



The Challenges of Budget Implementation in Nigeria

Presentation at the BPSR Lunch-Time Seminar

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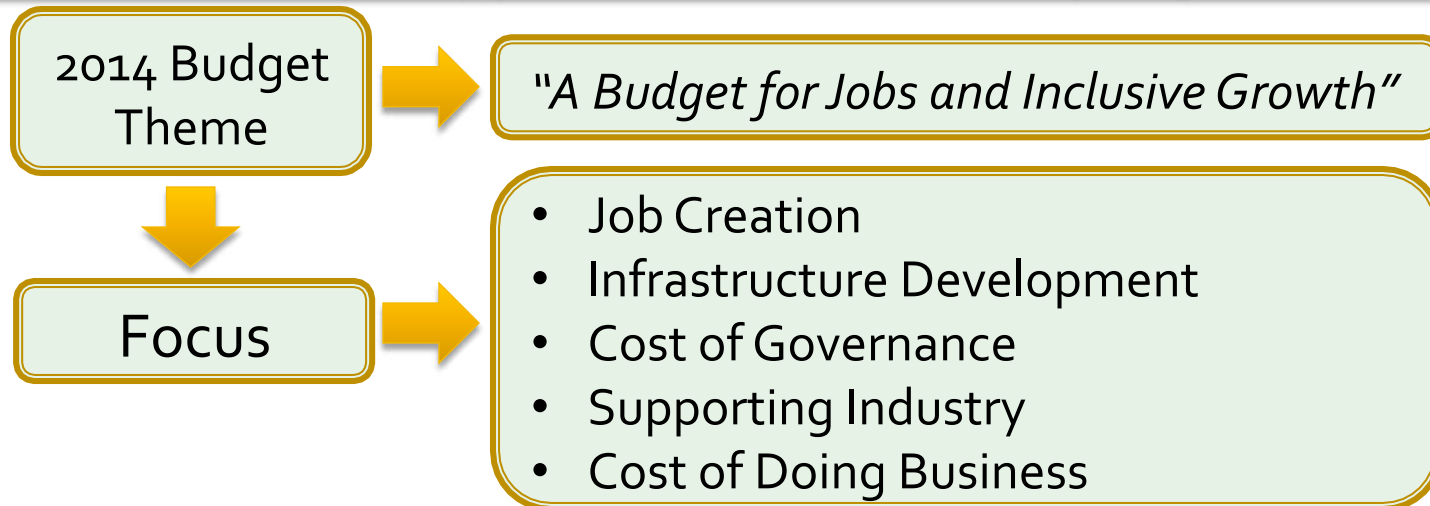
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Introduction – Understanding the Budget

