

## Assessing the Adequacy of Budgetary Institutions in Nigeria

**Kilishi, A. Abdulhakeem**

Department of Economics

University of Ilorin

e-mail: [meetkilishi@yahoo.com](mailto:meetkilishi@yahoo.com)

[kilishi-a@unilorin.edu.ng](mailto:kilishi-a@unilorin.edu.ng)

phone: 08050221980

This version: August 2020

Working paper No: 05/2020

### Abstract

In many developing countries including Nigeria budget process is faced with different challenges such that the budget could not meet the socio-economic needs of the people. Therefore, budgetary reforms were carried out to improve fiscal performance, despite that there has not been significant change in budget outcomes. This paper examines the adequacy of existing institutions in Nigeria, which is the aftermath of various fiscal reforms in the country. Content analysis of the two main sources of budget institutions (the Fiscal Responsibility Act and the 1999 Constitution) is carried out. The analysis shows: (i) a lack of comprehensive fiscal calendar stating the timeline for budget activities in a sequential order; (ii) a fragmented central budget power and responsibility which creates coordination problem; and (iii) unrestricted legislative power to amend budget. The paper concludes that there is need to review and amend relevant sections of the Fiscal Responsibility Act and the 1999 Constitution so as to resolve these inadequacies. The paper suggests that some level of hierarchical rules should be introduced such that there is a single central budget authority to coordinate, monitor and evaluate budget performance as well as enforce compliance to the fiscal rules.

**Keywords:** Budget, Institutions, Fiscal Responsibility Act, Adequacy, Budget Calendar

**JEL Classification:** P37

## 1. Introduction

Generally, public budget is a major fiscal policy tool for managing the macroeconomy, a means of delivering campaign promises to the electorates and a means by which politicians accumulate political rents. These tripartite functions of the budget make it a critical national issue. Budget issue is equally critical because it is few people (budget actors) who use public resources to perform these functions on behalf of the public. Usually, budget information available to key budget actors and non-budget actors is not the same, hence, creating asymmetric information problem. Since politicians have information advantage, they have incentives to behave opportunistically. Hence, budget process in many countries, particularly developing countries including Nigeria, fails to deliver the much-expected fiscal dividends to the people. Also, the budget process in most of these countries results in fiscal indiscipline such as huge and persistent deficits, high indebtedness, financial misappropriation, corruption and general fiscal recklessness.

Budget reforms are carried out continually by different nations so as to improve budget performance in terms of fiscal outcomes and reduce fiscal indiscipline as well as all other forms of budget malpractices. The reforms usually involve strengthening the budgetary institutions which are the rules and regulations guiding the entire budget process. Several theoretical and empirical studies show that budget institutions influence fiscal outcomes. Using African sample, Gollwitzer (2011) shows that budget institutions have disciplining effect on gross debt and primary balance at the level of central governments. In a similar study for developing countries Dabla-Norris, et al (2010) provide evidence, though at preliminary level, that strong budget institutions result to improved fiscal balance and public external debt outcomes. They also show that stronger budget institutions give allowance for countercyclical fiscal policies. Their second finding contradict Alesina and Perotti (1996, 1999) who state that strict numerical fiscal rules promote inefficient countercyclical fiscal policies. Bowen, Chen, Eraslan (2014), Bowen, Chen, Eraslan and Zapal (2017) equally argue that it is flexibility in mandatory budget institutions that lead to static and dynamic efficient provision of public goods. Alesina and Perotti (1996), Gleich (2003), Filc and Scartascini (2004), Krogstrup and Walti (2008), Shah (2007) and Hallerberg, Strauch and von Hagen (2006, 2009), among others, show that transparent and hierarchical/centralised budget institutions result in greater fiscal discipline and less debt. Martin and Vanberg (2013) argue that budgetary institutions do eliminate the expansionary fiscal pressures associated with coalition in a multiparty system. The position of Martin and Vanberg (2013) is supported by

de Haan, Jong-A-Pin and Mierau (2013) who show that budget institutions influence fiscal performance irrespective of government fractionalization. von Hagen (2010) shows that the difference between actual and projected values of key macroeconomic and fiscal variables is largely in countries with weak institutions. Hallerberg and Wolff (2006) show that better institutions are connected with lower risk premia contained in relative asset swap spreads.

