

---

# **THE BUDGETING PROCESS: ROLES, RESPONSIBILITIES & CHALLENGES**

---

**Presentation to Members of the National  
Assembly,  
Abuja**

**Dr. Bright Okogu  
Director-General,  
Budget Office of the Federation**

**8 June, 2011**

# OUTLINE

## A. The Budgeting Process in Nigeria

1. Constitutional & Legal Framework for Budgeting
2. The Annual Budget Cycle
3. Key Stages and Requirements in Annual Budget Cycle
  - i. The MTRF , MTEF and MTEF
  - ii. MTSS
  - iii. FSP, MTEF and Annual Budget

## B. Budget Monitoring & Evaluation

1. Budget Monitoring and Evaluation reports

2. 2010 Budget Performance
3. FGN Revenue (Budget vs. Actual) 2008-2010
4. FGN Budget Expenditure (2008-2010)
5. 2010 Capital Budget Performance
6. 2011 Budget

## C. The role of Legislature and Executive in the Budget Preparation

## D. Challenges with Budget Planning & Implementation

## E. End Notes

# CONSTITUTIONAL & LEGAL FRAMEWORK FOR BUDGETING (1)

- **The Federal Annual Budget:**
  - Policy instrument which articulates government's expenditure plans given reality of limited resources
- **Executive & Legislature have complementary roles throughout the budget preparation process**
- **Historically, control of the public purse is at the heart of contentious relationship between the Executive & Legislature:**

*“In the constitutional crisis of the Stuart family, Parliament's Great Protestation of 1621 asserted the traditional right of Legislature over the purse strings against the Monarch, James the 1<sup>st</sup>”*
- **Constitution of the Federal Republic of Nigeria (CFRN) 1999, Finance (Control & Management ) Act 1958 & Fiscal Responsibility Act 2007 provide mandate & specific roles for FMF & BOF to play in budgeting process**

# CONSTITUTIONAL & LEGAL FRAMEWORK FOR BUDGETING (2)

## ■ By §§80-82, CFRN 1999:

- Mr. President required to submit annual budget proposal to NASS for appropriation at any time during preceding financial year
- NASS to appropriate expenditure in Appropriation Bill
- Appropriation Bill duly passed into law upon Presidential assent