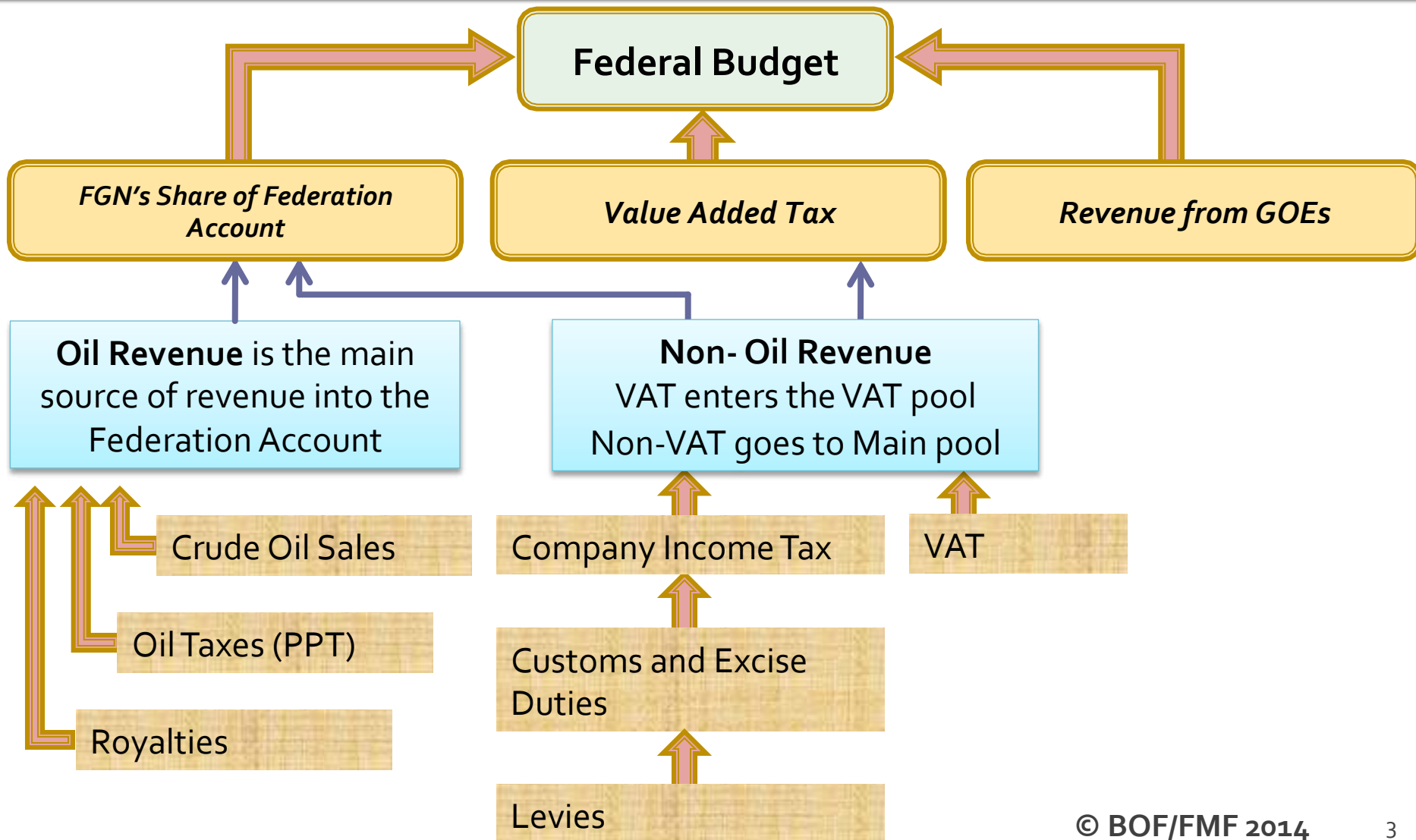
- **What really is the Budget all about?** Rather than just a set of revenue & expenditure plans by the Government, the Budget is a statement of Government's fiscal policies and related policies which are intended to move the economy forward, including in the areas of supporting industries and Job creation

Budget - a quantitative expression of government's financial plans for a fiscal year with a focus to systematically induce socio-economic development over the period.

Government reform programmes, anchored on the Transformation Agenda, give direction to annual budgeting



Sources of Financing the Budget



Sources of Financing the Budget (2)

- The Federal budget is prepared based on a **benchmark price** of oil

- Nigeria's crude oil is sold at the **international market price** of oil

The price at which crude oil is sold at the international market (mainly determined by supply and demand for oil)

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The chosen benchmark price for crude oil (usually lower than market price)

