

CONFIDENTIAL: Not for distribution

## Politics of the Budget in Nigeria: Examining the National and States (Federal, Kano, Kaduna and Jigawa)

**March 2018**

## List of Acronyms

BoF	Budget Office of the Federation
BPP	Bureau of Public Procurement
BPS	Budget Policy Statement
DFID	Department for International Development
DMO	Debt Management Office
ECA	Excess Crude Account
ERGP	Economic Recovery and Growth Plan
EFU	Economic and Fiscal Update
FAAC	Federation Account Allocation Committee
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMF	Federal Ministry of Finance
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Law
FSP	Fiscal Strategy Paper
GIFMIS	Government Integrated Financial Management Information System
IP	Implementation Plan
IPPIS	Integrated Payroll and Personnel Information System
IPSAS	International Public Sector Accounting Standards
LFN	Laws of the Federation of Nigeria
LG	Local Government
MBNP	Ministry of Budget and National Planning
MDA	Ministry, Department and Agency
MTEF	Medium Term Expenditure Framework
MTRF	Medium Term Revenue Framework
MTSS	Medium Term Sector Strategy
NCoA	National Chart of Accounts
NDDC	Niger Delta Development Commission
NEC	National Economic Council
NEEDS	National Economic Empowerment and Development Strategy
NPC	National Planning Commission
OAGF	Office of the Accountant-General of the Federation
PFM	Public Financial Management
PPA	Public Procurement Act
RAPIP	Rapid Appraisal, Project Identification and Prioritisation
SDG	Sustainable Development Goal
SIP	Sector Implementation Plan
TSA	Treasury Single Account
VAT	Value Added Tax
ZBB	Zero-Based Budgeting

## 1. Overview

The budget has been described as the most powerful way that a government can meet the needs and priorities of the citizens and is thus crucial to good development outcomes.<sup>1</sup> Government budgeting involves apportioning of funds or financial resources to satisfy the numerous desires of the citizenry. This important government function is often articulated annually in a document captioned ‘the budget’. Although there are laid down frameworks of government budgeting, there are also crucial activities associated with government budgeting which to a great extent shape and influence the quality of budget outcomes. These human and behavioural aspects of the budget are termed ‘politics of government budgeting’. A proper understanding of this ‘politics’ is crucial for appreciating the full import of the budget.

This report examines the relationship between politics and budgeting. It highlights the features of the environment of government budgeting in Nigeria and how these affect the budgeting process. Most importantly, it examines the various political strategies adopted by key actors and their effects on budget outcomes. By so doing, the study aims to contribute to the evolving understanding of public expenditure management as a political, rather than a purely technical process.

### 1.1 Politics – Budget Interrelation

A lucid discussion and proper understanding of the politics of government budgeting requires the explication of the concepts of ‘politics’ and ‘budget’. The concept of politics has been so widely used and even jargonized that it is often associated with any action that appears dubious or aimed at maneuvering circumstances to benefit an individual or a select few. We will however turn our attention to less nuanced definitions as a basis for our discourse.

Wikipedia defines politics as the study or practice of the distribution of power and resources within a given community. The Free Dictionary equally presents politics as “the art or science of government or governing, especially the governing of a political entity, such as a nation and the administration and control of its internal and external affairs. For the purpose of this paper, the classical definitions of politics as “who gets what, when and how”<sup>2</sup> and “authoritative allocation of values for the society”<sup>3</sup> appear most apt.

---

<sup>1</sup> Igbuzor O. (2017) *An Overview of Service Delivery Initiative: 12 Years After*. Thewillnigeria.com

<sup>2</sup> Lasswell H. (1936) New. York: Whittlesey House. Pp. ix, 264

<sup>3</sup> Easton D. (1953) *The Political System: An Inquiry into the State of Political Science*. New York, Alfred A. Knopf.

CONFIDENTIAL: Not for distribution

The word budget denotes statements of future plans and expectations, varying enormously in their form and content. The various terminologies associated with the budget include 'programme', 'forecasts' and 'estimate'. In this regard, Smith and Lynch (2004) describe public budgeting through four perspectives. For the politician, the budget process is "a political arena for political advantage". The authors then synthesize their analysis into what can be considered an operational definition: "A budget is a plan for the accomplishment of programmes related to objectives and goals within a definite time period including an estimate of resources required together with an estimate of resources available, usually compared with one or more past periods and showing future requirements".<sup>4</sup>

Halidu (1994) cited in Ocheni et al (2013) gives an encompassing definition of the budget as: *"A conscious and systematic allocation of resources prepared in advance, relating to a future period and based on a forecast of key variables adopted to achieve certain policy objectives, which may or may not set explicit performance targets for the achievement of objectives, relates anticipated expenditure to anticipated revenue and forms the bases against which the actual expenditure and revenue can be measured and controlled."*

Arising from these definitions of the budget, it is clear that the term 'budget' refers to a plan to determine which resources will be allocated towards the attainment of a given objective (or value), articulated in financial terms.

The budget process brings to the fore, the key question of politics: who gets how much, for what purpose and who pays? Budgets determine the proportion of national resources that go to the various sectors of the economy, public priorities, the goals and objectives of several programmes and projects and the claims that various groups in the society make on the collective purse. The budget process depicts the sum total of the bargaining and consensus-seeking activities of factional representations of society and governments' efforts to aggregate same. Herein lies the interrelation between politics and the budget.

Budgeting therefore has become one of the chief decision-making systems. While many major policy decisions are made outside of the budget process, virtually every decision entails budgetary consideration. As a result of the dearth of resources which is often a major constraint on government, every policy making takes place under the umbrella of fiscal constraints. The key issues or questions that policy makers raise are, "what shall we do?" and "can we afford it?" The budget is a financial and political plan designed to provide answers to

---

<sup>4</sup> Smith, R.W and Lynch, D.T. (2004) Public Budgeting in America (5th Edition). New Jersey, Pearson, Upper Saddle River

CONFIDENTIAL: Not for distribution

these questions. It is against this backdrop that Wildavsky (1961) noted that “perhaps the study of budgeting is just another expression for the study of politics”<sup>5</sup>

The United Nations Development Programme (1997)<sup>6</sup> defines Governance as the exercise of political, economic and administrative authority in the management of a country’s affairs. Good governance which is now of global concern, demands prudent management of scarce resources for the provision of goods and services for the citizenry. In countries such as Nigeria with a population of over 180 million people of different ages, ethnic identities and yearnings, the need for careful and planned resource administration becomes imperative. This is the role which government budget plays. It is the apportioning of funds or financial resources to satisfy the numerous and sometimes conflicting desires of men and women in the polity.

Wildavsky (1964)<sup>7</sup> posits that “Human nature is never more evident than when men and women are struggling to gain a larger share of funds or to apportion what they have among myriad claimants”. Several processes are involved in the business of apportioning limited financial resources to cater for the numerous needs of individuals and groups in the polity. Ideally, the process requires strict adherence to the stipulated framework for government budgeting. In reality however, budgeting in Nigeria transcends the known and documented to informal and even covert activities. At this juncture, politics takes the stage in the budgeting process.

Budgeting controversies and impasse are one of the many challenges facing Nigeria’s democracy since her transition to civil rule in May 29, 1999. Since 2000, the polity has witnessed conflicts between the Executive and the Legislature over budget matters. While the public choice thesis tends to portray the former as greedy and selfish politicians who waste public resources on themselves and promote party and parochial interests at the expense of national interests; the latter on the other hand are espoused as the ‘champions’ of the people. This is predicated on the assumption that since the National Assembly comprises elected representatives of local constituencies, it stands to reason that they are closer to the people and better placed to act with a deep understanding of their salient needs. In reality however, the factors militating against effective budget preparation, implementation and evaluation include anomalies at both the Executive and the Legislative levels.

---

<sup>5</sup> Wildavsky, A. (1961) “Political Implications of Budgetary Reform”. Public Administration Review, Vol. 21, No. 4, pp 183-190.

<sup>6</sup> United Nations Development Programme (1997) Governance for sustainable human development, UNDP policy document, New York.

<sup>7</sup> Wildavsky, A. (1964) The Politics of the budgetary Process. Canada, Little Brown and company Ltd



## 1.2 The Budgeting Process

The budget process in Nigeria – both at the Federal and State levels is principally regulated by the Constitution of the Federal Republic of Nigeria (CFRN) 1999 (as amended), and a number of laws, subsidiary legislations (i.e Regulations) and policies. These include the Fiscal Responsibility Act, 2007<sup>8</sup>, the Finance (Control and Management) Act, Financial Regulations, among others.

A key constitutional provision in this regard, upon which everything else turns is Section 81(1) & (2) of the Constitution, which states as follows:

---

<sup>8</sup> The Fiscal Responsibility Act, 2007 has undergone amendment vide the Fiscal Responsibility (Amendment) Act of 2011. The Explanatory Memorandum to the FRA, 2007 is quite instructive. It reads “This Act, among other things, establishes the Fiscal responsibility Commission charged with the responsibility of monitoring and enforcing the provisions of this Act to ensure greater accountability, transparency and prudence in the management of the Nation’s resources by the Federal Government, Government Owned corporations or companies and agencies as provided for under sections 13, 16 (1) and (2) and item 60 of the Exclusive Legislative List as set out in Part 1 of the Second Schedule to the 1999 Constitution of the Federal republic of Nigeria and provides incentives to encourage States and Local Governments pass similar fiscal responsibility legislation.”



CONFIDENTIAL: Not for distribution

*81. (1) The President shall cause to be prepared and laid before each House of the National Assembly at any time in each financial year, estimates of the revenues and expenditure of the Federation for the next following financial year.*

*(2) The heads of expenditure contained in the estimates (other than expenditure charged upon the Consolidated Revenue Fund of the Federation by this Constitution) shall be included in a bill, to be known as an Appropriation Bill, providing for the issue from the Consolidated Revenue Fund of the sums necessary to meet that expenditure and the appropriation of those sums for the purposes specified therein.*

The provisions of Section 81(1) & (2) of the Constitution as reproduced above are in *pari materia* with the provisions of Section 121(1) & (2), with the only difference being that whereas the former section applies to the Government of the Federation of Nigeria, the latter section applies to the Government of each individual State within the Federation, and in the same vein, all references to the Consolidated Revenue Fund in Section 121 are references to the Consolidated Revenue Fund of each State.

