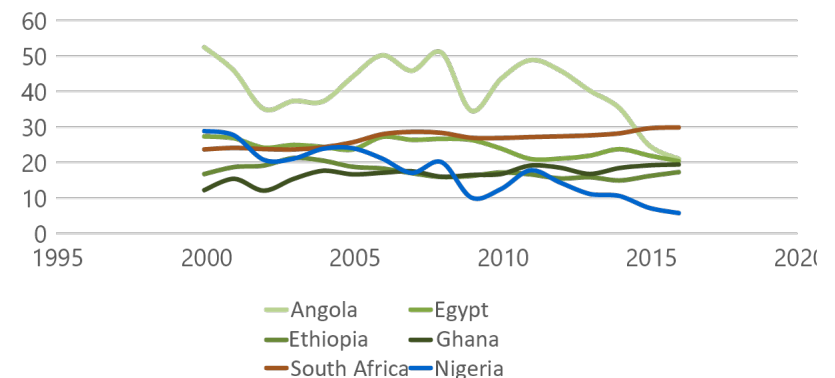
Performance of General Government Revenue as a share of GDP

- Nigeria's performance among MINT and selected African countries worsened between 2000 – 2016
- Nigeria's rate was at par with Turkey in 2000, but dropped off to a 30.8 percentage points gap in 2016
- Nigeria's own rate fell by 80.15% from 28.8% of GDP in 2000 to 5.7% of GDP in 2016
- Sharp drop in the rate intensified from 2013 even when oil revenue was high

Government revenue as % of GDP – MINT Countries:



Government revenue as % of GDP – Selected African Countries:





3.4 Key Challenges Cont'd – Revenue Performance

Poor Revenue Outturn – Key Issues



Low revenue particularly for the non-oil sector:

- Monolithic revenue base
 - Oil accounted for 55.4% of revenue in 2015, down from 67.5% in 2014
 - It still accounted for over 90% of foreign exchange
- Non-availability of standard framework for defining operating surplus
 - Inefficient expenditures
 - Accountability/Transparency lapses
 - Lower operating surplus
 - Low remittances
- Low tax collection
 - Low tax rate/base
 - Inefficiencies in collection
 - Revenue leakages
- Uncoordinated Quasi-Fiscal Activities
 - Loss of revenue
 - Under reporting of expenditure





3.5 Key Challenges Cont'd – Budgetary Controls

Budgetary Controls

Poor Capital Expenditure Management

- Lump sum periodic release of capital expenditure in the past (the envelop system)
 - Encouraged project drip feeding
 - Helped in perpetuating 'on-going project' syndrome
 - Made M&E more difficult
- Procurement bottlenecks
 - Late commencement of procurement
 - Red-tape/Delays in procurement processes
 - Lack of standardized pricing leading to arbitrariness





4.0 Key Budget Reform Initiatives

Adoption of Zero-Based Budgeting (ZBB)



This was adopted by FGN for 2016 & 2017 Budget preparation



ZBB focuses on Project justification as opposed to incremental budget; previous budget is only a starting point and past pattern of spending is no longer taken as given



Allocation is based on programme efficiency and necessity rather than budget history



Involves review of every programme and expenditure at the beginning of each budget cycle





4.1 Key Budget Reform Initiatives Cont'd

Adoption of Zero Based Budgeting Cont'd

Advantages

- i. The budget would be well justified and aligned to strategic objectives.
- ii. Engenders broader collaboration across the organization.
- iii. Supports cost reduction by avoiding automatic budget increases, often resulting in savings.
- iv. Improves operational efficiency by rigorously

Disadvantages

- i. More costly, complex, and time-consuming to prepare
- ii. Typically requires specialized training of personnel to accomplish
- iii. Can prove problematic for departments with intangible outputs



4.2 Key Budget Reform Initiatives Cont'd

Decentralization of Budget Preparation processes

- One of the key initiatives of the introduction of the ZBB system was the decentralization of budget planning and preparation
- Officers responsible for delivering specific tasks are required to prepare the budget
 - This increases correlation between tasks assigned with budgetary provisions
 - Increases ownership and willingness to implement
 - Increases result achievement