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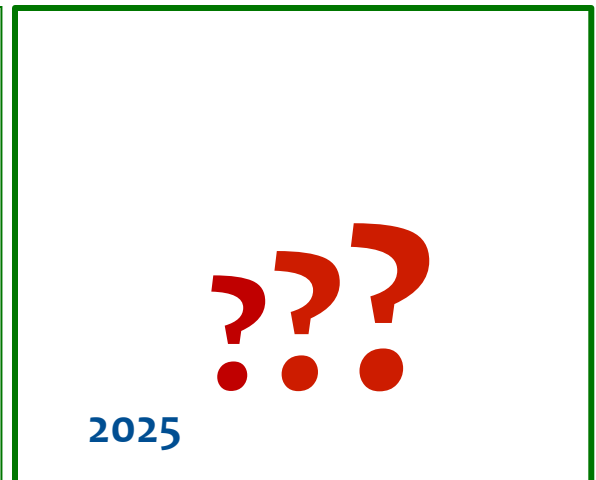
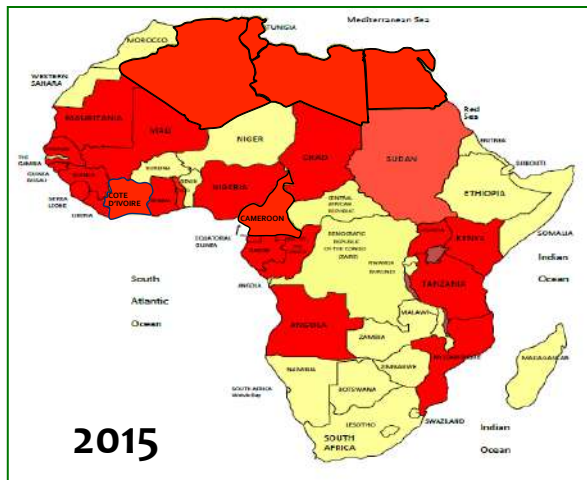
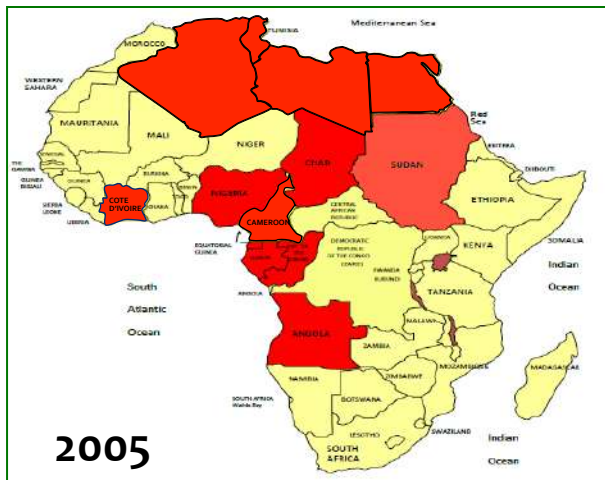
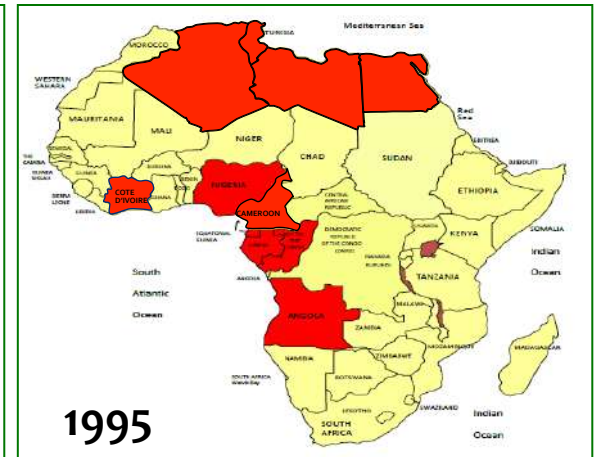
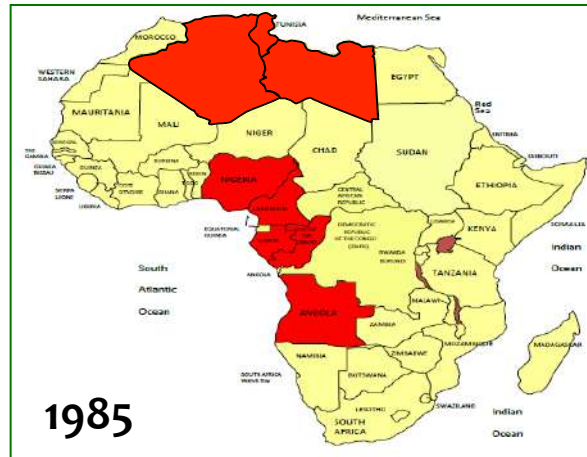
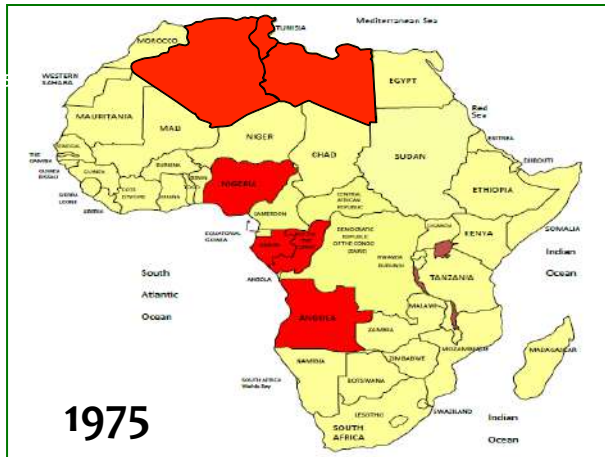
Savings (ECA)



- **Why use a benchmark price in budgeting and save when we have expenditure needs?**

Why use a benchmark price in budgeting and save when we have expenditure needs?