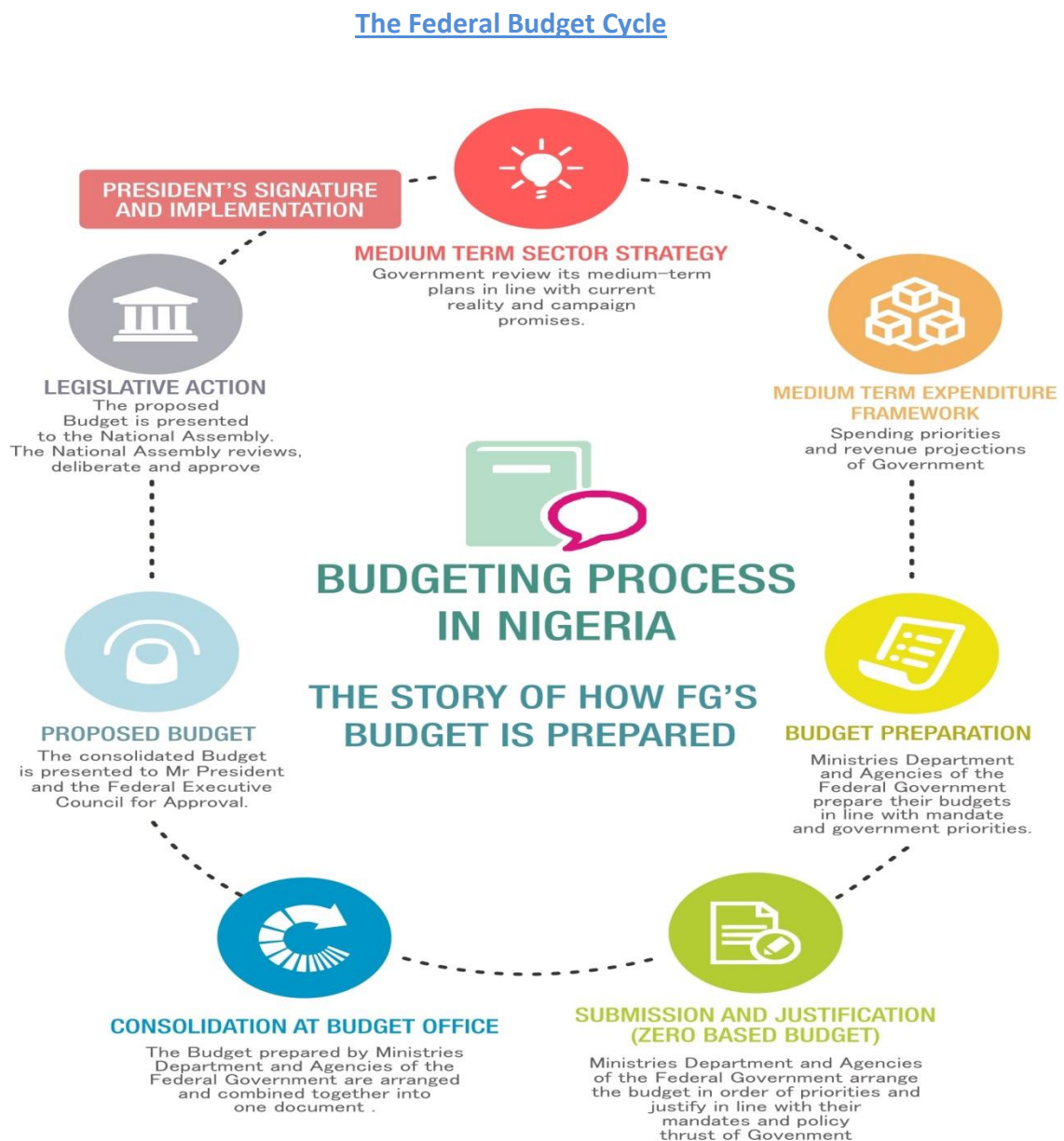
In keeping with the above constitutional requirement, the Government at the centre, as well as the Governments of the various states in Nigeria, prepare and lay before their respective legislative houses (prior to the commencement of every new fiscal year) the estimates of their projections in terms of accruable revenue and proposed expenditure in form of Appropriation Bills, for consideration and passage into law. However, this somewhat ceremonial 'laying' of the budget before the Legislature is only a tiny piece of an intricate jigsaw puzzle that makes up the entire gamut of the budget process.

The government budget is a law in itself. In a democratic system, its approval process entails its enactment into law by the legislature. It is thus a legal instrument that empowers governments to collect revenue and incur expenditure. Consequently, the legal framework for budgeting both at the federal and state levels is the constitution of the Federal Republic of Nigeria (CFRN) 1999, as amended. The Finance (Control and Management) Act 1958 and the Fiscal Responsibility Act 2007 provide the guidelines and spell out the roles of the Federal Ministry of Finance (FMF) and the Budget Office (BOF) among other key actors, in the budgeting process. There are also the Medium Term Revenue and Expenditure Frameworks (MTRF and MTEF) which provide procedural as well as technical details for effective budgeting.

CONFIDENTIAL: Not for distribution

The budget process is carried out within the budget cycle which is a complete set of events occurring in the same sequence every year and culminating in the approved budget. There are five discernible phases of the budget cycle namely:

1. Review of previous budget
2. Budget preparation and submission
3. Legislative consideration and authorization
4. Budget Execution
5. Budget audit/monitoring





CONFIDENTIAL: Not for distribution

**Budget Review:** The budget cycle begins with a review of the budget for the previous year. This involves an examination of the actual expenditure against the budgeted funds. The analysis of whether the previous year's budget was over/underspent is instructive for the commencement of the budget preparation stage.

**Budget Preparation:** - This commences with a press briefing to highlight the proposed policy direction. This is followed by a budget workshop/summit to discuss tentative revenue sources for the coming year. The 'call' circular is then issued by the Ministry of Finance inviting ministries, departments and their agencies (MDAs) to submit proposals. The call circular contains guidelines for the preparation of these proposals. On submission, the proposals are exhaustively discussed at a series of Budget Committee meetings. The committees consist of the Deputy Director of Budget Division and one Deputy Director from each Department. The budget committee meetings are administrative hearings which are held in order to reconcile each agency's request and reflect any adjustments that may have been made by the ministry of finance or the budget office.

**Budget Authorization:** - At this stage the draft budget is presented to the National Assembly as an Appropriation Bill. Copies of the Bill are immediately distributed to members of the legislature and the Bill goes through the first and second readings. After the second reading, the Bill is referred to the Appropriation Committee of each House. There are various sub-committees which consider estimates for the relevant ministries, departments and parastatals which come under their charge (e.g. sub-committee on works, Housing etc). The Appropriation Committee of each House is responsible for collating the sub-committees' recommendations and subsequently drafts a budget paper which becomes the subject of discussion at the third reading. During the third reading, debates are opened and amendments made. The Appropriation Bill is then sent to the President for assent after which it becomes an Appropriation Act.

### **Budget Execution/Implementation**

At the budget execution stage, funds are made available to ministries, departments and agencies which have direct responsibility to execute budgets. The aim at this stage is to match spending with estimated expenditure. Execution entails four related steps as follows:

- a.) Release of budgeted funds
- b.) Supervision of the acquisition of goods and services to ensure value for money
- c.) Accounting system
- d.) Due process certification

CONFIDENTIAL: Not for distribution

### **Budget Audit/Monitoring**

This stage of the budget cycle involves activities aimed at ensuring that funds are expended in accordance with the projection in the Appropriation Act. Budget auditing and monitoring facilitates financial control by ensuring strict compliance in the disbursement and expenditure of public funds. The duty of auditing is carried out by the Auditor-General alongside internal auditing mechanisms in the ministries. The office of the Auditor-General is expected to submit reports of its findings to the legislature.

## **1.3 Key Actors and Political Strategies**

An examination of the budgetary process reveals that there are numerous players in government budgeting. The kaleidoscopic demands on government and its programmes, the shifting interests that are brought to bear on policy decisions and the many different actors that are part of the budget process, mean that budget decisions will always occur in a politically charged environment.

### **Ministries, Departments and Agencies (MDAs)**

The MDAs are the units which spend money for the delivery of government services and are thus referred to as operating agencies. The preoccupation of the operating agencies is to ensure that their programmes receive a significant share of the overall budget. They also strive to increase their allocations or at least avoid budgetary cuts. In order to achieve these objectives, MDAs must take some crucial steps:

- The Minister, head of department or director of an agency must seek support from the Chief Executive (President or Governor). The pursuit of this goal might inspire such endeavours as ‘courtesy’ visits, publication of ‘good will messages’ in local media and similar antics.
- The agency must equally seek the support of the legislature. Hence, agency personnel must work throughout the year to maintain contact with key legislative leaders and build the kind of alliances that will be helpful in supporting programmes of mutual interest. The relevant key legislative officers are leaders of both chambers of the National Assembly (and the Houses of Assembly for states) and their deputies; majority leaders, chief whips, chairmen of the Appropriation Committee and other key committees.

Clientele support is a strategic element that MDAs utilise to facilitate political backing for their budgetary demands. This implies that MDAs must build or elicit the support of client groups and associations with shared interests. For instance, it is not uncommon for the ministry of

CONFIDENTIAL: Not for distribution

health to mobilize the Nigeria Medical Association (NMA), Association of Health Workers and Nurses Guild to either join the advocacy or campaign against the spread of 'Ebola', or testify to the effectiveness of the ministry in this regard. The ministry of education can equally facilitate the support of teachers for its programmes.

Similarly, it is also advocated that eliciting the confidence of higher executive and legislative officials (e.g. the President, Secretary to the Government of the Federation, Senate President, and other leadership of the legislature) would normally prove beneficial for an agency during the budget process. This is because these officials cannot have all the details for making a purely rational analysis. They must simply trust the heads of the agencies. This explains why MDAs whose heads enjoy good reputation are typically more successful, especially in dealing with the legislature. Agencies can gain this confidence through transparency and accountability and by telling the truth or playing it straight.

Budget padding is also another strategy applied by MDAs to secure a higher allocation or guard against budget cut. Padding means proposing a higher budget than is actually needed. Though apparently unethical, it is meant to ensure that after the Budget Office and legislative cuts, the agency will still have what it needs to carry out its programmes. Sometimes, agencies can decide to ask for a small amount to begin a programme, and later, it presents the programme as so crucial that not finishing it would be detrimental and a loss of the already invested fund. Through this strategy, the agency can secure adequate programme funding.

### **The Chief Executive/Budget Office**

Until the budgets are submitted to the Budget Office, they are fragmented. The first time the budget is considered as a whole is when the budget office has analysed it and made tentative recommendations to the Chief Executive. During the briefings, the Budget Office gives the chief executive an overview of how agency requests in general, compare to the executive's priorities, how the requested expenditures compare to the revenue estimates, how much needs to be cut and what the Budget Office plans to do to make the policy and funds fit into the executive's stated objectives. Once this exercise is completed, the chief executive adopts the proposed integrated budget and takes centre stage in 'selling' it. The chief executive tries to project the budget proposal through the press and various citizen groups. He/she creates awareness on the successes/achievements of the previous year's budget and how the current budget will build further on those achievements, hence, such expression as "budget of consolidation". Executives are elected to be re-elected. Therefore, the chief executive uses the budget to score political points. He targets mobile constituents, who need to be kept

CONFIDENTIAL: Not for distribution

happy to ensure their continued support even the business captains). He/she also uses the budget to gain new constituents who were marginally in other group's camp.