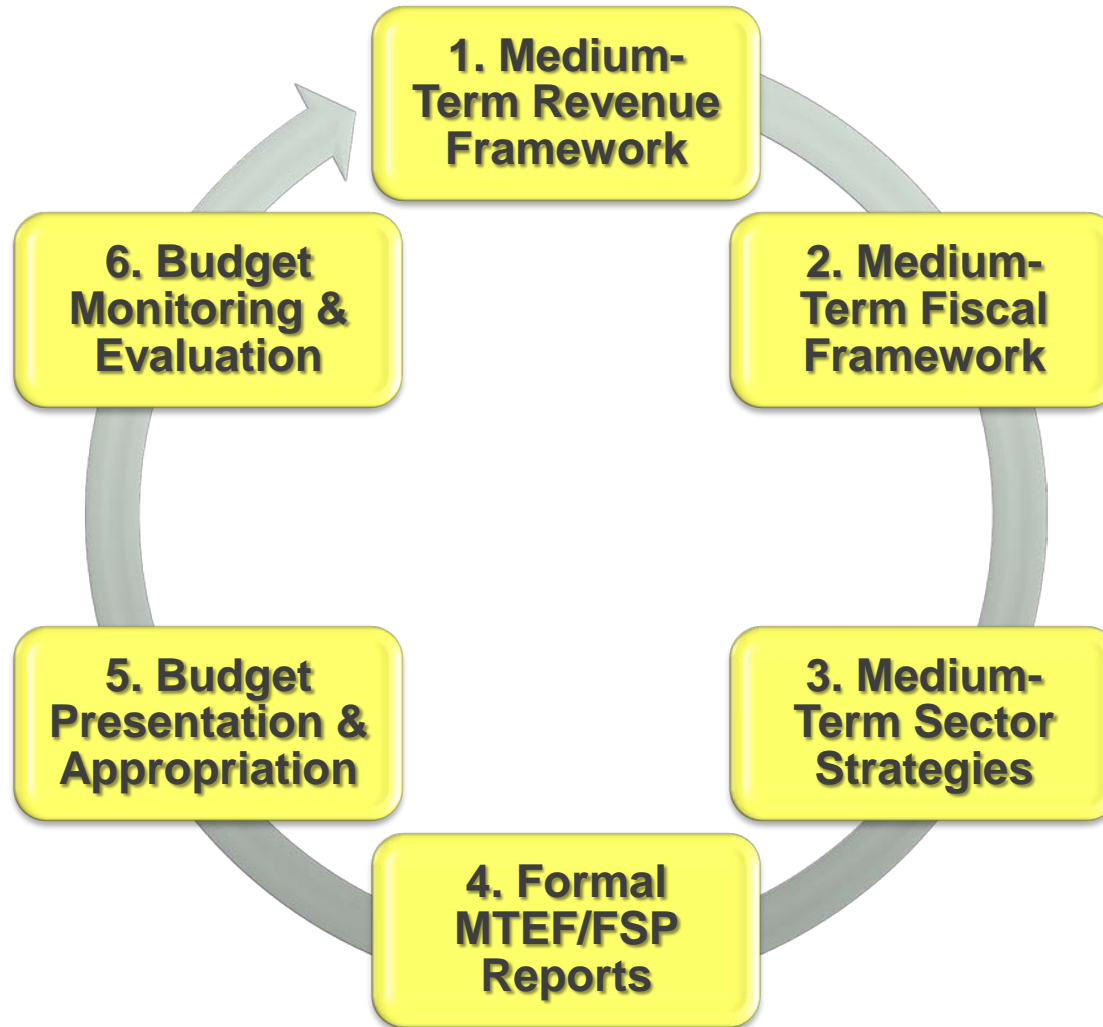
## ■ By §§58-59, CFRN 1999:

- Mr. President required to signify or withhold assent to Appropriation Bill presented to him by NASS within 30 days
- Where assent is withheld and Bill is passed by two-thirds majority in each House, the Bill becomes law and Mr. President's assent is not required.
- **Section 59(4), CFRN 1999:** *“Where the President, within thirty days after the presentation of the bill to him, fails to signify his assent or where he withholds assent, then the bill shall again be presented to the National Assembly sitting at a joint meeting, and if passed by two-thirds majority of members of both houses at such joint meeting, the bill shall become law and the assent of the President shall not be required.”*

# CONSTITUTIONAL FRAMEWORK FOR BUDGETING (2)

- ***Other provisions of CFRN 1999, Finance (Control & Management) Act 1958 & Fiscal Responsibility Act 2007:***
  - Provide modalities for preparation & appropriation of money bills (Appropriation & Supplementary Appropriation Bills & Acts)
  - Provide fiscal rules regarding the size of the Budget deficit:
    - ✓ ***3% of GDP advised except for certain situations (national emergencies, economic exigencies etc.)***
  - Institutionalise the modern approach to budgeting adopted by the FGN based on the Medium-Term Expenditure Framework (MTEF)

# KEY STAGES & REQUIREMENTS IN ANNUAL BUDGET CYCLE



# MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORKS (MTRF and MTEF)

- **MTRF sets the tone for work on the Budget and involves**
  - ✓ Meetings with key agencies to agree macroeconomic data (NPC, BFS, CBN, OAGF, BPE, IER, DMO)
  - ✓ Initial bilateral discussions with Parastatals & Agencies of Govt of 3-year estimates of revenue
- **MTEF sets out expenditure heads and comprises:**
  - ✓ Indicative aggregate expenditure ceilings
  - ✓ Projection of indicative fiscal balance & if a deficit, sources of financing
  - ✓ Aggregate-level preparatory work on main components of expenditure (i.e. Statutory Transfers, Debt Service & MDA Expenditure)
- **Medium-Term Fiscal Framework (MTFF) brings together Revenue, Expenditure & Fiscal Balance aspects of budget preparation work**