Consequently, every country continually carry out budget institutional reforms. The current budget reform in Nigeria started around mid-2000s and cumulated to the enactment of the Fiscal Responsibility Act, 2007, which has replaced the Finance (Control and Management) Act of 1958 and its various amendments. However, budget performance has not improved significantly in the country despite the fiscal reforms carried out over time. One important question arising from this, is how adequate are the institutional provisions that emerged from the reform? This paper attempts to answer this question by examining the adequacy of budget institutions with respect to: (i) timelines; (ii) procedural rules; and (iii) transparency rules. The paper also attempts to identify institutional reforms required to enhance budget performance in Nigeria.

Remainder of the paper is arranged into five sections. Following this introduction is section 2 which presents conceptual clarification. Overview of budget reforms efforts in Nigeria is presented in section 3. Adequacy of institutional provision as regard timeline, budget procedure and transparency are examined in section 4. Section 5 presents the summary of findings and recommendations, while section 6 concludes the paper.

## **2. Conceptual Clarification**

Institutions could mean different things to different people, hence, it is important to contextualize this concept to avoid misconceptions. There is no general consensus on the definition of institutions.

### **2.1 The Concept of Institutions**

One of the most widely accepted definition of institutions was given by North (1990). According to him “institutions are the rules of the game; more formally, are the humanly devised constraints that structure political, economic and social interaction”. They consist of formal rules (for example, constitutions, laws, property rights), and informal constraints (for example, sanctions, taboos, traditions, customs, norms of behaviour, conventions and self-imposed codes of conduct) as well as their enforcement characteristics. In other words, they consist of the structure that humans impose on their dealings with each other. Institutions

often establish the constraints, determine the costs and benefits under which individuals take economic decisions. The extent of constraints and the choices individuals make in different institutional settings depend on the effectiveness of their enforcement. Institutions are constitutive rules and practices prescribing appropriate behaviour for actors. They empower and constrain actors differently and make them more or less capable of acting according to prescribed rules of appropriateness.

## **2.2 Budget Institutions**

Budget institutions are defined in line with the general meaning of institutions as the policies, rules and procedures of the public revenue and expenditure process thus representing the most important macroeconomic commitment institutions for governments, Gollwitzer (2011). According to Alesina and Perotti (1999) Budgetary institutions are all the rules and regulations according to which budgets are drafted, approved and implemented. Therefore, budget institutions are important at different levels of budget process including understanding the fiscal needs and challenges, developing consolidated plan and effective execution and control of budget. Fiscal outcomes such as achieving the fiscal objectives largely depend on the strength and effectiveness of budget institutions. Provision of public goods is equally affected by budget institutions. Studies have also shown that the nature and characteristics of budget institutions matter for the levels of fiscal deficits, public debt and fiscal discipline generally.

### **3. Budget Reform Efforts in Nigeria**

Egbide, Eddy, Imoleayo and Kingsley (2016) define budgets reforms as change in the processes and ways of formulating, implementing and evaluating budget so as to ensure effective and efficient budget performance. Therefore, budgetary reforms involve deliberate and structural measures by the government which relies to change the institutional and regulatory framework governing public budget, planning, design, preparation, execution, monitoring, supervision and auditing. Budgetary reforms in Nigeria date back to before independence when Finance Control and Management Act of 1958 was enacted. During the military era, the Act was suspended while the budget process was thrown into disarray with blatant disregard to budget rule (Egbide & Agbude, 2013). Though, there were agitation for budgetary reform in Nigeria since earlier 1970s (Adelami, 2018), budgetary reform was not given the desired attention until the return of democracy in 1999. The Federal Government under President Olusegun Obasanjo set up the Budget System Review Committee with Prof. Dottun Phillips as Chairman in year 2000. The committee identified key areas for urgent

reforms. It was recommended that the new budget process should have a multi-year framework.

The 1999 Constitution mark the beginning of budgetary reforms, however, specific budgetary reforms started in year 2005 when the Medium Term Expenditure Framework (MTEF) was introduced in the budget process, although it's legal backing came in 2007 with the enactment of Fiscal Responsibility Act 2007. MTEF is a whole of government strategic policy and expenditure framework which balances what is affordable in aggregate against policy priorities of the government. According to Onyiah, Ezeamama, Ugwu and Mgbodile (2016) MTEF entails annual budgeting system in which budget decisions relating to new programs and projects are made at every budget preparation session based on three-year fiscal scenarios, to ensure that projects financed for the next three years will be approved under the annual system and will be consistent with the baseline budgeting approach. Its emphasis is on a multi-year (three years) budget packaging. The specific objectives for the adoption of MTEF in Nigeria were to improve the allocation of resources to strategic priorities among and within sectors, as well as provide MDAs (Ministries, Departments and Agencies) with a hard budget constraint among others.