### **The Legislature**

This is the seat of politics. The appropriation bill comes into the legislature for authorization. We have earlier on discussed the various stages the bill has to pass through before it is enacted. As the bill is being considered in the legislature, interest groups and citizens have the opportunity to discuss their positive and negative perceptions of the budget. Lobby is very much in action. Heads of agencies consult with and attempt to influence different subcommittee chairmen and members as well as House officers to support their proposal. Unethical practices – like bribing key actors are witnessed at this stage, a case in point being that of a former minister of education. Agencies may also promise legislators award of contract. There is also the issue of “log rolling” or “you scratch my back, I scratch your back”. In this case, legislators agree among themselves to support items of interest to them on the basis of reciprocity.

## 2. The Story of the Federal

For many years, several technical and political economy issues have affected the budgeting process in the federal government, hampering its effectiveness. These issues have necessitated the design and implementation of different reform initiatives aimed at resolving the challenges, and subsequently improving budget planning, fiscal monitoring and overall public financial management process.

Nigeria's intergovernmental fiscal arrangement is somewhat paradoxical: strong centralization of revenue administration co-exists with equally strong decentralization of budgetary decision-making powers. Thus, although state governments in Nigeria have great fiscal and budgetary autonomy, they depend on federal transfers to fund their budgets. The Federal Government accumulates the most important revenues at the centre and uses formulas to distribute accrued earnings monthly. The Federal Government collects and administers revenues from crude oil sales, petroleum profit taxes, royalties and other oil charges, company income taxes, customs duties, excise duties, stamp duties, value added tax, education tax, etc. The revenues accrue to two main accounts: the VAT Pool Account for value added tax proceeds, and the Federation Account for others. Using statutory revenue sharing formulas, the Federal Government of Nigeria (FGN), State Governments (SGs), and Local Governments (LGs) share the revenues among themselves. The Federation Account Allocation Committee (FAAC) comprising representatives of the three levels of government meet monthly to apply the formulas to balances of these accounts.

The FG has independent revenue sources that do not accrue to the federation and VAT accounts, and which it administers on its own. These sources include the education tax, personal income and capital gains tax of residents of the Federal Capital Territory, Abuja, members of the Nigerian armed forces, and Foreign Service personnel, sale of FGN-owned assets, investments earnings, etc., but these account for less than 20% of the budget.

The Legislature must appropriate revenues for spending, notwithstanding the source of the revenue: whether statutory or internal/independent. Every year, the President proposes an expenditure outlay for the relevant government agencies to the Legislature for consideration and approval<sup>9</sup>. The approved Appropriation Act becomes the budget.

**Recent reform initiatives around budget planning and fiscal monitoring are as follows:**

Comprehensiveness and Transparency of FGN Budget – The scope and transparency of federal government budgets have improved steadily since the first introduction of fiscal and budget reforms in the 2003/2004 fiscal year, but there is still room for greater coverage. Budget coverage has improved to match requirements of additional fiscal reforms as they rollout. Recent reforms that have influenced the scope of the budget include the Fiscal Responsibility Act (2007), especially the requirement for preparation of a Medium-Term Expenditure Framework and Fiscal Strategy Paper (*MTEF/FSP*), and Chart of Accounts (CoA) reforms starting with replacement of the old system in fiscal year 2005 to the recent adoption of the Classification of the Functions of Government (COFOG)-based revised National Chart of Accounts (NCoA). Other Public Financial Management (PFM)-wide reforms that impacted on budgeting system and processes are the Government Integrated Financial Management Information System (GIFMIS), the Treasury Single Account (TSA), and the ongoing migration to the International Public Sector Accounting Standards (IPSAS) (accounting system). These have had positive impacts on the coverage of both the revenue and expenditure budgets.

**Introduction of Zero-Based Budgeting (ZBB) Approach** – As part of strategies to improve efficiency, effectiveness and economy of public expenditure, as well as improve the delivery of services to the Nigerian public, the FGN adopted a ZBB approach from 2016 fiscal year. Hitherto, it was generally recognised that FGN budgets were poorly formulated, leading to financial resources being allocated on an ad hoc basis, with little economic justification and much evidence of inherent corruption and poor service delivery. Current environment of fiscal constraint has contributed to the revived interest in ZBB – the “zero” in ZBB sends a powerful message that spending (and taxes) will be held in check across government.

**New initiatives with the 2017 Budget Planning and Preparation** - Despite significant challenges, the ZBB approach was retained for the 2017 budget process, with the Ministry of Budget and National Planning and the Budget Office of the Federation (MBNP/BOF) deploying some new initiatives aimed at overcoming some of the shortcomings of the previous year, and to strengthen the process.

Some of these initiatives included the design, development, and deployment of a dedicated Help Desk to provide real-time assistance to budget officers at the MDAs in the preparation of their respective budgets, as a way of improving the efficiency and effectiveness of the budget-making exercise. Another initiative of MBNP/BOF was the use of a web-based platform for MDAs to prepare and upload their budget proposals online, with the aim of



CONFIDENTIAL: Not for distribution

reducing the traditional paperwork and improving transaction time. The new system was designed with the capacity to trail inputs made by officers, thereby providing a whole new control mechanism in budget preparation. MBNP/BOF also embarked on series of intensive capacity enhancement workshops for relevant MDA personnel across the six geopolitical zones of the country (as well as the Federal Capital Territory – Abuja) on the ZBB, Medium Term Sector Strategy (MTSS) process, Rapid Appraisal, Project Identification and Prioritization exercise (RAPIP), as well as the web-based budgeting application.

The 2017 Budget preparation commenced with the design of the 2017-2019 Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP). In developing the 2017-2019 MTEF/FSP, consultations were held with critical stakeholders including: National Economic Council, Economic Management Team, Civil Society /Non-Governmental Organisations, diverse groups of Economists, and Organized Private Sector. In addition, fourteen (14) MDAs, which between them account for over 70% of capital expenditure, were selected for the MTSS exercise. The 14 MDAs are:

1. Federal Ministry of Transportation
2. Ministry of Power, Works and Housing
3. Ministry of Interior
4. Federal Ministry Water Resources
5. Ministry of Solid Minerals
6. Federal Ministry of Health
7. Federal Ministry of Agriculture and Rural Development
8. Ministry of Niger Delta Affairs and NDDC
9. Federal Ministry of Education
10. Ministry of Defence
11. Federal Capital Territory
12. Federal Ministry of Environment
13. Federal Ministry of Science and Technology; and
14. Ministry of Communication Technology.

CONFIDENTIAL: Not for distribution

The process required MDAs to define their medium-term plans in line with government strategic development objectives, and to cost and prioritize their projects. A multi-criteria approach (MCA) was adopted for selection and prioritization of projects for the 2017 budget. MDAs that were not involved in the MTSS were put through a Rapid Appraisal, Projects Identification and Prioritization exercise (RAPIP). These were done to ensure that projects to be funded in 2017 Budget were linked to government's strategic priority programmes and policy thrust aimed at bringing the economy out of recession.

A Ministerial Retreat, chaired by President Muhammadu Buhari, was organized to ensure that all Ministers understood the context in which the 2017 Budget was being framed and agreed on the priorities for the Budget. The budget preparation process was finally concluded with bilateral meetings between the Ministry of Budget and National Planning with all the MDAs.

**ERGP and Sector Implementation Plans for 2018 – 2020 Budgets** – The Federal Government of Nigeria launched its Economic Recovery and Growth Plan (ERGP) in March 2017, which emphasises the importance of governance reforms. ERGP is an over-arching economic development blueprint that prioritises sustained inclusive growth, sustainable diversification of production, and maximum welfare for the citizens, beginning with food security.

The Ministry of Budget and National Planning commenced the process of developing an ERGP Implementation Plan in April 2017. To achieve this, inputs were required from the various sectors/MDAs, in the form of sector/MDA-level implementation plans (ERGP-IP). A team of consultants developed the required templates. The process of populating the templates was launched by the Vice President on June 12, 2017. Thereafter, retreats were held for all the Sector Working Teams (SWTs) set up by the Honourable Minister of Budget and National Planning across all MDAs. The retreat was chaired by the Honourable Minister of State for Budget and National Planning and facilitated by the Chief Economic Adviser to the President on Economic Matters; the Director General, Budget Office of the Federation, and the Lead Consultant. This was followed by retreats for staff of all MDAs which enjoyed massive support and participation by the leadership of the various Ministries. Consultants were attached to each Ministry to provide support to the MDAs in populating the ERGP-IP Templates. Several review meetings were held with each MDA and at plenary attended by all MDAs.

The MDAs have submitted completed templates, along with brief reports containing their ministerial mandates and those of their agencies; the links between the mandates and ERGP and priority projects of the MDAs for the 2018 – 2020 medium term.

CONFIDENTIAL: Not for distribution

In order to ensure that the ERGP-IP from the MDAs are linked to the 2018 Budget, the MBNP held technical bilateral discussions with delegates/personnel from the MDAs. The report of this exercise was submitted to the relevant authorities to provide input into the 2018 Budget Bilateral Discussions between the leadership of the MBNP and the leadership of the MDAs. The last time such planning bilateral discussions were held was way back in 1998 (two decades ago).

The major challenge of ERGP-IP is that the MBNP is yet to develop a robust monitoring and evaluation system to continuously measure performance. It is also difficult to independently monitor ERGP-IP-Budget linkages and to measure achievements and the changes connected to a particular intervention or each project in the annual budget. However, the MBNP has a department (i.e. Department of Monitoring and Evaluation) that is responsible for improving the availability, quality and dissemination of government performance information for accountability and policy improvement purposes.

### **Leadership**

Through the Ministry of Budget and National Planning, the FGN has recently developed and launched the ERGP (2017 – 2020) as the over-arching economic reform blueprint of government. DFID is supporting the development of the Implementation Plan for the ERGP. ERGP was preceded by the Vision 20:2020. Vision 20:2020 is a holistic social and economic development agenda intended to transform Nigeria into one of the top 20 developed economies of the world by the year 2020. The Vision is a high-profile development agenda launched by the President on 14<sup>th</sup> June, 2010. Nigeria implemented the Vision's programmes through medium-term implementation plans. The National Economic Empowerment and Development Strategy (NEEDS), launched by the then Federal Government in March 2004, unarguably provided the context, and set the pace for the on-going widespread PFM reforms in Nigeria, at the Federal, State, and local government levels. This is correct only insofar as NEEDS was the first successful attempt to articulate the government's vision for national development and poverty reduction in a coherent manner, give it focus, and outline the role of the key institutions of state in the process. Following the launching of NEEDS, the pace of reforms at the federal level, somewhat quickened, leading the federal government to initiate several public service and public financial management reform programmes.