# MEDIUM-TERM SECTOR STRATEGIES

- **MTSS has traditionally formed part of the budget planning cycle since 2005.**
- **It is a budget planning forum for large spending MDAs:**
  - Rolling budget over 3-year time horizon for MDAs to plan capital projects.
  - MTSS links annual budgets to Government's long-term development agenda which is Nigeria's Vision 20:2020 1<sup>st</sup> Implementation Plan.
  - Provides forum for planning rolling expenditure in line with available resources.
- **FMF/BOF gives indicative expenditure ceilings based on MTRF resource ceilings, previous year's budget implementation performance, existing commitments & the priorities of Mr. President.**

# FSP, MTEF and ANNUAL BUDGET

- Under FRA 2007, Budget is to be based on the FSP and MTEF.
- FSP & MTEF presented by HMF to FEC for consideration & endorsement.
- FSP & MTEF also presented to the National Economic Council for consideration and endorsement.
- FSP & MTEF then laid before NASS for approval & shall take effect as endorsed by FEC & upon approval by a resolution of each House of NASS.
- MTEF should cover 3-year fiscal period & contain:
  - A Macroeconomic Framework;
  - A Fiscal Strategy Paper (FSP);
  - Expenditure & Revenue Frameworks;
  - Consolidated Debt Statement & other statements.
- Subsequent to approval of FSP & MTEF, Call Circular issued to MDAs requesting Budget Submissions and Bilateral Discussions held with large-spending MDAs to prioritise expenditure.
- ❖ BOF/FMF prepares Executive Budget Proposal & other documents required by FRA 2007 and Executive Budget Proposal presented to Mr. President by HMF.
- ❖ Executive Budget Proposal presented by Mr. President to NASS.
- ❖ NASS debates and passes Appropriation into law and Mr. President gives assent.

# BUDGET MONITORING & EVALUATION REPORTS

- **Under §§30 & 50 of the FRA 2007, HMF through the BOF to:**
  - Monitor & evaluate the implementation of the Budget
  - Assess the attainment of fiscal targets
  - Track implementation against physical & financial performance targets
  
- **Full-Year and Quarterly Budget Implementation Reports published online; formal, printed copies required to be sent to:**
  - Finance Committees of both Senate & House of Representatives
  - Fiscal Responsibility Commission
  
- **Budget Implementation Reports among documents to accompany Executive Budget Proposal when presented to NASS**
  
- **Budget Implementation Reports place special emphasis on priority capital projects, particularly in the area of critical infrastructure.**