The reform is consolidated with the enactment of Fiscal Responsibility Act (FRA) 2007. According to the introduction of FRA, the objectives of the Act is "...to provide for prudent management of the Nation's Resources, ensure Long-Term Macro-Economic stability of the National Economy, secure greater accountability and transparency in Fiscal operations within the Medium Term Fiscal Policy Framework, and the establishment if the Fiscal Responsibility Commission to ensure the promotion and enforcement of the Nation's Economic objectives; and for related matters". This is the reason why Egbide, Eddy, Imoleayo and Kingsley (2016) said that the reform embedded in FRA centred on five major aspects namely; administrative procedures, budget preparation, management of government spending, budget implementation, as well as budget monitoring and evaluation. In 2011 the FRA was amended to give Fiscal Responsibility Commission addition powers and responsibility to monitor revenue collections and remittances.

The Public Procurement Act 2007 also helps to improve the budget process to a great extent particularly the implementation of budget. The Act requires all public institutions conduct public procurement in a manner that is transparent, timely, equitable and based on agreed guidelines. The Procurement Act also established the Bureau of Public Procurement ("BPP"), which oversees the procurement activities of all the procuring entities and is responsible for the issuance of procurement "Certificates of No Objection". A Certificate of No Objection is

the document that confirms that due process was followed in the conduct of a procurement process and authorises the procuring entity to enter into the relevant contract. In addition to a number of other duties, the BPP is authorised by the Procurement Act to formulate general policies and guidelines relating to public sector procurement for the approval of the National Council on Public Procurement (“NCPP”), monitor the prices of tendered items and keep a national database of standard prices, prevent fraudulent and unfair procurement and where necessary, apply administrative sanctions.

Other reforms which have direct or indirect bearing to budgetary process and prudent use of public funds include, Federal Inland Revenue Service Act (FIRS) 2007, adoption of International Public Sector Accounting Standard (IPSAS) 2015, Government Integrated Financial and Management Information System (GIFMIS), launching of Accounting Transaction, recording and Reporting System (ATRRS) and Treasury Single Account.

#### **4. Criteria for Assessing Adequacy of Budget Institutions**

Adequacy of budget institutions in this paper means comprehensiveness of budget institutions, and this is assessed using three indicators: timelines, procedural rules and transparency rules. That is, how comprehensive are the rules guiding timelines, procedure and transparency. These three indicators are paramount to the success of public budget in any economy. For instance, if timelines for preparation, approval, execution, monitoring and evaluation are not clearly defined, unnecessary delays could be caused at different stages of the budget process, hence, achievement of budget objectives would be jeopardised. On the other hand, procedural rules define the roles and responsibilities of each key budget actor. If these roles are not clearly defined, there would be coordination problem. The transparency institutions make sufficient provisions that would ensure not just timely public availability of fiscal information but also broad participation in the entire budgetary process. These criteria is in line with IMF (2009), Dabla-Norris et al (2010) and Gollwitzer (2011). Hence, the following sections examine the adequacy of budget institutions with respect to timeline, procedural rule and transparency respectively.

##### **4.1. Timeline Guiding Budgetary Process**

Table 1 presents the timelines as defined in the two main sources of budgetary institutions in Nigeria. Though, specific time is mentioned with respect to some activities, the timeline is far from being adequate. Starting with the preparation stage, the Federal Government is expected after consultation with State Governments to prepare Medium-Term Expenditure Framework

(MTEF) latest end of August prior to a new fiscal year. The Federal Executive Council (FEC) is required to consider and endorse the same MTEF by June of the year. The sequence is faulty, because preparation should precede endorsement. Ordinarily, the date for preparation of MTEF should come earlier to allow FEC to consider and endorse it by June. This limitation is reflected in the 2018 budgetary process where FEC endorsed MTEF in August instead of June as required by law.

Another major inadequacy in the budgetary institutions is that the time for submission of MTEF to NASS is not mention anywhere. The date for submission of budget to NASS is not also specific. The budget can be submitted at any time in the current financial year (section 81 of 1999 Constitution). Therefore, FGN has liberty to submit MTEF and budget proposal to NASS at any time of the year. As shown in table 1, previous budgets were submitted at different dates, usually towards the end of the financial year. This automatically extends the approval process to a new fiscal year. Consequently, budget implementation, particularly capital budget get unnecessarily delayed.