The major constraint is the unending friction between the executive and the legislature. The most common source of this friction is usually on fiscal fundamentals, especially the benchmark price for crude oil. However, constituency projects introduce another dimension to politicization of the budget process. These are projects inserted by legislators later on in

CONFIDENTIAL: Not for distribution

the budget process (just before approval) to serve their constituencies. Individual legislators decide their project preferences, but disbursements are up to the annual limits fixed by the legislators themselves. The limits are N120 million for each of the 106 senators and N75 million for each of the 360 federal representatives. Insertion of constituency project into the budget results in at least, four conflicts between the executive and the legislature: (i) the projects' potential for destabilizing macroeconomic projections behind executive budget proposals, (ii) legislators' refuse to submit their proposals through the formal screening process, (iii) the non-federal nature of most of the expenditures, and (iii) implementation arrangements.

### **Policy and Legal Framework**

Legal provisions for budget, fiscal and public financial management are both statutory and non-statutory. The main statutory framework is Sections 80 – 89 of 1999 Constitution (as amended), but there are other laws. The laws and regulations contribute to the policy environment for public financial management. The following are the key laws and regulations:

- Fiscal Responsibility Act, (FRA) 2007, aiming to instil discipline into fiscal planning and management
- Public Procurement Act, (PPA) 2007, regulating public procurement for federal government funds
- Freedom of Information Act (FoIA), 2011 aiming to improve the transparency and public accountability by providing for public access to non-sensitive official data
- Finance (Control and Management) Act, LFN 1990 (enacted in 1958)
- The Financial Regulations (revised to 2009), contain operational rules and guidelines for day-to-day management of financial activities. They (i) delineate functions and responsibilities of government officers, (ii) organize treasury functions, (iii) explain authorities to incur expenditure, (iv) provide guidance on budget preparation, (v) provide guidance on expenditure control, payments, collection and receipt of monies, remittances, advances and loans, custody of public funds, etc.
- The Federal Treasury Accounting Manual, which is a policy and procedure companion to the Financial Regulations and extant circulars
- The Federal Treasury Circulars (Dec. 2010) issued by the Office of the Accountant General over the years and compiled into a single volume

CONFIDENTIAL: Not for distribution

- The Procurement Procedures Manual issued by the Bureau of Public Procurement (BPP) to guide public procurement and amplify the PPA, 2007; the BPP has also issued several other guidelines on public procurement

In addition, the report of the Public Policy Dialogue published by the Buhari Administration and the party, the All Progressives Congress explicitly referred to the introduction of ZBB reforms including a timeline for deployment. A comprehensive Implementation Plan for the Economic Recovery and Growth Plan (ERGP-IP) is nearing completion and provides a strategy for budgetary provisions to be aligned to sectoral objectives, which are drawn from government's over-arching policy goals and priorities. The legislature is in the process of passing a new Organic Budget Law, which gives specific timelines for the preparation, consideration and enactment of national budgets, with penalties for non-implementation of the budget as approved.

However, there remain tensions between the functions of the Ministry of Budget and National Planning and the Ministry of Finance. Some of these tensions cannot be resolved until various bits of legislation are enacted. This may affect the effectiveness of any reform initiatives in this area.

### **Institutional Effectiveness and Implementation Capabilities**

According to existing legislations (especially the FRA 2007 and the 1999 Constitution), the main institution for public financial management in the federal government is the Federal Ministry of Finance (FMF). The Finance (Control and Management) Ordinance established the Federal Ministry of Finance in 1958 to control and manage the public finance of the Federation. Until recently, the FMF exercised some of its functions through its several semi-autonomous agencies. These agencies included the Budget Office of the Federation (BOF), the Office of the Accountant General of the Federation (OAGF), the Debt Management Office (DMO), the Federal Inland Revenue Service (FIRS), and the Nigeria Customs Service (NCS). The Budget Office of the Federation provides the budget function and implements the budget and fiscal policies of the Federal Government of Nigeria. The OAGF provides treasury and accounting services, including preparation of annual accounts and financial statements. The Federal Inland Revenue Service (FIRS) controls and administers the different federal and joint taxes. The FG established the Debt Management Office in 2000 to "coordinate the management of Nigeria's debt.

However, the current administration created the Ministry of Budget and National Planning (MBNP), through a merger of the then National Planning Commission (NPC) and the Budget

CONFIDENTIAL: Not for distribution

Office of the Federation (BOF). This political decision is yet to be backed-up with the requisite legal and legislative framework. The result is that mandates are currently unclear between the MBNP and FMF, leading to contentions and latent battle for turf between both key ministries. These have tended to negatively affect efficiency and effectiveness in budget-making and execution. Other players in the budget and fiscal monitoring space include the Revenue Mobilization, Allocation and Fiscal Commission (RMAFC), the National Assembly (NASS), the Central Bank of Nigeria (CBN), the Economic Management Team (EMT), the National Economic Council (NEC), and Office of the Auditor General for the Federation (OAuGF).

**The Excess Crude Account:** The federal government created the excess crude account (ECA) as a necessary component of its oil price based fiscal rule of 2003/2004. The fiscal rule introduced a more stabilized budgeting by ending the pre-existing arrangement that spent the entire oil revenue earnings in the period earned. That fiscal policy (or lack of it) created the cyclical 'boom and bust' regime in which the government "frittered away" excess oil earnings in periods of boom on ill-appraised budget of 'frivolous' significance, only to borrow to finance the bloated budget when oil prices dipped. Extreme volatility of international oil prices translated into unpredictability and fluctuations in local revenue earnings that depends heavily on oil earnings, making budget revenues volatile.

However, the ECA is vulnerable to severe political influence and manipulation by the powerful state Governors. Since the election of May 2007, the Governors have demanded and obtained frequent (almost constant) withdrawals and distribution of revenues from the ECA. The then President yielded initially to the Governors' demand in exchange for their promise to institute fiscal reforms by each domesticating the federal Fiscal Responsibility Act, 2007 or enacting theirs. Most states did not honour their pledges. Notwithstanding this, they successfully 'coerced' the FGN into frequent withdrawal and sharing of more ECA funds, often using politically motivated allegations of lack of transparency, corruption, and not trusting the FGN. These allegations are despite their ownership and oversight of the Federation Account (FA) and Excess Crude Account (ECA) through the Federation Account Allocation Committee (FAAC).

There are other frictions between the Executive and Legislative Arms of government. First, the constitution does not specifically require presentation of revenue projections to the Legislature. Thus, the constitution intends legislative control only over expenditure and not revenue sources. However, control or understanding of revenue sources is vital for complete and effective control of expenditure. Consequently, the Fiscal Responsibility Act (FRA) 2007



CONFIDENTIAL: Not for distribution

requires the executive to present medium term revenue projections on a rolling basis to the National Assembly. Second, the constitution does not provide a deadline for presentation of the expenditure details to the Legislature. It simply requires the president to present the Appropriation Bill “at any time” during the outgoing year. Perhaps, this provision has contributed to late approval of the budgets every year, more than any other factor. The federal government has not yet enacted a law setting a deadline for presentation to the legislature in order to improve timeliness of approval. Third, the constitution does not provide for multiyear budgeting; it provides for budgeting one year at a time (see Section 81). However, the Fiscal Responsibility Act has corrected this by legislating on the medium-term expenditure framework approach to budgeting.

### **Demand for Reform**

There is persistent demand for budget and public financial management reforms by Civil Society Organisations, the Media, Policy Think Tanks, as well as the National Assembly. Nigeria’s signing up to the Open Government Partnership (OGP) has also buttressed this demand amongst governmental and non-governmental organisations. Civic participation is a core component of the Open Government Partnership (OGP) process. This is operationalised through the principle of co-creation. As the President indicated in the foreword to the OGP Nigeria National Action Plan (NAP), “the co-creation effort of civil society and government in developing the NAP is something I want to specifically applaud. The government considers civil society organisations as partners in our development process”<sup>10</sup>.

International Development Partners, especially DFID and the World Bank, have supported successive reform initiatives at the federal/national level, for over a decade now. Targeted reform initiatives include those in human resources and payroll management, fiscal policy and budget management including multi-year fiscal planning and budgeting, accounting and treasury management, tax administration, public procurement, etc. The World Bank and the UK DFID have been supporting these reforms through various instruments. Two of the more important are the World Bank financed Economic Reform and Governance Project (ERGP) and the DFID-funded Federal Public Service Reform Programme (FPSRP), and Partnership to Engage Reform and Learn (PERL).

Discontinuation of the medium-term sector strategy (MTSS) approach to budgeting between 2010 and 2015 did not help efficient spending in the sectors. The federal government designed the MTSS to accompany the medium term expenditure framework (MTEF) as part

---

<sup>10</sup> Buhari, M (2016), Foreword in Open Government Partnership (OGP) National Action Plan (2017-2019)

CONFIDENTIAL: Not for distribution

of the budget and fiscal reforms, which began in 2004/2005. Under the MTSS, some development partners provided funding support to the Budget Office of the Federation (BOF) to build capacity in ministries to develop, prioritize, and cost medium-term investment strategies. The government mainstreamed the MTSS into the annual budgeting process by selecting most of its projects from the MTSS, thus simplifying budgeting and making emerging budgets more realistic and affordable. MDAs were gradually becoming committed to implementing the budget and achieving results, since they could recognize their input in the approved budget. However, the MTSS experiment suddenly discontinued in 2010 as funding assistance from donors lapsed, making it easier to include ad hoc projects, which do not necessarily reflect sector goals, e.g., those funded as 'constituency projects'. Official explanations for the lapsing of the experiment are the emphasis of government on completing ongoing projects rather than embarking on new ones and tailoring the budget along the lines of the National Implementation Plan (NIP) of Vision 20:2020. The effect of this discontinuation is the lack of linkage between planning and the budget.

### **Financing**

The 2017 and 2018 budgetary allocation for budget planning and fiscal monitoring reform initiatives are shown in table 4 below.

**Table 4: 2017 and 2018 Budgetary Allocation for Budget and Fiscal Monitoring Reforms**

2017 Approved Budget		2018 Draft Budget	
Initiative	Amount ₦	Initiative	Amount ₦
GIFMIS/IPPIS CAPITAL	5,000,000,000.00	GIFMIS/IPPIS CAPITAL NEW	4,999,999,999.
IMPLEMENTATION OF THE ECONOMIC RECOVERY AND GROWTH PLAN(ERGP) AND ESTABLISHMENT OF DELIVERY UNIT AT THE PRESIDENCY	2,500,000,000.	SERVICE WIDE TRAINING ON GIFMIS (BUDGET PREPARATION, PBB, EXECUTION & REPORTING) ONGOING	2,000,000,000.
		TSA OPERATIONS ONGOING	4,000,000,000.