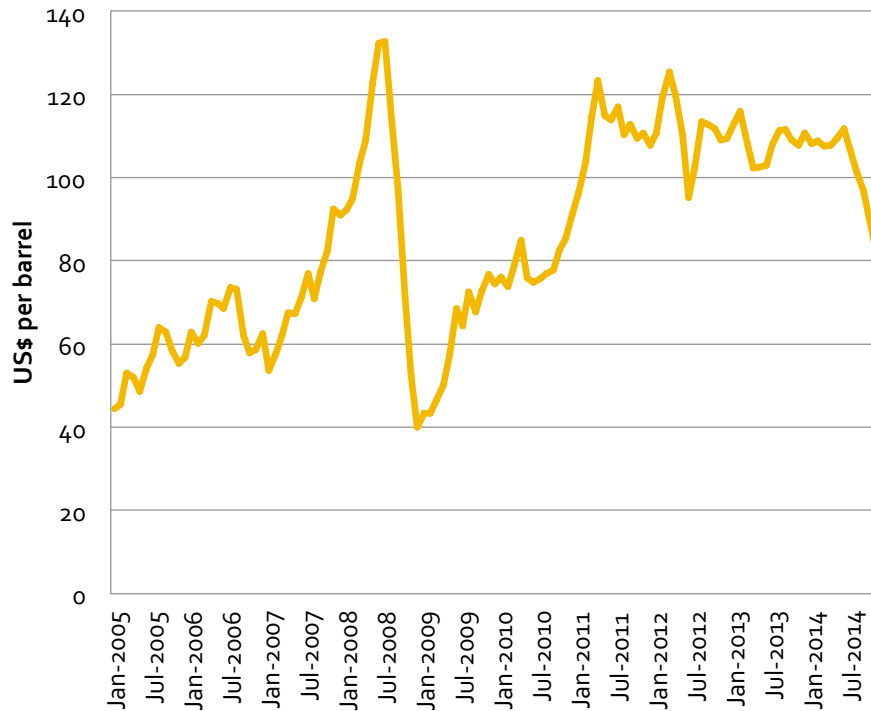
The increasing exploitation of shale oil and gas as well as the emergence of new regional oil producers



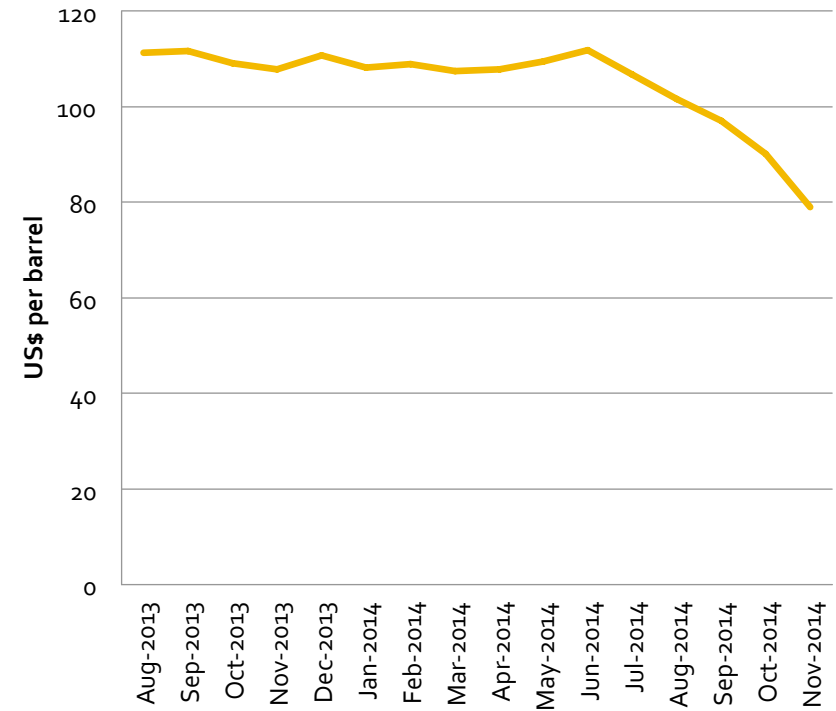
Why use a benchmark price in budgeting and save when we have expenditure needs?