In the entire 1999 Constitution (as amended) and Fiscal Responsibility Act, 2007, and its amendment, 2011, no single timeline is mentioned in relation to the approval process. Timelines for approval of MTEF and the budget itself are obviously missing. This is a fundamental institutional inadequacy which has serious consequences in the budgetary process. The implications are reflected in the approval delays experienced in the past (see table 2). For example, 2017 budget was not signed until 12th June, 2018, hence 2017 capital budget execution could not commence before June, 2018. In the 2018 budget process, MTEF was approved by NASS in December, 2017 since the timeline for this is not defined, while the 2018 budget was signed by the President on 20th of June 2018. For adequate budgetary process, timeline for submission and duration for approval of both MTEF and budget need to be clearly defined in the law.

The timelines guiding monitoring and evaluation of budget is relatively adequate. However, allowing spending on recurrent expenditure for six (6) months into the new fiscal year without budget approval can create incentive for delay at both the executive preparation stage and legislative approval stage, consequently, affecting implementation of capital budget.

Timeline for implementation of capital budget is also not defined. Usually, execution of capital budget extends to the next fiscal year but the duration of the extension is irregular. This will further affect compliance to the provision of sections 30(1&2) and 50 of FRA

## Assessing the Adequacy of Budgetary Institutions in Nigeria

which require the government to publish budget implementation and summarised reports respectively at the end of each quarter. If budget approval is delayed up till 6 months like it happened in 2017 and 2018 budget process, writing of quarterly report particularly the first two quarter is affected.

Table 1: Timelines at the three stages of budgetary process in Nigeria

<b>Preparation Stage</b>		
<b>Item</b>	<b>Timeline</b>	<b>Source</b>
Preparation of MTEF	Not later than four months before commencement of next financial year (end of August)	FRA Section 11 (1b)
Consideration and endorsement of MTEF by Federal Executive Council	Before end of second quarter (June)	FRA Section 14 (1)
Corporations, agencies and government owned Companies submit annual budget to minister	not later than the end of August in each financial year	FRA Section 21 (2)
FGN submit revenue forecast to NASS	at least 30 days before the deadline for the submission of its budget proposals	FRA Section 33
President submit budget proposal to NASS	at any time in each financial year	Constitution Section 81
<b>Approval Stage</b>		
Nil	Nil	Nil
<b>Implementation, Monitoring and Evaluation</b>		
Prepare and publish a disbursement Schedule	within 30 days of the enactment of the Appropriation Act	FRA Section 26
President to authorised withdrawal of money before approval of budget	Not exceeding 6 months into the new financial year	Constitution Section 82
Fiscal Responsibility Commission (FRC) to prepare and submit to NASS report of its activities	not later than 30th June of each financial year	FRA Section 10
Publish budget implementation report	not later than 30 days after the end of each quarter	FRA Section 30(1&2)
Each Corporation to publish its audited financial report	not later than three months after the end of its financial year	FRA Section 23(3)
Publish summarised report on budget execution	within 30 days after the end of each quarter	FRA Section 50
Publish consolidated budget execution report	not later than 6 months after the end of the financial year	FRA Section 50
Publish FGN audited accounts	not later than 6 months following the end of the financial year	FRA Section 49(1)
Publish consolidated audited accounts in mass media	not later than 7 months following the end of each financial year	FRA Section 49(2)

Source: compiled from Fiscal Responsibility Act, 2007; Fiscal Responsibility Commission (Amendment) Bill, 2011; 1999 Constitution (as Amended)



Table 2: Dates of Submission of Budget Proposal to NASS and President's Endorsement Since 2008

Year	Date Submitted to NASS	Date of Presidential Endorsement	Month Differences
2008	08 – November – 2007	14 – March – 2008	4
2009	02 – December – 2008	10 – March – 2009	3
2010	23 – November – 2009	22 – April – 2010	5
2011	15 – December – 2010	26 – May – 2011	5
2012	13 – December – 2011	13 – April – 2012	4
2013	10 – October – 2012	26 – February – 2013	5
2014	19 – December – 2013	21 – May – 2014	5
2015	17 – December – 2014	18 – May – 2015	5
2016	22 – December – 2015	06 – May – 2016	5
2017	14 – December – 2016	12 – June – 2017	6
2018	07 – November – 2017	20 – June – 2018	7

Source: Olowookere (2018), Udo Udoma (2018)

#### 4.2. Procedural Rules Guiding Budgetary Process

Procedural institutions consist of the rules and laws that define the roles, fiscal powers and limitation of such powers for all budget actors at the three stages of budgetary process Gollwitzer (2011). Generally, the procedural institutions can lead to either hierarchical procedure or collegial procedure or something in between. In a strictly hierarchical institutional setting, fiscal power to formulate, prepared, monitor and enforce compliance is given to a single fiscal authority usually the minister of finance Alesina and Perotti (1999). In such situation, legislative power to amend budget proposal is limited. In some countries, legislature can only approve or reject, they cannot increase nor decrease either expenditure or revenue, while in some they only reduce but cannot increase. On the other hand, in a collegial institutional setting there is no single powerful fiscal authority and the legislative power to increase or decrease proposed expenditure or revenue is not restricted. New projects can be added with a new expenditure line and projects proposed by executives are dropped.