### **Summary of Findings**

The key points are as follows:

CONFIDENTIAL: Not for distribution

- For many years, several technical and political economy issues have affected the budgeting process in the federal government, hampering its effectiveness. These issues have warranted the design and implementation of different reform initiatives aimed at resolving the challenges, and subsequently improving budget planning, fiscal monitoring and overall public financial management process.
- The existing legislations, particularly the 1999 Constitution, the FRA and Finance (Control and Management) Act 1990 provide that the main institution for public financial management in the federal government is the Federal Ministry of Finance (FMF). Until recently, the FMF exercised some of its functions through its several semi-autonomous agencies. These agencies included the Budget Office of the Federation (BoF), the Office of the Accountant General of the Federation (OAGF), the Debt Management Office (DMO), the Federal Inland Revenue Service (FIRS), and the Nigeria Customs Service (NCS).
- The current administration created the Ministry of Budget and National Planning (MBNP), through a merger of the then National Planning Commission (NPC) and the Budget Office of the Federation (BOF). This political decision is yet to be backed-up with the requisite legal and legislative framework. The result is that mandates are currently unclear between the MBNP and FMF, leading to contentions and latent battle for turf between both key ministries.
- There are frictions between the Executive and Legislative Arms of government.
  - First, the constitution does not specifically require presentation of revenue projections to the Legislature. Thus, the constitution intends legislative control only over expenditure and not revenue sources. Control or understanding of revenue sources is vital for complete and effective control of expenditure. Consequently, the Fiscal Responsibility Act (FRA) 2007 requires the executive to present medium term revenue projections on a rolling basis to the National Assembly.
  - Second, the constitution does not provide a deadline for presentation of the expenditure details to the Legislature. It simply requires the President to present the Appropriation Bill “at any time” during the outgoing year. Perhaps, this provision has contributed to late approval of the budgets every year, more than any other factor. The federal government has not yet enacted a law setting a deadline for presentation to the legislature in order to improve timeliness of approval.

CONFIDENTIAL: Not for distribution

- Third, National Assembly changes fiscal fundamentals of Fiscal Strategy Paper and annual budget particularly the benchmark price for crude oil, crude oil daily production and exchange rate. The National Assembly also introduces projects in the federal budget, for example constituency projects are inserted without proper justification. These projects inserted by legislators later on in the budget process (just before approval) to serve their constituencies.
- MBNP is yet to develop a robust monitoring and evaluation system to continuously measure performance of ERGP-IP.

### 3. The Kaduna State Story

The story of budgeting in Kaduna state is one of slow progressing improvements. Kaduna State has a five-year State Development Plan, 2016 – 2020 with foundations in the Kaduna Restoration Master-plan titled “Let’s Make Kaduna Great Again.” It outlines the aspirations of the new State government to restore Kaduna to its former glory, including a strategic framework to realize the vision, resource projections to guide and prioritize expenditure, and an implementation plan to deliver results and monitor progress.

## CONFIDENTIAL: Not for distribution

The State Development Plan is a blueprint of strategies and actions that are to be taken to achieve the development aspirations of Kaduna State. It focuses on four priority areas that will deliver jobs, social justice and prosperity in Kaduna State. Sector Implementation Plans (SIPs) have been developed by Ministries, Departments and Agencies (MDAs) that provided a basis for linking the State Development Plan with the annual budget. Each SIP featured the respective sector's programmes and projects earmarked for implementation during the planned period and within the determined overall resource envelope of the SDP. In addition, all 23 Local Governments in Kaduna State will develop stepped down versions of this SDP to enhance plan synergy and expenditure coordination between the two tiers of government. Currently, Local Government Planning and Budget manual has been developed to guide the budget process for MDAs, and the LGs are expected to derive from the Medium-Term Expenditure Framework.

This logical linkage ensures that State Government expenditures as contained in the annual budget are in line with State Government priorities as articulated in the SDP, thus enhancing the efficiency of public expenditures. Once a policy indication appears in the SDP, it should be possible to follow it through up to the budget and MDA operational plan. Such a seamless transition from the SDP through SIPs to the budget will have ensured improved efficiency and effectiveness in government operations.

Kaduna State government prioritized key sectors in the 2017 budget. The State allocated N44.84bn to Education, N10.49bn to Health, N24.50bn to Infrastructure and N8.1bn to Water. Agriculture, one of the State's areas of comparative advantage, was allocated N4.58bn. The State also is completing the refitting of 278 primary health centres and hospitals. Budget releases continue to cast doubt on the commitment of government to implement policies. Available records from 2017 budget performance report showed that capital expenditure actual payment stood at 13.08% as at November 2017.

The 2018 budget has earmarked N125 billion for capital expenditure and N75.5 billion for recurrent.

N47 billion was earmarked for the Social Sector with N30.2 billion going to education; N15.7 billion to health and N981 million to social development.

### **Governance Reforms**

Kaduna State Government has embarked on some key reform processes including improvement measures in public financial management, policy and strategies, public service

**CONFIDENTIAL: Not for distribution**

reforms and learning and evidencing. This reform-mindedness of the State can be evidenced from a couple of initiatives that the Kaduna State has commenced.

The effective implementation began with some measures as stipulated by the State Development Plan (2016-2020), Sector Implementation Plans (SIPs), Treasury Single Account (TSA), Zero-based budgeting (ZBB), Fiscal Responsibility Law (FRL), Public Financial Management and Control Law and the Public Procurement Law (PPL) amongst others. These reforms will help strengthen budget and expenditure management systems and processes; transparency and accountability and improve service delivery to citizens.

In a bid to strengthen fiscal performance, especially the component of budget implementation that guarantees improved resources flow to service delivery sectors of the State, the Kaduna State Government on April 30<sup>th</sup>, 2016 passed the landmark Fiscal Responsibility Law (FRL) to provide for prudent public expenditure, financial management and discipline. Part IV of that law requires that a 3-year Medium Term Expenditure Framework (MTEF) be prepared by the Ministry of Budget and Planning, in consultation with the Local Governments four months into the current financial year and should be laid before the State House of Assembly. The Economic and Fiscal Update-Fiscal Strategy Paper-Budget Policy Statement (EFU-FSP-BPS) and the Strategy Implementation Plans (SIPs) of all sectors provide the building blocks for the development of MTEF. To ensure the effective implementation of the Fiscal Responsibility Law (FRL), the State has embarked on a series of Public Financial Management (PFM) reforms that will improve the various PFM processes and the way government uses resources to provide public goods and services, especially in the core Sustainable Development Goal (SDG) sectors of Health, Education, and Agriculture.

Also, Kaduna State Government conducted a 2016 budget post mortem exercise that helped the State to identify key blockages to effective budget implementation, and to make recommendations that can be implemented through the use of the MTEF as the budget framework. Closely related to this is the recent conduct by the State Government of PFM Rapid Appraisal, which in addition to the usual PEFA indicators also has indicators surrounding 72 NEC Resolutions and the State Fiscal Sustainability Plan. The rapid appraisal reports assessed the State and identified areas that need improvement. The development of the 2018-2020 MTEF will form the basis for 2018-2020 multi-year budget in the State. The lessons were taken on-board for the 2017 and 2018 budgeting process.

The weak performance of local government councils in Kaduna had squarely centred on the politics of local government planning and budgeting in the State. The project profile of all the



**CONFIDENTIAL: Not for distribution**

local government councils in Kaduna reveals a number of abandoned, poorly executed and white elephant projects littered in the various Local Government Areas (LGAs). The financial profile of most local government councils is poor, because of mismanagement arising from the suspected “financial padding,” embedded in the politics of local government planning and budgeting.

The Kaduna State Law on Local Government Administration 2003 provides for Local Government budgeting in Sections 64, 65 and 66. The actual procedures for local government budget formulation, approval and implementation are robust and are set out in the Financial Memoranda (FM) for Local Governments in Nigeria. There are several laws guiding the administration of local governments in Kaduna State, but there is no identifiable policy guideline for local government administration currently in use.

The management of Local Government finance has previously been contentious especially relating to deductions by the State Executive, which in some instances have incapacitated the LGs from effectively performing their core functions, and paying their staff salaries. Though there are three layers of monitoring at the local government level, this function has not been satisfactory because the M&E staff lacked the requisite skills and tools to effectively discharge their duties. There are no performances monitoring reports such as annual reviews, annual reports and peer reviews; and no clear performance standards, benchmarks and targets on which to measure performance.

Kaduna State Government has expressed commitment to a robust planning and budgeting framework for Kaduna State at both State and LGA levels. To achieve these, the State has passed a bill into law to establish Kaduna State Planning & Budget Commission to provide State guidance and oversight on Local Government planning, budgeting and economic development; and ensure Local Government plans and development issues are fully integrated at the State Level.

The State Government remains ambitious about raising IGR by broadening the base for taxation. It boosted IGR in 2016 to about N36billion (about 80% of the 2016 budget of about N46billion, from about N11.5billion achieved in 2015 (IGR at State Level 2015 by NBS, April 2016). In 2017 the government had budgeted about N50.2billion for IGR. Achieving this required concerted effort at tax and wider IGR reforms.

The State does not currently owe workers’ salaries except for areas where civil servants have issues after the staff audit. Most of the affected workers with genuine documents have been

CONFIDENTIAL: Not for distribution

requested by the Bureau of Public Service Reform (BPSR) to get notes from their respective MDAs for reinstatement. The State reviewed downwards the overhead cost of all the MDAs to cut cost and some of the resources have been redirected to other areas that require attention.

The fiscal crisis is a global issue and the State has had to deal with it like every other State of the Federation. The IGR has significantly improved in the recent past, but the federation allocation of the State has reduced hence the need to cut down the overhead cost of the MDAs. With the perceived fiscal challenges, it is recommended that government should formulate and implement viable fiscal policy options that will stabilize the economy. This could be achieved through the practice of true fiscal federalism and the decentralization of the various levels of government in Nigeria.

The Kaduna State 2016 Budget had an approved revenue provision of N172.32bn. This is comprised of an Opening Balance of N38.85bn, Internally Generated Revenue [IGR] of N45.82bn, Statutory Allocation (including VAT) of N46.42bn and the sum of N41.23bn for Internal and External Loans as well as Grants and Other Revenues.

The sum of N112.11bn was realized as revenue receipts, representing 63.92% overall performance for 2016. The State, despite recording its lowest Statutory Allocation in 10 years, was able to augment this shortfall by achieving the highest ever IGR of over N18bn in a fiscal year. The 2016 Budget was based on a ratio of 62:38 in favour of Capital Expenditure which had a provision of N108.27bn and N64.05bn for Recurrent Expenditure comprising N31.84bn for Personnel Cost and N32.21bn for Overhead Cost. Following the passage of two Supplementary Appropriation Laws, the budget size was further increased to N116.05bn and N67.68bn for Capital and Recurrent Expenditure respectively.