# 2010 BUDGET PERFORMANCE

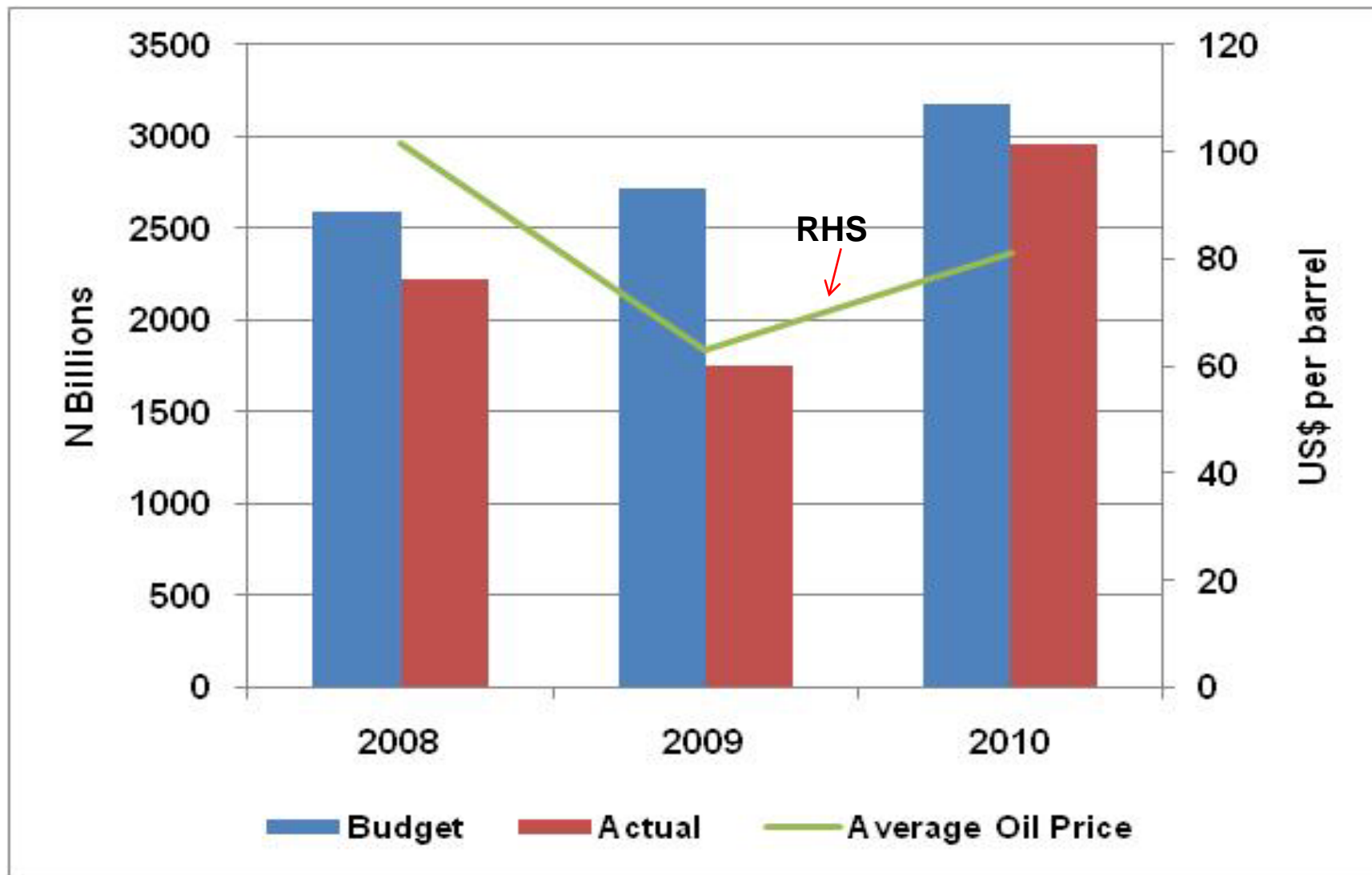
## REVENUE

- Shortfall of **6.9%** in Gross Federally Collectible Revenue and **7.49%** in FGN Revenue.
- Shortfall was mainly due to the under-performance of non-oil revenue items, particularly Customs and Excise fees collection.
- Oil revenue performed well over the period given high international oil prices which averaged about **US\$81** in 2010, and high oil production.

## EXPENDITURE

- Implementation of 2010 Capital Budget was extended till 31<sup>st</sup> March 2011 to enable MDAs utilise funds already released.
- As of March 2011, MDAs had utilised **N935.61bn** or **97.86%** of the **N956.11bn** cash-backed (or 53% if compared to the N1.76tr in the budget).
- This represents highest amount utilised by MDAs over a 15-month fiscal period.
- Releases for recurrent items such as personnel and overheads fully on track for 2010.