In Nigeria, fiscal powers and responsibilities are shared among several units which include Fiscal Responsibility Commission (FRC), Minister of Finance, Budget Office of the Federation (BOF), Central Bank of Nigeria (CBN), the President and individuals. The Minister of Budget and National Planning is not mentioned anywhere but in practice has assumed some fiscal powers. The key budget actors and their functions as stated in the law are presented in Table 3. FRC is empowered to monitor and report revenue collection and remittances as well as consolidated debt profile (section 3 of FRA and “3” of its amendment, 42(3&4)). FRC is also empowered to enforce compliance of provisions of FRA. According to Section 13(1&2) of the Fiscal Responsibility Act, 2007. The Minister of Finance has the

power and responsibility to prepare MTEF, prepare and publish disbursement schedule, approve virement, restrict further commitments, guarantee grant, monitor and report budget implementation, and publish consolidated budget execution report, according to sections 26, 27(1&2), 28(1-3), 47(1&2), 30(1&2) and 50 of Fiscal Responsibility Act 2007 respectively. The BOF share the power to monitor and report budget implementation with Minister of Finance and BOF is empowered to publish quarterly summarised budget execution report while FRC will according to section 50 of FRA prescribe the format of writing of this report.

Table 3: Budget Actors, their Powers and Responsibilities

Budget Actor	Power/Responsibility	Source
FRC	Enforce compliance to provisions of FRA	FRA section 3
FRC	Monitor revenue collections and remittances	FRCA (Amendment) Bill 2011 “2” & “3”
FRC	Monitor and report compliance to consolidated debt limits	FRA 42(3&4)
FRC	Prescribe the format of publishing Summarised Budget Execution Report	FRA 50
BOF	Publish summarised budget execution report	FRA 50
BOF	Monitor and Report Budget Implementation on Quarterly basis	FRA 30
The Minister*	Prepare MTEF and present same for FEC endorsement	FRA Sections 13&14
The Minister	Prepare and publish disbursement schedule	FRA Section 26
The Minister	Approve Virement	FRA 27
The Minister	Restrict further commitment	FRA 28
The Minister	Guarantee Grants	FRA 47
Minister of Finance	Monitor and report budget implementation report	FRA 30
Minister of Finance	Publish consolidated budget execution report	FRA 50

\*“Minister” means the Minister charged with the responsibility for finance (FRA 56,)

Source: Fiscal Responsibility Act, 2007; Fiscal Responsibility Commission (Amendment) Bill, 2011; The 1999 Constitution (Amended)

Some of the inadequacies in the institutional provisions for procedural rules include not clearly defining who has the power to set budget agenda. Although, by law the Minister of Finance is to prepare MTEF on behalf of the Federal Government after consultation with all the State Governments, however, it is not clear from the law who has the responsibility to set budget agenda. MTEF is expected to identify and state the overall objectives and priorities of government. Thus, the agenda of the budget should be directly derived from MTEF. This

means that the responsibility of setting the budget agenda is indirectly on the Minister of Finance.

Not locating BOF within the Ministry of Finance is somewhat faulty because the Minister of Finance is expected to carry out most of its fiscal responsibilities through BOF. For example, the provision of section 30 of FRA requires the Minister of Finance through the BOF to monitor and report budget implementation at the end of each quarter. Therefore, locating BOF in another ministry can create coordination problem in discharging this function.

Separating different aspect of the same function is another inadequacy in the procedure institutions. For instance, section 50 of FRA gives the power to prescribe the form of publishing the Summarised Budget Implementation Report to FRC while the responsibility of writing and publishing the document rest with BOF (section 50 of FRC). This kind of separation of power and responsibility can create bottlenecks and make the process cumbersome. Similarly, the responsibility of preparing and publishing consolidated budget implementation report and summarised budget implementation report are separated despite the former being derived from the later. While the responsibility of preparing summarised report lies with BOF (section 50 of FRC), the responsibility of publishing consolidated report is with the Ministry of Finance (section 50 of FRC). Similarly, power to enforce compliance to institutional provision is separated from the responsibility of monitoring budget implementation. The unit that monitors should be in better position to identify violation of the rules, hence such unit can perform the function of enforcing compliance better. Thus, separating these two functions can result to poor enforcement, which actually is the case in Nigeria.