4.3 Key Budget Reform Initiatives - Preparation Platform



- Unlike in the preparation of previous Budgets where excel template was used, a web-based application was used in preparing the 2017 budget
- The application was designed to accommodate ZBB system
- It made provisions for budget preparation on the basis of:
 - Pillars;
 - Priority Programmes;
 - Projects;
 - Activities;
 - Sub-Activities; and
 - Line Items





4.4 Key Budget Reform Initiatives Cont'd

- ✓ To implement this web-based budget preparation app:-
 - ✓ The application was developed and tested specifically for the FGN by a Nigerian firm.
 - ✓ The required ICT infrastructure for the system was set up and tested with relevant stakeholders
 - ✓ System manual was developed and made in downloadable format for MDAs
 - ✓ Train the trainers sessions were held within Budget Office
 - ✓ Over 4,000 system administrators and users were trained across all MDAs in the six Geo-political zones of the country
 - ✓ To avoid unauthorized changes in the budget figures, only the trained officials nominated by MDAs were given access to work and upload information on their respective pages on the platform
 - ✓ All changes or adjustments were made auditable, ie, traceable to any of the officers
 - ✓ Versioning capacity was activated after the MDAs' final approving authority signed off



4.5 Key Budget Reform Initiatives – BIMMS Cont'd

Impact of adoption of the application:-

- Prevention of unauthorized changes in MDAs' budgets
- Minimization of conflicts on specific budgetary provision between MDAs, Budget Office and the NASS
- Reduction in time for budget preparation as a result of:
 - Creation of drop-down options on several sub-heads including pillars, sub-activities, and costing
 - Direct budget submission requiring no travel time
 - Estimated to have saved MDAs several working hours to be devoted to other government works
 - And over N1 billion in travel allowances
 - Minimization of errors as computation is automatic





4.6 Key Budget Reform Initiatives – GIFMIS

- The BOF is working with relevant MDAs to ensure budget preparation and execution are all carried out on the GIFMIS platform
- Currently GIFMIS is not fully ZBB compliant
- Fully ZBB compliant GIFMIS requires changes including:
 - Additional application development;
 - Additional hardware; and
 - Data ingestion and dashboard development services;
- The processes for GIFMIS upgrade to become ZBB compliant are currently in progress
- The target is for the platform be used for budget preparation and execution from 2018



4.7 Key Budget Reform Initiatives - Support Initiatives



- Budget Help Desk has been set up to support MDAs in the budget preparation and execution processes in 2017 and beyond
- To avoid unauthorized access, only those given access code could use any of the budget support channels
- Different platforms was adopted including:
 - **Calling the dedicated helpline 0800CALLBOF (08002255263)** between the hours of 8am to 1pm, Monday to Friday



4.8 Key Budget Reform Initiatives - Support Initiatives

Other Platforms for getting help include:

- a) **Filling an online enquiry form**, available on the Help Desk portal: www.bofhelp.gov.ng or MBNP website: <http://www.budgetoffice.gov.ng/> and <http://nationalplanning.gov.ng>
- b) **Live Chat** with a member of the Rapid Response Team (RRT) through the BOF Help Desk portal
- c) Starting or joining a conversation on the **Discussion Forum**:
<http://www.bofhelp.gov.ng/app/index.php/discussionforum>
- d) Download and Frequently asked questions also in the Help Desk Portal





4.9 Key Budget Reform Initiatives - Revenue Generation Reforms

- Revenue Generation remains a key challenge to budgeting in Nigeria
- Greater potential of raising revenue for the nation is in the non-oil sector of the economy
- However, given the recession, and the consequent low economic activities, greater emphasis is now being laid on revamping performance of the oil sector and ramping-up revenue from the sector
- Focus would be on:
 - Addressing the crisis and disruption of oil production in the Niger Delta Region
 - Exit of the cash-call system for the Joint Venture oil production arrangement
 - Recovery of all arrears of royalty
 - Optimizing revenues from other oil sector activities (Step-In Rights, Gas Flaring, Early Licensing renewal, New licensing rounds, etc)