# FGN REVENUE (BUDGET vs. ACTUAL) 2008-2010

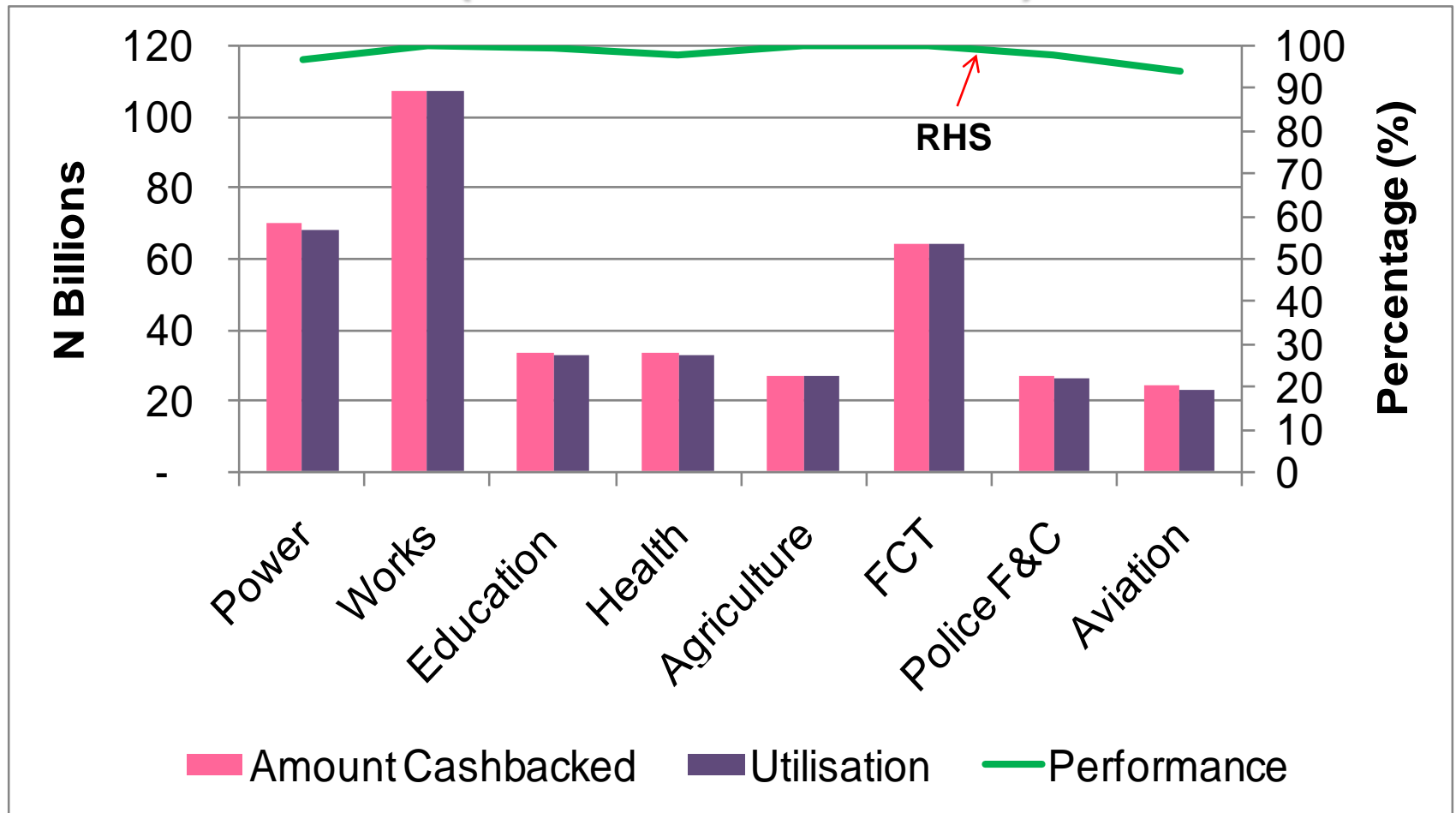


## FGN BUDGET EXPENDITURE 2008-2010\*

<b>ITEM (N bns)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>FGN Retained Revenue</b>	2,592.50	2,721.08	3,179.87	3,348.11
<b>Aggregate Expenditure</b>	3,540.43	3,557.68	5,159.77	4,484.74
<b>Debt Service</b>	372.20	283.65	542.38	495.10
<b>Statutory Transfers</b>	162.57	168.62	183.58	417.82
<b>Recurrent Non-Debt</b>	1,757.43	1,824.70	2,669.01	2,425.07
- Personnel	944.20	857.04	1,360.37	1,516.54
- Overheads	431	338.27	536.27	277.62
- SWV + MYTO + Others	382.22	629.39	772.37	630.91
<b>Capital</b>	1,248.23	1,280.71	1,764.79	1,146.75
<b>Deficit (% of GDP)</b>	4.11	3.02	6.06	2.96
<b>Financing Requirements</b>	947.93	836.60	1,979.79	1,136.62