However, what is observed in practice is that irrespective of the institutional provisions, BOF and by extension Minister of Budget and National Planning perform most of the functions starting from preparing MTEF, setting the budget agenda, monitoring and publishing budget performance reports.

Another major omission/inadequacy in the procedural institutions is not defining the restrictions on legislative power to amend budget. The 1999 Constitution and FRA have not defined the limit of legislative power of amendment. Therefore, the legislature seen to have unlimited power (so to say) to amend and could add or subtract from the proposed budget submitted by the executive. Since the legislature represent political constituencies that are geographically localised, they have the incentive to localise expenditure by adding projects

that will benefit their constituencies. It is only institutional restriction that will stop them from adding new projects to the budget. The limits of legislature’s power to amend budget should be clearly defined otherwise the issue of budget padding may not be legal offence. Exercising the power to amend is reflected in the differences in proposed and approved budget in the previous years. Table 4 shows the differences in executive budget proposal and budget approved by the legislature. In 2015, which was an election year, the law makers increased the budget by over 24%. This might be predicated on the fact that most law makers were seeking re-election then, hence needed some projects at their constituencies so as to lure prospective voters. There was a marginal reduction of –0.28% and increase of 1.96% in 2016, 2017 respectively. The possibility of 2018 budget reaching N9 trillion is high given that next year, 2019, is an election year.

Table 4: Difference between Proposed and Approved Budgets (N’ Million)

Year	Proposed Budget	Approved Budget	Difference	% Difference
2015	3602.00	4493	891.00	24.74
2016	6077.00	6060	-17.00	-0.28
2017	7298.00	7441	143.00	1.96
2018	8612.00	9120.33	508.33	5.90

Source: Budget Speeches and Appropriation Bills for the respective years

### 4.3. Transparency Rules

Transparency budget institutions are rules to ensure that all relevant budgetary information at all stages of the budgetary process are provided to the public in a reliable, timely and systematic manner (Gollwitzer, 2011). This set of institutions also allow participation of mass of people in the budgetary process at all stages. Efficient transparent institutions will give the general public the ability to monitor and evaluate the progress and achievement of budget. Hence, enhancing public accountability and preventing misappropriation of funds and hidden budgeting. Sections 13(2), 30(2), 48(1&2), 49(1to3), and 50 of FRA 2007 contain rules aimed at enhancing public participation, transparency, and accountability. The provision of Section 13(2) is to ensure that the preparation of MTEF is transparent and carries along a broad section of the general public. Section 30(1&2) mandates the Minister of Finance to publish budget performance report in the mass and electronic media and on the website of the Ministry not later than 30 days after the end of each quarter. Sections 48(1&2), 49(1to3) and 50 focus mainly on transparency and accountability of the budgetary process. The executive is required by section 48(1) to be transparent in all fiscal matters. The discussion, debate, voting and approval of MTEF, budget proposal and other fiscal documents in the National

Assembly are expected to be carried out transparently by the provision of section 48(2). The time of publication and dissemination of audited account and summarized budget execution report is prescribed in sections 49(1 to 3) and 50. Section 51 gives individual persons the power to enforce compliance of institutional provisions. This power can be exercised by obtaining prerogative orders from Federal High Court.

The institutional provisions regarding transparency is relatively adequate; the level of compliance to these provisions does determine the level of transparency in the budget process. However, the lack of coherent timeline and procedural rules affect the effectiveness of transparency rules. In addition, the provision of section 48 (sub-section 1 & 2 of FRA) which requires Federal Government and National Assembly to conduct all fiscal and financial affairs in a transparent manner did not unequivocally state how this should be done.

## **5. Summary of Findings and Recommendations**

A number of institutional reform issues can be deduced from the preceding sections. Four critical limitations in the existing institutional provisions emerged from the discussion in sections 2. This include:

- i. lack of detail calendar that clearly states the timeline for all activities of the budget process in a sequential order;
- ii. fragmentation of central budgetary power/responsibility;
- iii. practice of a collegial budgeting process; and
- iv. absence of restriction on legislative amendment power.