Geopolitical events and Security Issues characterizing Oil Price trend

Movement in Oil Price Jan 2005 – 6th Nov. 2014



Movement in Oil Price Aug. 2013 – 19th Nov. 2014



The Revenue Challenge

Conceptual Issues

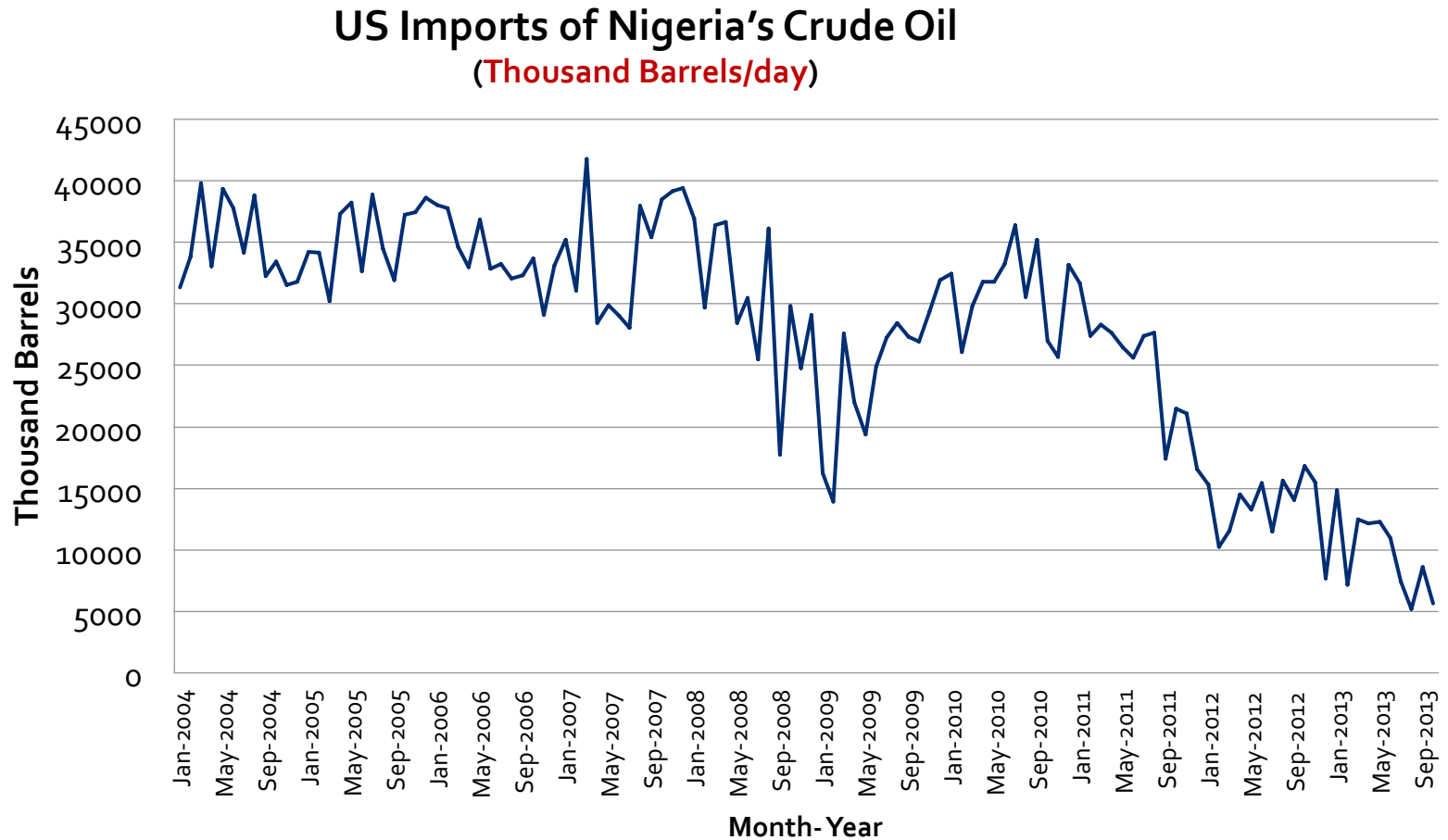
- **Unrealized Revenue Targets**, attributable to
 - Highly volatile and uncertain commodity market
 - Dependence on export of primary commodity
 - Policy change issues in the fiscal year
 - Collection efficiency
 - The role of the law (e.g. Acts allowing MDAs to spend some of the monies they generate)