At the end of the 2016 financial year, the State invested the sum of N59.11bn on Capital projects thereby achieving an all-time record of 50.93% performance as well as highest capital expenditure payment in a fiscal year over the past 16 years. The State also recorded savings of N4.58bn representing 14.39% and N9.22bn representing 25.72% on Personnel and Overhead Costs respectively, thereby freeing up scarce resources for developmental Projects.

A summary of the 2017 budget is as follows:

**Opening Balance** – is forecast at N 15 billion although there is no justification for this.

CONFIDENTIAL: Not for distribution

**Federation Account (FA) Transfers** – Statutory Allocation and VAT estimates are prudent with the total expectation from Federation Account being 15% lower than the ARC estimates in the Q3 FAAC Bulletin.

**Internally-Generated Revenue (IGR)** –The estimate for IGR is reported to contain circa N8 billion from the sale of State Assets (largely housing) although this is not mentioned explicitly in the supporting text of the budget and may not be realisable given the current economic environment. This should really be included as a Capital Receipt and earmarked for specific expenditures (so that if the revenues are not realised, the expenditure does not take place). This leaves a balance of around N43 billion from “traditional” IGR which, given collections of over N 1.6 billion in June and July 2016 (annualised this would give N 19.2 billion), would suggest IGR in the region of N 20-25 billion might be achievable with sustained effort from the Board of Internal Revenue and other revenue collecting agencies. An achievable level of total recurrent revenue would be around N 75 billion compared to N 101 billion in the budget.

**Personnel Expenditure** – This shows a 42% hike over the 2016 budget (and 2016 full-year forecast) and there is reference to new agencies and public sector revitalisation programme in the supporting text to justify the level of increase in 2017.

**Overhead Expenditure** – The 2016 overhead expenditure was just over N 2.2 billion per month (N 26.6 billion for the year) but it jumped to almost N 4.0 billion per month (N 46.9 billion total for 2017). The largest contributor to this is the increase of almost N 18 billion in centralised overheads in the Office of the Accountant General. It is not clear if this is a provision to clear arrears or for debt repayment. Reference is made in the supporting text to efforts at cutting down overhead expenditure, however, this is not consistent with the aforementioned increase.

**Capital Receipts** – Historically, there has been little evidence of capital receipts in Kaduna’s accounts. Whether funds are being drawn-down and expended off budget or whether they are not being drawn down is not certain.

**Grants** – All external grants are quantified against specific programmes and sources (N 7.1 billion), which gives some confidence they will be received. Within internal grants, the Federal Government Budget Support Facility (N14.4 billion) appears to be misclassified as an Internal Grant. All other internal grants have been quantified against specific programmes and sources – with the most significant of these is N 14.7 billion of Federal Government education sector counterpart funding.

**Loans** – All internal loans are quantified against specific programmes and sources (total N 6.7 billion)

N 10.5 billion of external loans are quantified against specific programmes and sources, but N 45.4 billion of Concessional Multi-lateral Loans and Credit appears as a single line and carries little justification (reference to USD 200 million from various donors), neither is there an assessment of the impact on debt sustainability ratios. There is a World Bank agriculture sector loan in design for \$350m (slightly over N100 billion) over a three-year period, but it is unclear if this will be available within 2017.

**Other Capital Receipts** – None included, but as recommended above, the N 8 billion from sales of state assets should be classified as “Other Capital Receipt”. There is also a commentary on public-private partnership in the budget document that talks about leveraging N 800 billion of funding but it is not clear where this is reflected within the budget. Of the N 105 billion of Capital Receipts, at least N 50 billion is questionable.

**Capital Expenditure** - Based on the revenue assessment there could be around N 75 billion shortfall in the Capital Development Fund (CDF) which would leave actual Capital Expenditure of around N 55 billion. Education sector has a significant increase compared to previous years, much of this comes from the aforementioned Federal Government Counterpart funding of N 14.7 billion within internal grants.

It will be critically important for the Capital Budget that:

1. There is some way of capturing in the accounts the grant and loans funds that do not pass through the state treasury account.
2. Prioritisation and cash plan is produced for capital expenditure programmes.
3. Source of funds coding is properly applied and capital receipts of a questionable nature are tied to specific expenditures.

A post-mortem of the 2017 budget revealed the following:

- The budget calendar needs to be refined to include more upstream public consultation, ensure the flow of documentation is sequential (i.e. the EFU-FSP-BPS is finished before the Annual Budget Call Circular (BCC) is released), more time is allowed for MDA budget submissions;
- There is a disconnect between the EFU-FSP-BPS document and the BCC in terms of the aggregate budget size and the allocations / ceilings;
- Capacity both centrally to produce the EFU-FSP-BPS and within MDA’s to prepare Zero Based budget submissions is still slightly lower than the ideal level;

CONFIDENTIAL: Not for distribution

- There is still a degree of non-realism in terms of IGR and capital receipts in the approved 2017 budget, but estimates of Federation Account transfers are now much more robust;
- Although passed, the state is not yet fully complying with the Fiscal Responsibility Legislation (FRL).

There is still more work to be done to achieve an above-board budgeting process and a state budget.

### **Existence of support from political leadership**

The Commissioner, Ministry of Budget and Planning (MoBP) remains the most reform-minded ExCo member and the most influential. The Governor virtually refers all matters around governance reform to him even when they are not directly related to him. He acts as a Commissioner in any Ministry the moment the Commissioner in charge of that Ministry is absent. He attends all National Economic Council meetings with the Governor. He travels with the Governor either within or outside the country on any official related trip. He is virtually a member of all committees set up by the Governor.

### **Existence of support from technocratic levels of government**

There appears to be the zeal and willingness to work from Permanent Secretaries, Directors and other personnel in all MDAs in the State. The level of dedication to duties as evidenced by the interaction with the relevant civil servants is commendable. However, there are observable gaps in the institutional, organisational and individual capacities to deliver on assigned duties in the desired direction.

The State civil service was in a deplorable condition and in the quest for the restructuring due to the decay; the State first commenced restricting the MDAs and followed by a staff audit. The staff audit was handled by an agency of the State, while after the verification and clearance the banks were given the mandate to make payments. This exercise reportedly brought suffering to many civil servants, and in some reported cases, allegedly resulted in the deaths of some. The staff verification was also mired by a bomb blast that killed some, while others were hospitalised with series of injuries. Civil servants who were not reinstated were those concluded to be without genuine documentations.

### **Existence of demand from key constituencies (e.g. business community, CSOs)**

**CONFIDENTIAL: Not for distribution**

The business community, despite the economic hardship, enjoys the patronage by the State government. Most of the contracts and tenders are published in the newspapers for all to bid. This has brought many businesses to the State. The recent economic summit – the KadInvest, attracted investors' interest.

The State through the Kaduna Business School has empowered some young entrepreneurs to start-up their businesses with the approval of business plans and funding. This is done through a website that is opened to those that are qualified. The State KADSTEP (Kaduna start-up and entrepreneurship programme) is a massive job creation campaign initiated by a tripartite relationship between the Kaduna State government, the Bank of Industry and Kaduna Business School. The goal is to engage about 5,000 eligible young men and women resident in the State to pursue productive enterprise development initiatives.

The State government has prioritised budget credibility in line with assumed realistic revenue projections from lessons learnt from the 2016 budget implementation. The leadership of the State is committed to budget credibility and realism as evidenced in the request for support from development partners towards institutional strengthening for improved budget profiling including cash planning; development of LGA budget and planning manual for enhanced service delivery, and reviews of systems for internally generated revenues and the debt profile of the State.

### **Summary of Findings**

The key points are as follows:

1. While PFM reform is on course, unintended fallouts have included conflict, political realignment, and corruption allegations. Public sector right-sizing and introduction of the Treasury Single Account have not gone down well with civil servants, while the revenue drive is worrying the business community. Political realignment is taking place as evidenced by the recent revolt against the Governor over the conduct of party primaries by APC members, including two sitting Federal legislators and the emergence of several splinter groups of powerful individuals, such as the APC Akida and Restoration Group.
2. There is an urgent need for hands-on support to the Ministry of Budget and Planning and other MDAs, in preparing/updating their SIPs (including costing), and ZBB submissions and use the support to update guidance materials to be made available to all MDAs.



CONFIDENTIAL: Not for distribution

3. Addressing blockages in Internally Generated Revenue (IGR) generation and budget implementation, contributed to a 33% increase in IGR (N3bn). In the first six months of 2017, Kaduna generated N11bn compared to the first six months of 2016 where N9bn was generated. This increase contributed to the improved half-year budget performance in 2017.

#### 4. The Kano State Story

It is worthy of note that whereas constitutional provisions bind all strata of Government, certain Acts of the Federal Legislature do not enjoy automatic application in the various states, except where the House of Assembly of an individual state passes a state-specific version of the Act, and it is assented to by the state Governor, giving it the force of law. One such Act is

CONFIDENTIAL: Not for distribution

the Fiscal Responsibility Act (FRA), which a good number of states have adopted or “domesticated”. Kano State has yet to pass the Fiscal Responsibility Bill into law, despite the concerted efforts in that direction, made during the second term of the then Governor Engineer Rabi'u Musa Kwankwaso.

Despite not yet having in place a Fiscal Responsibility Law in Kano, the state’s Ministry of Planning and Budget, quite commendably, issued a Medium Term Sector Strategy (MTSS) Guide, which was published in 2011. In its introduction, the document discloses that Kano state aims to improve the connection between policy-making, planning and medium-term budgeting, especially so as to facilitate better implementation of the State Government’s policies as contained in the Kano State Roadmap for Development (KSRD) and Vision 20:20.

Budgets have been severally characterized as economic policy instruments of government, but there is also a concurrence of views, that budgets are also political in nature, and undoubtedly reflect an aggregation of various political interests of groups within a community. That is as true in Kano state as it is in every other state in Nigeria.

The budget cycle in Kano state is in no way different from what obtains at the centre. Usually, the State Executive Council takes a critical look at its Medium Term Sector Strategy (MTSS), taking into account the current fiscal realities and making necessary adjustments. Next, it reviews its Medium Term Expenditure Framework (MTEF), which highlights its spending priorities, and a projection of expected revenue inflows. The Ministries, Departments and Agencies (MDAs) on their part, draw up their respective budgets, taking a cue from what the state Government considers as priority areas.

Next, the State Ministry of Planning and Budget does the work of collating the respective budgets of the MDAs and transmits to the office of the Executive Governor, who presents it to the State Executive Council for review and approval, following which it is then transmitted to the State House of Assembly for its legislative action. When legislative work including public budget defence is complete, the budget is returned to the Governor for his assent before it becomes the Appropriation Law of Kano State.

The above scenario is typically what the budget cycle looks like in Kano state. However, in-between the budget process milestones, there are various levels of engagement, with very profound outcomes on the eventual budget figures which get passed.