The first major shortcoming of the existing budgetary institutions is that timelines for all the activities in the budget process are not clearly stated. Among the timelines mentioned, some are not specific while some are not in a sequential order. Therefore, it is imperative for the next set of budget institutional reforms not to just design a full budget calendar stating the dates of all activities but to ensure that all activities are arranged in a sequential order. Based on the current budget process in Nigeria, there are about fifteen key activities involved. These activities, in a sequential order, are:

- i. Preparation of MTEF & FSP
- ii. Endorsement of MTEF & FSP by FEC
- iii. Submission of MTEF & FSP to NASS
- iv. NASS approval of MTEF & FSP
- v. Budget Call Circular
- vi. Submission of budget proposals by line MDAs
- vii. Bilateral discussion, collation and drafting of full budget document

- viii. Endorsement of draft budget by FEC
- ix. Submission of budget proposal to NASS
- x. NASS approval of budget (Appropriation Bill)
- xi. Disbursement of funds to line MDAs for execution of budget provisions
- xii. Monitoring, evaluation and reporting of budget execution
- xiii. Auditing and reporting of audit report

Relevant sections of FRA and the Constitutions should be reviewed and amended so as to accommodate timelines for the activities listed above. Meanwhile, it is important for all the stakeholders in the budget process to reconsider these activities one after the other and evaluate the merit of each activity in the budget process. Any activity which does not contribute significantly to budget performance can be eliminated irrespective of the opinion of international development partners on such activity. The reform would then ensure that list of all the final activities are institutionalized and the budget calendar should clearly state timeline for each of the activities.

The current budget process in the country is more of collegial system. This kind of process would create coordination problem and hence poor compliance as well as poor enforcement of institutional provisions. Therefore, there is need to identify a particular central budget authority that will coordinate the preparation and execution of budget. Such central budget authority should also be given the power to enforce compliance to budget institutional provisions and the power to sanction any budget actor who violates the fiscal rules. The sanctions should equally be institutionalised. Instead of creating a new central budget authority, the reform could consider merging the Fiscal Responsibility Commission and Budget Office of the Federation to form a single budget authority under either Ministry of Finance or Ministry of Budget and National Planning. Introducing some level of hierarchical procedure in terms of creating a single central budget authority is even more important considering that fiscal indiscipline in form of persistent deficit, poor performance, missing outcome targets, diversion of funds, and so on are prevalent in Nigeria. However, introduction of such hierarchical rules should not compromise checks and balances as well as public involvement in the budget process.

Some level of hierarchical process should also be introduced at approval stage by clearly defining the limit of legislative power to amend the budget. Allowing the legislature unlimited power to amend budget will most likely result to adding new lines of expenditure, hence escalating fiscal deficit. Moreover, the additions are usually bias in favour of the political constituency of influential legislators at the expense of national benefits. However,

outright prohibition of legislative amendment of budget may not also be optimal. Therefore, restriction of legislative power, instead of outright prohibition will be preferred.

However, budget institutions reform is not a mechanical process as it sounds, it is rather a onerous political process that involves different political actors with different interests. These actors will always try to exert their political power to ensure that their interests prevail. Expectedly neither the executive nor the legislature will initiate all the require reforms. The executive may initiate some, particularly those that do not affect their interests. Similarly, the legislature may initiate some, while civil society, NGOs and general public would have to push for others.

In order for budget institutions reforms to be effective, efforts should be made to enhance the capacity of the staff of the central budget office and each MDAs budget units. Similarly, the process of institutionalising National Assembly Budget and Research Office (NABRO) should be speed up. People with the requisite technical knowledge should be engaged in NABRO. The staff should also be exposed to necessary and relevant training within and outside the country.

Since budget institutions exist within the gamut of political institutions, holistic political institutional reforms that make governance transparent, participatory and inclusive as well as ensures accountability will make budgetary institutions even more effective and efficient.

## **6. Concluding Remarks**

The budget process in Nigeria, like in any other country, has gone through series of reforms over the years. The reform process has culminated to set of rules and regulations guiding the budget process. These rules and regulations make up the budget institutions. However, it is observed that there are some inadequacies which include, among others: (i) omission of timeline for certain activities; (ii) lack of specificity of timeline; (iii) non-sequential timeline; (iv) fragmentation of central fiscal power and responsibility; and (v) lack of clear definition of the limits of legislature power to amend budget.

The paper has shown how these inadequacies undermine the budget process and outcomes, and emphasized the need to reform the current budget institutions by reviewing and amending relevant sections of the Fiscal Responsibility Act and the 1999 Constitution. The next set of budget institutional reforms should therefore include: (i) comprehensive budget calendar stating the dates for all activities in the budget process in a sequential order; (ii)

establishment of a single central budget authority that will coordinate budget process, have the power to monitor, evaluate and enforce compliance to institutional provisions; (iii) restriction of legislature power to amend budget; and (iv) definition of sanctions for noncompliance, and empowerment of the central budget authority to implement sanctions.