The Revenue Challenge (2)

Oil Revenues

- **International Factors** (*Factors affecting price*)
 - Increasing global oil supplies (shale oil and gas production; gradual restoration of Libya's production)
 - Weakening oil demand in major economies
 - Geopolitical developments
 - Saudi Arabia – interested in keeping their market share, thus prepared to allow oil price fall vis-à-vis shale oil
 - Russia – political battles
- **Domestic Factors**
 - Crude oil theft and pipeline vandalism
 - At its peak, oil loss was over 200,000 bpd (in 2013)
 - With efforts of security forces & community engagement, the loss has reduced
 - Lack of new investments in the sector due to uncertainties owing to delay in the passage of the PIB

The Revenue Challenge (3)



The Revenue Challenge (4)

Non-Oil Revenues

- Shortfall in Independent Revenues
- Collection efficiency
- Insecurity in some parts of the North affecting economic activities and tax collection
- Fiscal policy – leading to reduction in government revenue but promoting job creation (e.g., Increase in tariff on rice and wheat)

Consequent upon the above, actual revenue has been short of budgeted levels; hence incomplete releases

Expenditure Challenges

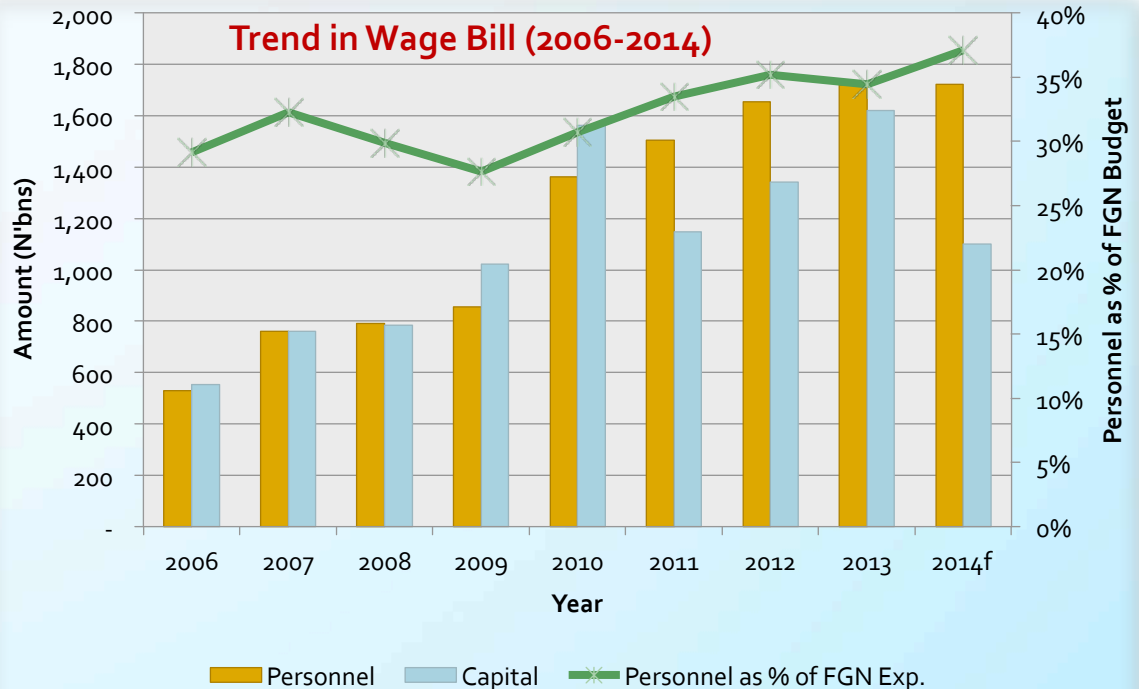
Conceptual Issues

- Unanticipated spending needs (e.g. security, other emergencies)
- Poorly planned projects (including those inserted without design, etc)
- Cost overruns
- Propensity by MDAs to push new projects without full funding for ongoing ones
- Poor understanding of procurement process
- Late procurement
- Contractor tardiness
- Uncoordinated / excessive wage demand