4.10 Key Budget Reform Initiatives - Revenue Generation Reforms

- Non-oil sector revenue also being targeted
- Non-oil revenue collection expected to improve as the economy recovers
- Initiatives include
 - Expansion of the tax base
 - Continuous use of the TSA and general intensification of revenue generation and remittance by MDAs
 - Adoption of e-payment platform
 - Standardizing the management of the operating surplus of the Government Owned Enterprises (GOEs)
 - Increasing collection efficiency to reduce cost





4.11 Key Budget Reform Initiatives – Other Initiatives

Synchronizing all allocations to government projects

- A good budget is expected to ensure that expenditures are not provided for by a more specific appropriation or from another funding scheme
- As a result, the budget preparation template made provisions for MDAs to state other sources of funding for projects and activities in the budget
- Projects with high percentage of other revenue sources had increased chances of selection
- The BOF is also working with relevant agencies to ensure the incorporation of all loans and grants into the budget framework to avoid duplications/omissions in future budgets





4.12 Key Budget Reform Initiatives - Other Initiatives Cont'd

Budget Improvement Initiatives of Other MDAs

- i. Bureau of Public Procurement (BPP)
 - Developed standardized costing for expenditure items – particularly for those that are prevalent across MDAs
 - Developed reference costing for expenditure items that was uploaded in the web-based Budget Preparation App.

- i. Efficiency Unit
 - Streamlined activity sub-heads to be admitted into the budget as activities
 - Developed reference pricing for some overhead cost items





4.13 Key Budget Reform Initiatives - Other Initiatives

- Better management of Personnel Budget
 - Enrollment of all public official into IPPIS
 - Arrears of salaries and promotion verified and to be liquidated
- Intensive monitoring and evaluation – MDAs, MBNP and NASS
- Greater focus of resources on Capex – 30.7% in 2017 proposal
- Utility Bills – Centralized payment of government electricity bills
- Systematic payment of government outstanding obligations
 - Refund to State for expenditures on federal roads
 - Local contractors debt
 - Cash-call arrears for the International Oil Companies (IOCs)
 - Outstanding Rent/Insurance obligations.
- Comprehensive framework to prevent build-up of government liabilities is being worked out





5.0 Way Forward – Better understanding & Planning of the budget



What key budgetary knowledge gaps?

- Institutional arrangements for budget preparation, execution and M&E
- Key legislation that impacts your budget work activities.
- Internal budgetary control mechanisms especially those relating to revenue and expenditure
- Monitoring and reporting requirements



When does Budget Execution start for an Agency?

- There is the need to define concrete date that commits all stakeholders to deliver on budget timelines
- MDAs need to adopt and judiciously follow budget timetables – need to start early
- Organic Budget Law by NASS expected to be enacted to address this .

Budget Planning and operations

- Develop sector specific strategic plan
- Details the specific work to be done in clear and concise language including:
 - Background and need
 - Project objectives
 - Scope of work
 - Detailed technical requirements
 - Procurement requirements
 - Cost implications by activities, etc.





6.0 Conclusion

- Government Budget is a key instrument for allocating resources in order to achieve stated objectives.
- Nigeria's budgeting system is guided by the constitution, legislations, various public sector rules and regulations, the FRA, etc.
- This notwithstanding, budgeting in Nigeria has been very challenging in recent past with the Federal Government Budget enmeshed in controversies
- Various reforms have therefore been adopted, particularly by the current Administration to address various budget related challenges
- The reforms stretches the entire budget cycle from conception, preparation, execution and M&E
- Key among the reforms include:
 - Adoption of the ZBB system;
 - Web-based budget preparation;
 - Budget Help-Desk; etc
- The support of relevant stakeholders are critical to achievement of the reform objectives