### References

- Adelami O. O. (2018). *Budgeting in Nigeria: Issues and Prospects*. Geo-Afriqcom Services Ltd
- Alesina A., & Perotti R. (1996). Fiscal discipline and budget process. *American Economic Review*, 86(2), 401 – 407
- Alesina A., & Perotti R. (1999). Budget deficits and budget institutions, in *Fiscal Institutions and Fiscal Performance*, edited by Poterba J and J. Von Hagen, 13 – 36
- Appropriation Acts, Different Years
- Budget Speech, Different Years
- Bowen, T. R., Chen, Y., & Eraslan H. (2014). Mandatory versus discretionary spending: the status quo effect. *American Economic Review*, 104(10), 2941–2974
- Bowen, T. R., Chen, Y., Eraslan H., & Zapal J. (2017). Efficiency of flexible budgetary institutions. *Journal of Economic Theory*, 167, 148 – 176
- Dabla-Norris E., Allen R., Zanna L., Prakash T., Kvintradze E., Lledo V., Yackovlev I., & Gollwitzer S. (2010). Budget institutions and fiscal performance in low-income countries. *IMF Working Paper WP/10/80*
- de Haan J., Jong-A-Pin R. & Mierau J. O. (2013). Do budgetary institutions mitigate the common pool problem? New empirical evidence for the EU. *Public Choice*, 156(3/4), 423-441
- Egbide B. & Agbude G. A. (2013). Budget discipline in Nigeria: A critical evaluation of civilian regimes. *Economica*, 29(1), 91 – 101
- Egbide B., Eddy O., Imoleayo O. & Kingsley A. (2016). Budgetary system reforms in Nigeria: Implications for poverty reduction. *The social Sciences*, 11(23), 5584 – 5589
- Federal Republic of Nigeria 1999 Constitution (as Amended)
- Fiscal Responsibility Act, 2007,
- Fiscal Responsibility Commission (Amended) Bill, 2011
- Filc, G., & Scartascini C. (2004). Budget institutions and fiscal outcomes: ten years of inquiry on fiscal matters at the research department. *Office of Evaluation and Oversight Inter-American Development Bank, Washington, DC*,



- Gleich, H., (2003). Budget institutions and fiscal performance in Central and Eastern European Countries”, *European Central Bank Working Paper* No. 215,
- Gollwitzer S. (2011). Budget institutions and fiscal performance in Africa. *Journal of Africa Economics*, 20(1), 111 – 152
- Hallerberg, M., Strauch, R., & von Hagen J. (2009). *Fiscal Governance in Europe*, Cambridge University Press, Cambridge.
- Hallerberg, M., Strauch, R., & von Hagen J. (2006). The Design of Fiscal Rules and Forms of Governance in European Union Countries”, *GESY Discussion Paper*, No. 150
- Hallerberg M., & Wolff, G. B. (2006). Fiscal Institutions, Fiscal Policy and Sovereign Risk Premia, *Deutsch BundeBank Discussion Paper*, (35)
- International Monetary Fund, 2009, Fiscal Rules—Anchoring Expectations for Sustainable Public Finances
- Krogstrup S., & Walti S. (2008). Do Fiscal Rules Cause Budgetary Outcomes? *Public Choice*, 136(1/2)123 – 138
- Martin W. L. & Vanberg G. (2013). Multiparty government, fiscal institutions, and public spending. *The Journal of Politics*, 75(4) 953 – 967
- North, D. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Cambridge
- Olowookere E. A. (2017), Nigerian Capital Market and 2017 Budget ‘Lesson for 2018’, *The Securities and Exchange Commission (SEC) Budget Seminar*.
- Onyiah A. I., Ezeamama C. N., Ugwu N. J. & Mgbodile C. C. (2016). Nigerian budget implementation and control reforms: Tool for macroeconomic growth. *British Journal of Economics, Management & Trade*, 11(2), 1 – 13
- Shah, A., (2007). *Budgeting and Budgetary Institutions*, The World Bank, Washington, DC
- Udoma U. U. (2018). Public Presentation of the 2018 FGN Budget, *Federal Ministry of budget and National Planning*
- Von Hagen J. (2010). Sticking to fiscal plans: The role of institutions. *Public Choice*, 144(3/4), 487 – 503