CONFIDENTIAL: Not for distribution

In Kano state, drawing up the annual budgets by ministries, departments and agencies (MDAs) is sometimes influenced by the norm of incremental budgeting. By this we mean that some MDAs simply scale up the projected expenditure figures by a set percentage point (mostly 10% on each item), in order to make up for the effect of forecast inflation on the overall cost of project execution. Some of the stakeholders interviewed (who opted to remain anonymous) criticized this system of making additions to the cost of expenditure items in the current budget in order to arrive at the following year's budget as being an oversimplification of the rigour and thoroughness required in budget preparation. The situation is such that even where MDAs defend their proposed budgets at public hearings held by the Kano State House of Assembly, the entire exercise is almost always based on the previous year's approved estimates. For example, in the 2018 budget estimates which the Executive Governor, Alhaji Abdullahi Umar Ganduje (OFR) laid before the Kano State House of Assembly on November 30, 2017 for consideration and passage, specifically under the estimates put together by the Ministry of Water Resources and Rural Development, one cannot help wondering how the figures there were arrived at. Taking the expenditure item "Purchase of Water Treatment Chemicals (Alum)", with Project Code 027103 as a case study, and comparing it with what the figures were in the 2017 budget document, the following facts stand out:

In the Kano state budget of 2016, the approved estimate for this item of expenditure "Purchase of Water Treatment Chemicals (Alum)" was N500,000,000.00 (Five hundred million Naira). The actual expenditure that year was N151,210,000.00 (One hundred and fifty one million, two hundred and ten thousand Naira). When it was time for the 2017 budget preparation, notwithstanding that in the previous year, far less than what was approved was actually spent, showing that the need was exaggerated, the approved figure for 2017 went up by 60% (i.e N800,000,000.00, up from the approved N500,000,000.00 for 2016). In the same 2017 in which the approved amount soared to N800,000,000.00 (Eight hundred million Naira), the actual expenditure on this item for the second year running remained constant at N151,210,000.00 (One hundred and fifty one million, two hundred and ten thousand Naira). Having consistently spent N151,210,000.00 (One hundred and fifty one million, two hundred and ten thousand Naira) annually for two consecutive years (2016 & 2017) on this budget item, despite having allocated amounts far in excess of that figure in both years, one would have expected that the amount allocated to this item would be reduced in 2018, but the amount estimated for it in the 2018 budget is still N800,000,000.00 (Eight hundred million Naira). This is notwithstanding the fact that the quantity of the chemicals (5,000 metric tonnes of Alum & Polymer) to be procured remains the same across the two years (2017 & 2018)

CONFIDENTIAL: Not for distribution

and was proposed for use in serving the same water works facilities – Challawa, New Watari, New Tamburawa and other regional schemes<sup>11</sup>.

Another issue clearly revealed by our findings in Kano state is that a great deal of negotiations takes place at various junctures in the budget process, beyond the usually televised budget processes particularly the budget defence, which is open to members of the public. A great majority of stakeholders are however, unwilling to accept to be quoted on this. Our interactions with stakeholders – especially among civil society groups with interest in budget monitoring and tracking in the state revealed that the budget process ‘benefits’ from a wide range of influences and pressures – largely political – which go way deeper than what appears on the surface. A high level of influence-peddling, horse-trading and subtle contests, which follow some unspoken rules, are the underlying determinants of which sector gets what allocation; which constituencies are favoured with the siting of what infrastructural projects; which ministry, department or agency (MDA) gets what portion in any fiscal year. Power or influence is usually not even or equal, hence in the budget process, arm-twisting is the name of the game. In the end, low-income groups typically have less political power and less pressure than other interest groups, and this plays out and impacts upon the mechanics of allocation of state resources. A statement on this issue by one of our respondents is quite instructive:

*“The truth of the matter is that we are in Nigeria. Man-know-man or connection is inevitable. We cannot wish away some of these things. The role of connections and patronage is undisputable. In the local parlance here in Kano, we say (Naka Sai Naka – meaning – It takes your own person to protect your interest). But again, if you look at it very well, man-know-man or connection is everywhere. Go to America, there are very powerful lobby groups like the National Rifle Association (NRA), the big tobacco companies and others. What do they do? They do their best to influence government policies, including budgetary allocations, even if it means spending a lot of their own money. So, it is everywhere, not only in Kano state. If you are a Commissioner or Permanent Secretary, and you are good generally...you maintain good relationship with the relevant*

---

<sup>11</sup> See the budget notes in the Remarks columns of both the 2017 and 2018 budget documents of the Kano State Government

CONFIDENTIAL: Not for distribution

*Committees in the House of Assembly, why won't your Ministry's budget be accepted?"*<sup>12</sup>

The undercurrents that undergird the allocation of budgetary resources to various sectors of the Kano state economy are wide and varied, our research has shown. The negotiations and influence-peddling are known to take various forms, and this to a large extent determines what nomenclature they take per time, depending on the actors involved. For example, where the pressure comes from a civil society group or any coalition of such groups, it takes the form of an advocacy campaign. Where it comes from some political groupings like traditional, religious or other community leaders, it easily passes for a “courtesy call” or a “courtesy visit” and may never be viewed with any suspicion by the unpractised eye. Depending on which side of the divide you gain audience from – whether they are allies of the current administration or affiliates of the opposition, the feedback has consistently turned out to be one of two things – praise for the avowed prudence and fairness of the government in power (if the affiliation is with the former) or condemnation and allegations of unfairness and lack of equity in the allocation of state resources (if the latter).

The point must however be made, that where civil society groups stage advocacy campaigns in order to move government to increase its budgetary allocation towards a high-impact sector such as health, education or public infrastructure, and the campaign proves successful, it should attract commendation for such a group, rather than spite. In other words, it is not all “influence-peddling” that is negative. Some are positive and should be encouraged. Below are examples of case studies, published on the website of the now-defunct DFID-supported State Accountability and Voice Initiative (SAVI) program rightly (in our view), celebrating the accomplishments of some civil society groups that worked in Kano state in 2014 SAVI program<sup>13</sup>:

*“In 2014, the Kano State Government released N60 Million for the extension of water project from Wudil to two neighbouring communities. The funds were provided following a series of advocacy activities by SAVI-supported Budget Tracking Group (BTG) including an analysis of the government's 2014 budget. SAVI assisted the BTG by building the capacity of its members and teaching them how to strategically engage from behind the scenes*

---

<sup>12</sup> A very senior civil servant in Kano state, who spoke on the condition of anonymity

<sup>13</sup> <http://savi-nigeria.org/casestudy/public-finance-mangement-states/> accessed on 22<sup>nd</sup> February, 2018

CONFIDENTIAL: Not for distribution

*to achieve result. The members learnt how to liaise with government and give feedback to the community, advocacy through informal strategic means achieved great results.*

*In 2014, the Kano State Government released N9.6Million for the extension of water project from Wudil to five neighbouring Communities following series of advocacies by SAVI-supported Budget Tracking Group (BTG) and Wudil Region Water Supply Initiative (WRWSI). The civil society groups took up the challenge of pursuing the release of funds for the extension of the project following an investigative process which highlighted amongst other things, an unimplemented yearly budget. SAVI supported this initiative by providing civil society groups with technical support through a series of trainings such as the 'Advocacy Strategies'."*

In Kano State, there is also this worrisome trend with the budget process that has almost become a recurring decimal of some sort. It has become a tradition that no matter what budget estimates the Governor presents to the State House of Assembly for consideration and passage, what gets approved eventually is usually higher than what was proposed, showing that at the stage of legislative work, the Legislature always finds a good reason to increase it. For example, in 2017, Governor Abdullahi Umar Ganduje presented a budget of N209.8<sup>14</sup> billion, but the House of Assembly passed a higher budget of N217.93 billion! Similarly, the estimate presented by the governor for the current fiscal year (2018) was N233.8 billion, but the Assembly thought it needful to raise it N246 billion. The trend does in fact beg the question as to whether indeed it is sheer altruism or the love for the masses that motivates the Kano House of Assembly to pass a higher budget than proposed by the Executive. It is doubtful.

### **In Conclusion:**

---

<sup>14</sup> <https://kanostate.gov.ng/2017/12/02/governor-ganduje-presented-2018-proposed-budget-of-233-billion-naira-to-the-kano-state-house-of-assembly/>

CONFIDENTIAL: Not for distribution

The story of the budget in Kano state is one that depicts fiscal indiscipline as a perennial challenge in the budget process. Notwithstanding the plethora of existing laws on public finance management in the state, which were framed with some deliberateness to instil fiscal discipline in the system, the ecosystem of public budget making may never be entirely rid of some negative extraneous influences in the determination of the resources to be allocated to various sectors, MDAs and communities.

The apparent lack of capacity and political will by successive administrations in the state to ensure prudence and fiscal discipline and the management of scarce public resources, and the delivery of enhanced quality of life to the poor masses is disappointing. However, this dismal state of affairs may not be unconnected with the interplay of other forces, which include pervasive corruption in the system, and sometime this could be quite frustrating even for a chief executive with the best of intentions. For instance, if the state legislature mischievously inflates budgetary allocations proposed by the executive in a way that the legislature gets unduly favoured by the increase, the governor can, in the exercise of his powers, withhold his assent<sup>15</sup>, but sadly, the legislature can override the governor's veto power in line with the same provisions of the constitution.

## 5. The Jigawa State Story

In Jigawa state, the budget development cycle follows the conventional six-stage budget development process as is obtained in other states in Nigeria. These stages include policy review, strategic planning, budget preparation, budget execution, accounting and monitoring

---

<sup>15</sup> Section 100 of the Constitution of the Federal Republic of Nigeria, 1999 (as amended)



CONFIDENTIAL: Not for distribution

and audit/reporting. However, at various stages within the cycle, high level political activities influence the budget outcomes from conceptualization all the way to the final presentation and assent by the Governor. Our research has shown that this is the reality, which the stakeholders have generally come to accept as being beyond legislation.

The consensus on this issue is that no amount of legislation can insulate the budget process in Jigawa state (and in fact, the country as a whole) from the influence of politics – both overt and covert. This is notwithstanding the fact that Jigawa is widely seen as one of the forward-looking, reform-minded states in Nigeria, which have passed the Fiscal Responsibility Law among other “sunshine” Laws. To further show itself as a top contender among reform championing states in Nigeria, Jigawa state has established what it calls the Due Process and Project Monitoring Bureau (DPPMB). The Bureau, among other things, is saddled with the responsibility of providing members of the public with relevant budget performance information relative to execution of projects<sup>16</sup>.