Expenditure Challenges (2)

■ Personnel Spending:

- Very high wage bill due to huge increases starting in 2009
- In 2009, the total wage bill was N857 billion; now about N1.8 trillion
- Due to new pressures for wage and pension (military and civilian) increases, and
- Ghost workers (especially in agencies yet to be included in the IPPIS)



- As a result, the share of personnel cost as a percentage of aggregate expenditure increased from 29.17% in 2006 to 36.57% in 2014
- High wage bill resulted in higher deficits and therefore higher borrowing
- Any increase in the wage bill affects amount available for capital spending

Expenditure Challenges (3)

- Capital budget is a critical component of FGN annual budget
- However, the pace of implementation is often hampered due to:
 - Poor/untimely procurement plans by MDAs
 - Absence of proper and detailed procurement plan by MDAs
 - Splitting of contracts/bids
 - Inadequate project definitions and scope definition at project initiation stage
 - Disconnect between ministry and its agencies and parastatals
 - Poor project preparation also leads to delays in the processing of Certificate of “No Objection” to Federal Executive Council (FEC) for approval
 - Undue interference in selection of preferred bidders to influence outcomes
 - Inadequate funding of projects - major obstacle for Project Certification as funding should cover mobilization (15% of the contract sum) and honoring of interim valuation
 - Delays in preparation of contracts and other documents
 - Collusion between bidders and procuring agency staff
 - Use of fake documentation and falsification of facts

Fiscal Table (A snapshot)

Fiscal Item	2011b	2011a	2012b	2012a	2013b	2013a (Jan -Dec)	2013 Actual as %age of Budget(Bgt Vs. Est.)	Notes
	N'bn	N'bn	N'bn	N'bn	N'bn	N'bn		
FGN Revenue	3,348	3,141	3,561	3,155	4,104	3,362	82%	
<i>FGN Share of Federation Account</i>		2,793	2,656	2,755	3,232	2,935	91%	
Oil Revenue	2,347	1,694	1,944	1,765	2,355	1,996	85%	i
Non-oil Revenue	860	802	1,267	912	1,460	1,035	71%	ii
<i>Corporate Tax</i>	325	334	383	395	457	459	100%	
<i>Customs (including spec. Levies)</i>	203	190	323	214	412	195	47%	
<i>VAT</i>	104	87	108	95	127	107	84%	
<i>Share of Bals in Special A/Cs</i>			6	-	8	-	0%	
<i>Independent Revenue</i>	229	191	447	207	456	274	60%	
<i>Unspent balances from previous FY</i>	120	20	307	57	261	25	9%	
<i>Others (Bals in FGN's Spec. A/c, Plea Bargain, ...)</i>	21	50	43	41	28	21	75%	
Aggregate Expenditure	4,485	4,299	4,697	4,131	4,987	4,613	92%	
Total Recurrent Expenditure	3,338	3,380	3,357	3,386	3,396	3,603	106%	
<i>Statutory Transfer</i>	418	326	373	307	388	388	100%	
<i>Recurrent Expenditure (Debt)</i>	495	527	560	679	592	828	140%	
<i>Recurrent Expenditure (Non-debt)</i>		2,527	2,425	2,400	2,416	2,387	99%	
Capital Expenditure	1,147	919	1,340	744	1,592	1,010	63%	iii

NOTES:

i. Actual receipts affected by oil theft and pipeline vandalism.

ii. Actual non-oil revenue impacted by reduced Customs revenues affected by fiscal policies of recent yrs - rice, etc.; and the impact of security challenges in some parts of the country on tax generation and collection.

iii. Implementation of the capital budget in 2013 affected by challenges resulting from revenue shortfall.