\* Includes Supplementary Budgets for each fiscal year

# 2010 CAPITAL BUDGET PERFORMANCE (SELECTED MDAS)



\* This represents performance as of March 31<sup>st</sup> 2011 as capital budget implementation for 2010 was extended to this date.

# 2011 BUDGET

## INITIAL 2011 APPROPRIATION ACT:

- **Aggregate Revenue of N3.348 tr and Aggregate Expenditure of N4.971tr, which implies:**
  - a deficit of N1.624trillion or 4.23% of GDP.
  - domestic borrowing requirement raised from the N865.24billion proposed by the Executive to N1.339trillion
- **To deliver a Budget that is both implementable, and in line with Government's commitment to ongoing fiscal consolidation, the Executive initiated discussions with the National Assembly resulting in an amendment.**

## THE 2011 AMENDED APPROPRIATION ACT:

- **The 2011 Amendment Budget allows an aggregate expenditure of N4.485tr, while revenue remained at N3.348tr, resulting in:**
  - a deficit of N1.136tr (or 2.96% of GDP)
  - domestic borrowing of N852.03bn.

# 2011 BUDGET

S/N	ITEM	Executive Proposal (Amended)  N bns	2011 Budget - Appropriation Bill  N bns	2011 Budget - Amendment Appropriation Bill  N bns
1.	Benchmark Oil Price (US\$/barrel)	73.00	75.00	75.00
2.	Oil Production (mbpd)	2.30	2.30	2.30
3.	Exchange Rate (N/US\$)	150.00	150.00	150.00
4.	FGN Retained Revenue	3,238.80	3,348.11	3,348.11
5.	Aggregate Expenditure	<b>4,388.39</b>	<b>4,971.88</b>	<b>4,484.74</b>
	of which:			
6.	<b>Transfers:</b>	<b>375.13</b>	<b>496.62</b>	<b>417.82</b>
	NJC	95.00	95.00	95.00
	UBEC	62.38	62.38	64.57
	NDDC	54.32	54.32	56.08
	NASS	111.24	232.74	150.00
	INEC	52.18	52.18	52.18
7.	<b>Debt Service:</b>	<b>495.10</b>	<b>445.10</b>	<b>495.10</b>
	Domestic Debt Service	450.01	400.01	450.01
	External Debt Service	45.09	45.09	45.09
8.	<b>Non-Debt Recurrent Expenditure</b>	2,407.50	2,467.17	2,425.07
9.	<b>Capital Expenditure</b>	1,110.67	1,563.00	1,146.75
11.	<b>Fiscal Deficit</b>	(1,149.59)	(1,623.77)	(1,136.63)
	<b>(as % of GDP)</b>	-2.99%	-4.23%	-2.96%
12.	<b>Domestic Borrowing</b>	865.24	1,339.42	852.27

# THE ROLE OF NASS AND THE EXECUTIVE IN THE BUDGET PREPARATION (1)

- **Recent experiences highlight the need for close collaboration between Executive and Legislature in the budget preparation process:**
  - **Constitutional**
    - NASS to appropriate expenditure in Appropriation Bill (section 81, CFRN 1999)
    - “Appropriation” in practice
- **The current interpretation leads to:**
  - **Over-bloated budget**
    - Only partial funding of projects and Risk of project abandonment
    - Introducing new projects while ongoing are poorly funded
    - Some projects without costing & engineering design
  - **Delays in finalising budget preparation and in passage of the Annual Budget, which result in delays in the implementation of capital projects.**
  - **Macro-Fiscal risks such as excessive deficit, accumulation of debt & crowding out of private sector**