The budget process in Jigawa State, even though on the face of it, is streamlined and regulated by statutes and regulations such as the Constitution and the Fiscal Responsibility Law, the actual determinants of the priorities of government, and ultimately the determination of projects to be funded in any particular fiscal year go deeper than the black letters of statutes and regulations. Those determinations are mostly arrived at through an intricate interplay of high-powered politicking, negotiations, compromises, arrangements and personal and group interests of key actors in government and the respective power blocs they represent. This sentiment is shared not only by the civil society in Jigawa state, but also admitted by top officials in the various Ministries, Departments and Agencies in the state. The response of one respondent, who, not surprisingly, insisted on anonymity on account of the sensitivity of his office, is reproduced here below:

*“Even the design of the Medium Term Expenditure Framework (MTEF) requires the state government to articulate what its spending priorities are going to be for the medium term. Is it not so? That requires decision-making. The question is: How can the government effectively and accurately strike a balance among the competing needs of the various communities in the state? That is not possible. There is always going to be room for special favours done to political supporters and allies. Several informal*

---

<sup>16</sup> See generally, Section 3(j) of the Jigawa State Due Process and Project Monitoring Bureau (Amendment) Law of 2012.

CONFIDENTIAL: Not for distribution

*meetings take place – some at odd hours, and agreements are reached to site certain major projects in some communities which supported the government into power. Those projects become the priorities of government.*

*Also some of you NGO people put pressure on government about what percentage of the state budget should go to education, environment, women and children issues etc in line with international best practices. Many times, that is how priorities of government come about. That is even a different ball game when it gets to the House of Assembly, because they must add their own. They must always add something to favour their constituencies and increase allocations to themselves. At the end of the day, the final figures are much higher than what the executive has proposed, but that is the politics. It is inevitable...”*

### **The Role of Civil Society:**

The budgeting process in Jigawa state is adjudged as inclusive to the extent that it incorporates the inputs of Civil Society Organizations<sup>17</sup> working to support accountability processes in budget development, implementation and monitoring through the community participatory approaches. The CSOs provide technical assistance to the state government. This they do through holding community dialogues<sup>18</sup> with members of the public during town hall meetings, collating inputs of important areas of need and submitting same to the government, whilst the government on other hand has the political power to give effect to those yearnings and needs of the people. Indeed it has become fashionable and indicative of openness and transparency for the government to regularly draw attention to its inclination towards harnessing the views and inputs of civil society in the formulation of its programs and policies<sup>19</sup>. It is generally accepted that involving civil society makes governance more participatory and gives it more legitimacy and credibility.

---

<sup>17</sup> In Jigawa State, CSOs like Accountable Responsive and Capable Governance (ARC) works with the locals on the demand side of governance, while another known as Engaged Citizens Pillars (ECP) works on the supply side.

<sup>18</sup> The CSOs have institutionalized the budget development process in Jigawa State whereby the month of August of every year is set aside for Town Hall Meetings with Jigawa indigenes on their basic demands from the government on the fiscal year budget.

<sup>19</sup> See the speech of the Jigawa State Governor, Muhammad Badaru (MON, mni) on the occasion of the presentation of the year 2017 Appropriation Bill before the Jigawa State House of Assembly on 20<sup>th</sup> December, 2016.

Stiefe and Wolfe (1994: 5) are of the opinion that:

*“Participatory budgeting is an attempt by citizens to take control of public resources, insisting that public participation is simply the organized efforts to increase control over resources and regulative institutions in given social situations, on the part of the groups and movements hitherto excluded from such control”.*

Flowing from the findings of this inquiry, it is clear that budget outcomes in Jigawa state are usually susceptible to political influences at two distinct stages;

**Stage 1:** During informal meetings.

**Stage 2:** After budget presentation to the state House of Assembly Committee on appropriations

A meeting referred to as bilateral discussion is held by key stakeholders within the government Ministries, Departments and Agencies (MDAs), and in most cases, they invite civil society organizations to take part in the discussions for transparency and accountability purposes. These bilateral discussions provide avenues for inputs from the civil society organizations who are directly working in the communities. With the submissions finalized, the first budget draft is submitted to the office of the Jigawa State Budget and Economic Planning Directorate. The agency is headed by a Permanent Secretary who makes final input into the budget and transmits it to the State Governor for presentation to the House of Assembly.

It is at this stage, prior to transmitting the budget estimates to the Executive Governor that several layers of informal meetings with power brokers take place, where negotiations are conducted and figures are either added or reduced in the budget. The Governor, in line with constitutional requirement<sup>20</sup>, makes his budget presentation to the House of Assembly members for appropriation, where the budget undergoes first and second readings and then assigned to the House Committee on Appropriations for budget defense by the Ministries, Departments and agencies. At this stage, the second avenue for budget influence is opened and a lot of factors that could affect the budget outcome include;

---

<sup>20</sup> Section 121 of the Constitution of the Federal Republic of Nigeria, 1999 (as amended)

CONFIDENTIAL: Not for distribution

**Personality:** According to some of our respondents, if a Commissioner or other official in charge of a Ministry/Parastatal/Department or Agency enjoys goodwill with the Governor, actual amounts budgeted could be increased at this stage, or at worst, retained as proposed, rather than being slashed for one reason or the other. Major requests for project inclusion from key community figures such as the Emirs could also be treated with immediate effect at this stage.

**Technical Competence:** Some Commissioners are in the Governor's estimation, seen as high performing and having made worthy contributions to the administration's strides towards delivering on its mandate. Such Commissioners who have earned the Governor's goodwill also play a significant role in determining the outcome of budget proposals. They are usually not subjected to prolonged and detailed questioning during the budget defense process. The budgetary projections of their Ministries are usually accepted and passed without much hassles.

**Interest of political actors:** As has become a noticeable trend over the years in Nigeria, both at the centre and among the federating units, Jigawa State is also not immune to the menace of mysterious scaling up of budgetary figures, especially by the Legislature. The 2018 budget for Jigawa state, at the time of its presentation, was N134billion, but ended up being increased by an additional N4.5billion bringing it to a total of N138.5billion. Interest groups in Jigawa state suspect a brazen breach of due process. According to them, at the time of the increment, the leadership of both the House of Assembly and the Executive traveled to Kaduna, and apparently, that was where they negotiated the N4.5billion increment to the budget. Civil society in Jigawa State is worried that whatever considerations led to the raise of the final budget figures could not have been in the interest of the masses, but must have been borne out of the selfishness of the elite class. However, the CSOs operating in Jigawa state at the time of this study said they are cautiously awaiting the final analysis of the 2018 Jigawa state budget to see the justification for the increment made behind closed doors. Most of them believe the increment might not have been unconnected with the fortification of the financial "war chest" of the ruling party in the State, in readiness for the 2019 elections.

## 6. Recommendations

1. The annual budget preparation and approval process is the culmination of the policy, planning and budgeting process. The budget is the annual financial plan used for the

CONFIDENTIAL: Not for distribution

implementation of state policies and plans. The budget process must be predictable, and started and completed in good time to enable implementation to commence from the first day of the financial year. Like the formulation of policy and plans of the state, the budget must involve the relevant stakeholders including the executive, the legislature, civil society and organised private sector to ensure that the budget is formulated based on robust information, and that stakeholders know what to expect from the budget.

2. It is necessary that political leaders in governments (federal and states) be vested and involved in the budget making process from preparation to approval. By so doing they familiarize themselves with the fundamental dynamics that underlie the budget, and reduce conflicts and disruptions at the approval stages of the budget either at the Executive Council or in the State House of Assembly/National Assembly. Often times the proposals submitted by the bureaucrats, who have better appreciation of the macro-fiscal situation of the state, are substantially altered by the political class who may not have a full understanding of the underlying assumptions of the budget. Where the political office holder participates at the conception stage of the budget, this conflict will be significantly reduced.
3. A good planning and budgeting process should include an objective (possibly scientific) estimation of revenues and expenditures given the subsisting economic and fiscal environment of the state. This is aimed at making sure that the budget is based on realistic revenue and expenditure assumptions that will respond to the real needs of the State. One way of doing this is through the Economic and Fiscal Update – Fiscal Strategy Paper – Budget Policy Statement (EFU-FSP-BPS) - that reviews and analyses the immediate past global/national/state level economic and fiscal situation; projects the future economic and fiscal outlook; and uses these as evidence to inform the state budget policy, and to prioritise the allocation of revenue envelopes for sector expenditures.
4. The governments should have an overarching policy/plan framework that spells out the development vision of the state/federal government and how it intends to achieve it. This document should form the basis for sector plans and strategies and the annual budgets. A good state development plan should be at least for three years, and will contain a financing framework that articulates the cost of implementing the plan, and where the funding will come from.
5. The existing legislations, particularly the 1999 Constitution, the FRA and Finance (Control and Management Act 1990 provides that the main institution for public

CONFIDENTIAL: Not for distribution

financial management in the federal government is the Federal Ministry of Finance (FMF). Until recently, the FMF exercised some of its functions through its several semi-autonomous agencies. These agencies included the Budget Office of the Federation (BoF), the Office of the Accountant General of the Federation (OAGF), the Debt Management Office (DMO), the Federal Inland Revenue Service (FIRS), and the Nigeria Customs Service (NCS). Any focus of support on the budget process should take into account the multiplicity of players in the budgeting and expenditure chain.

6. The current administration created the Ministry of Budget and National Planning (MBNP), through a merger of the then National Planning Commission (NPC) and the Budget Office of the Federation (BOF). This political decision is yet to be backed-up with the requisite legal and legislative framework. The result is that mandates are currently unclear between the MBNP and FMF, leading to contentions and latent battle for turf between both key ministries. There must be a focus on getting the right legal framework for the MBNP.
7. There are frictions between the Executive and Legislative Arms of government at all level of governments.
  - a. First, the constitution does not specifically require presentation of revenue projections to the Legislature. Thus, the constitution intends legislative control over only over expenditure and not revenue sources. Control or understanding of revenue sources is vital for complete and effective control of expenditure. Consequently, the Fiscal Responsibility Act (FRA) 2007 requires the executive to present medium term revenue projections on a rolling basis to the National Assembly or State Assemblies. Consideration on strengthening legislative oversight of the process should be prioritized.
  - b. Second, the constitution does not provide a deadline for presentation of the expenditure details to the Legislature. It simply requires the President/Governor to present the Appropriation Bill “at any time” during the outgoing year. Perhaps, this provision has contributed to late approval of the budgets every year, more than any other factor. The federal/state governments have not yet enacted a law setting a deadline for presentation to the legislature in order to improve timeliness of approval. This issue should be given prominence.
8. For the states there should be a review of the existing MTSS and development of new MTSS for sectors that do not have these.

CONFIDENTIAL: Not for distribution

9. The findings show that several technical and political economy issues have affected the budgeting process in the federal government and state governments, hampering its effectiveness. These issues have warranted the design and implementation of different reform initiatives aimed at resolving the challenges, and subsequently improving budget planning, fiscal monitoring and overall public financial management process. Reform initiatives should also focus on taking particular account of the interests and incentives driving the behaviour of different groups and individuals in the process.