Charting the Way Forward

Revenue (Oil)

- Nigeria is an oil price-taker; thus, the need for a more diversified economic structure (shifting focus from oil) can reduce the implications of negative price shocks on the Federal Budget
- Curb oil theft and pipeline vandalism
 - Reinforce security & monitoring of oil infrastructure
 - Accelerate sensitization of oil producing communities
- Accelerate passage of the Petroleum Industry Bill to:
 - Transform and open up the oil industry
 - Engender competition
 - Improve efficiencies

Charting the Way Forward (2)

Revenue (Non-oil)

- Tax revenues
 - Broaden the tax base
 - Accelerate ongoing work by Mckinsey & Co. with the FIRS
- Customs duty and levies
 - Fiscal policy consistency and curbing smuggling activities
 - Enabling reforms for improved customs administration
- FGN Independent revenue
 - Improved collection and remittance of FGN Independent revenues
 - Reviewing MDAs IGR spending Acts

Charting the Way Forward (3)

Recurrent expenditure

- Wage bill
 - All stakeholders should put national development first
 - IPPIS – extension to all remaining MDAs
 - National consensus on wage policy
- Accelerate plugging of leakages & wastages in expenditure
 - Reforms in the Public Service (including the rationalization of MDAs)
 - Emphasis on local trainings

Charting the Way Forward (4)

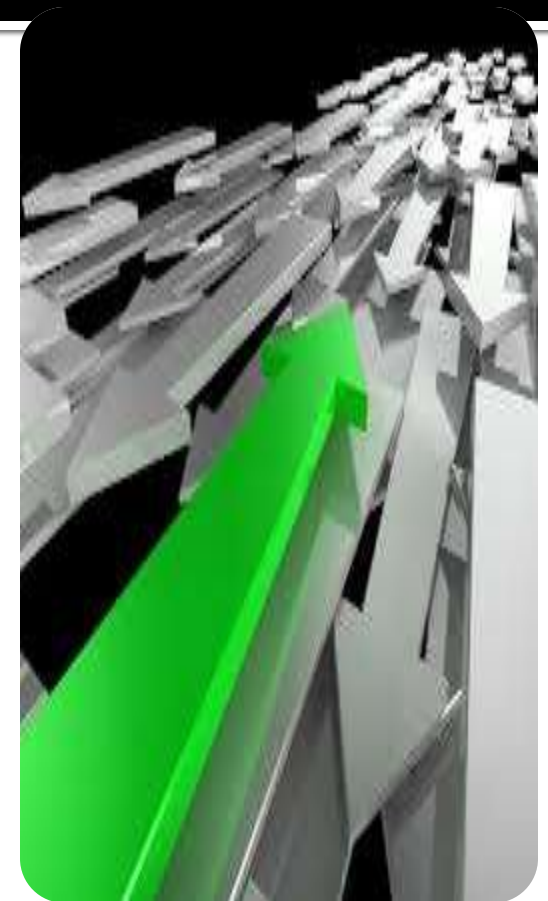
Capital expenditure

- *Nigeria Vision 20:2020 & Transformation Agenda*
 - Prioritization
 - Ongoing projects
- Goal-focused spending and Improved Procurement Process
 - Avoid spreading resources thinly
 - Decentralization of procurement across all MDAs
 - Conduct of procurement audits
 - Publication of Federal Government approved contracts both in print and electronic media
 - Use of standard bidding documents
 - Ongoing capacity building for procurement staff

Charting the Way Forward (5)

Public Financial System Reforms

- **Government Integrated Financial Mgt. Info. System (GIFMIS)**
 - ✓ Improved effectiveness and efficiency in budget preparation, execution and monitoring
 - ✓ Supports seamless transactions
 - ✓ Improve transparency, accountability and curb corruption
- **Treasury Single Account (TSA)**
 - ✓ Facilitate efficient cash management
 - ✓ Supports efforts at reducing cost of governance
- **Integrated Payroll and Personnel Info. System (IPPIS)**
 - ✓ Enhance efficient personnel cost planning and budgeting
 - ✓ Eliminating the ghost workers syndrome



END NOTES

- Annual Budget – Tool by which the Government delivers on its policies and programmes to Nigerians
- There are two parts, namely revenue and expenditure
- Budget challenges include revenue and expenditure side issues, leading to imbalances
- The nation has experienced serious revenue losses from oil and non-oil sources
- But efforts are ongoing to bolster and diversify the revenue base of Government
- Specific issues of poor remittances, growing wage bill and debt service obligations of recent years have resulted in a reduction in the share of capital
- All stakeholders must support all efforts of government to improve budget implementation