# THE ROLE OF NASS AND THE EXECUTIVE IN THE BUDGET PREPARATION (2)

## ■ Way forward:

- **An early engagement with the National Assembly is necessary to ensure an early passage of Budget:**
  - NASS has an important role to play in the Budget process to ensure the budget is consistent with Nigeria's long term goals such as Vision 2020:20
  - NASS input also valuable in reviewing and translating the MTSS into the annual budget.
  - NASS should work with Executive in finalising the Budget, thereby making relevant input before finalisation.
  - Any additions to Aggregate Expenditure should be done with respect to macroeconomic and fiscal constraints such as the deficit, limits on domestic borrowing, etc.

# CHALLENGES IN BUDGET PLANNING & IMPLEMENTATION (1)

- **Determination of realistic assumptions and parameters underlying MTRF & MTFE, in particular:**
  - ✓ Oil Price Benchmark
  - ✓ Oil Production
  - ✓ Exchange Rate
  - ✓ GDP Growth
  - ✓ Inflation Rate
  - ✓ Consultations held with relevant agencies, as well as with NASS, FEC and NEC to determine appropriate estimates.
  
- **Weak reporting culture by MDAs:**
  - ✓ On ongoing projects
  - ✓ On stage of implementation
  - ✓ On issue of restraining from introducing new projects while ongoing ones are not adequately funded
  - ✓ On monitoring & evaluation to ensure progress and quality

## CHALLENGES IN BUDGET PLANNING & IMPLEMENTATION (2)

- **Unplanned expenditure, in particular recurrent, on the size and composition of the budget:**
    - ✓ 2010 Budgets a case in point as wage increase awarded to core civil servants, medical personnel etc. and increased allocation to INEC for 2011 Elections resulted in a bloated budget.
    - ✓ Because of these, budget skewed towards recurrent spending as total non-debt recurrent expenditure as share of total spending in 2010 ballooned.
    - ✓ Expenditure Review Committee set up to review and rationalise recurrent spending.
    - ✓ Committee submitted report and White Paper, laying out an action plan, has been prepared.
    - ✓ **Recommended actions include:**
      - ✓ *Inventorisation and content analysis of all standing committees and commissions of Government with view to eliminating or reducing overlaps and redundancies.*
      - ✓ *Full compliance with the monetization policy with regard to transport, accommodation etc.*
      - ✓ *Rationalising the number of persons attending international meetings.*
-

# CHALLENGES IN BUDGET PLANNING & IMPLEMENTATION (3)

- **Inability to fully release funds due to shortfalls in realising financing items despite high oil revenues.**
  - ✓ *To ensure the 2011 Budget is implementable, we worked closely with relevant agencies to define more realistic projections for items to finance the fiscal deficit.*
  - ✓ *Fiscal deficit also being maintained at **3% of GDP** in line with FRA, 2007.*
- **Inadequate capacity in MDAs to implement capital budgets.**
  - ✓ *Process of appointing global capital project manager to improve capital implementation by MDAs at an advanced stage.*
- **Poor project planning and conceptualisation by MDAs**
  - ✓ *MTSS process helping to define, cost and prioritise projects with assistance of sector experts.*

# END NOTES

- ❖ **The objective of Government is to deliver quality services to citizens within a sound macroeconomic environment.**
- ❖ **Annual Budgeting process is collaborative, involving both Executive & Legislature, and is grounded in the MTEF.**
- ❖ **CFRN 1999 & FRA 2007 guide Budget Preparation, Presentation & Monitoring processes.**
- ❖ **The Executive prepares the budget bearing in mind the need for macroeconomic stability.**
- ❖ **Ideally, the Role of NASS should be to scrutinise the budget submitted by the Executive to check for any excesses and to ensure value for money.**
- ❖ **Numerous challenges have to be tackled such as agreeing the baseline assumptions or keeping recurrent spending in check to leave room for capital spending.**
- ❖ **With better collaboration on both sides these problems can be surmounted.**
- ❖ **The NASS and the Executive, working together, can achieve these objectives. Hence the need to collaborate more closely.**