

Budget and Budgetary Control in Nigeria: Procedures, Practices and Policy Issues.

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ABSTRACT

This study evaluates the procedures, practices and the policy issues involved in budget and budgetary control in Nigeria. Results of this study which were based on both documentary and time series data showed that, within the past two decades there has been a progressive increase in the total expenditure of the Federal Government with a corresponding decrease in revenue. This has led to fiscal operational deficits and Government has been faced with the problem of not possessing the wherewithal, that is, "the political will and financial discipline" to adequately control her budgetary expenditure in order to sustain and achieve a balanced as well as surplus budget. It is only when this is done, that the economy can be positively stimulated and significant growth achieved. It is therefore recommended that Government should adopt a pragmatic approach in controlling her budgetary expenditure through an efficient monitoring system. This is to achieve the much desired macro-economic stability which is a prerequisite for favourable investment climate in Nigeria.

KEYWORDS: Budget, Budgetary control, expenditure, policy issues.

INTRODUCTION

The term budget refers to a plan, quantified in monetary terms, prepared and approved by appropriate authorities prior to a defined period of time, usually showing planned income to be generated and / or expenditure to be incurred during that period and the capital to be employed to attain a given objective. In Nigeria since independence, the specific objectives of the national budget include; enhancement of increased production and productive capacity; encouragement of export promotion and growth; agriculture and solid minerals, as the nation's major foreign exchange earner; improvement of capacity utilization in the manufacturing sector and local sourcing of raw materials through targeted incentives; alleviation of poverty, creation of jobs and promotion of industrial peace and reduction of inflation. Others include; enhancement of scientific and technological development to lay a firm industrial base; drastic reduction in fiscal deficit through the curtailment of wasteful spending; Stringent control of extra budgetary expenditure; encouragement of greater participation of the private sector in the economy with a view to the eventual emergence of that sector as the engine of growth; engagement in guided deregulation in the management of foreign market and interest rates; management of foreign exchange market so as to narrow the gap between the official and autonomous exchange rate; transfer of money from wasteful recurrent avenues to capital development through generous funding of the productive sectors, and ensuring stable and consistent macro-economic environment.

According to Onyema (1999) there is hardly any aspect of human endeavor that does not have some economic implications because economics as a science is essentially concerned with the study of scarce resources, their allocation, management and utilization. In preparing budget proposals therefore, there are competing demands for the resources at the disposal of Government to solve a limitless number of problems. Hence, the appreciation of this would be immensely useful for the overall development of the economy in a manner that will achieve balance among different types of expenditure and ensure that the marginal return to expenditure is the same for all of them.

Anyanwu (1998) opined that since the inception of S.A.P in Nigeria in 1986, the fiscal operations of the Federal Government have been resulting in overall deficit, notwithstanding budget surplus that were anticipated each year. The resultant effects of this are persistent decline in real output caused by lower foreign exchange earnings and

reliance on credits from the banking sector, "to finance the deficits", macro-economic imbalance, deterioration in foreign reserves and large scale unemployment of all productive resources.

Within this context therefore, the fiscal operations of the Federal Government when budgets are inadequately controlled resulting in deficit are financed through the use of taxes as well as external and internal borrowing instrument. This influences the economic activities of the nation in desired ways and is also used in sustaining the allocation of resources between the public and the private sectors and their use for attainment of stability and growth. However, out of the three major instruments of fiscal policy, the concern herein is with the expenditure financing of the Government; since the quantity of money available for spending depends on the volume of taxes or revenue generated as well as the amount of borrowing the Government is prepared to accept or support.

There has been a persistent and substantial increase in the total expenditure of the Federal Government since 1986 (Ekerendu 1997). The expenditure programme comprises debts services payment on both external and domestic non-debt recurrent and capital expenditures, payment for contractual obligations, etc. One implication of this uncontrolled budget expenditure is that Government expenditure exceeded the revenue estimates, hence budget and fiscal operation deficits. Thus, the crucial issues confronting the Government is how to adequately control budgetary expenditure in order to have a sustained balance or surplus budget that will enhance economic development. Sanusi (1993) noted that there is the wrong perception of the role of the private sector which ought to be the engine of growth as "unpatriotic outriders" rather than what they are "partners with Government in the task of development". While Shonekan (1993) sees lack of fiscal discipline as a bane for

Table 1: Finances (N Billion): Federal Government Finances, Revenue and Expenditure.

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Fed. Collected revenue	12.3	25.1	27.6	47.8	85.3	101.0	190.5	192.8	201.9	460.0	459.9	520.2	582.8	443.6	560.2
Oil Revenue	8.1	19.0	19.0	39.1	71.9	82.7	164.1	162.2	160.2	279.0	324.5	408.7	416.8	324.3	738.8
Non-oil Revenue	4.2	6.1	7.8	8.7	13.4	18.3	26.4	30.7	41.7	100.7	135.4	111.4	166.0	139.3	210.4
AFEM Surplus Revenue	-	-	-	-	-	-	-	-	-	79.7	38.8	62.0	47.0	0.0	0.0
Fed.Govt. Retained Rev.	8.0	16.1	15.6	25.6	38.2	30.8	57.3	70.1	70.8	249.8	307.7	369.3	423.2	353.7	662.6
Fed. Govt. Exp.	16.2	15.6	25.9	38.2	30.8	53.3	70.1	70.8	249.8	256.5	306.7	332.2	428.2	487.1	947.7
Fiscal Deficits as % of GDP	10.6	5.5	7.1	6.7	6.5	12.4	7.2	15.4	7.9	0.5	9.4	10.3	8.6	12.8	12.5

Source: Central Bank of Nigeria: Major Economic and Financial Indicators 2001.

Table 2: Nigeria Federally Collected revenue (N billion)

Sources of Revenue	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Fed. Collected revenue	12.3	25.1	27.6	47.8	85.3	101.0	190.5	192.8	201.9	460.0	459.9	520.2	582.8	443.6	560.2
Oil Revenue	8.1	19.0	19.8	39.1	71.9	82.7	164.1	162.1	160.2	279.0	234.5	408.7	416.8	324.3	738.8
Non-oil Revenue	4.2	6.1	7.8	8.7	13.4	18.3	26.4	30.7	41.7	100.7	135.4	111.4	166.0	139.3	210.4
AFEM Surplus Revenue	-	-	-	-	-	-	-	-	-	29.7	38.8	62.0	47.0	0.0	0.0
Fed.Govt. Retained Rev.	8.0	16.1	15.6	25.9	38.2	30.8	53.3	70.1	70.8	249.8	307.7	369.3	423.2	353.7	662.6

Source: CBN Nigeria: Annual Report and Statement of Accounts for the year ended 31st Dec. 2000.

budgetary gap, Akinyele (1993) comments on the faulty implementation of the budget, adding that Nigerians have never been short of ideas but lack the ideals to make ideas work. Brume (1993) listed corruptive system inefficiency arising from under utilization of trained manpower, long term absence of democratic structure in governance as culprits. Budget serves as the melting point at which most other policy instruments find operational expression, hence provides the framework for implementing the short, medium and long term components of the national development policies and programmes. Besides, the macro-economic and sectoral impact of the policy framework of the budget, judicious implementation of capital programmes generates growth

directly apart from stimulating activities in various sectors. Therefore, having established the rationale behind Federal Government fiscal deficits, instruments of financial and ineffective budgetary control processes, a thorough examination of budgets and budgetary control processes in Nigeria becomes justifiable.

SIGNIFICANCE OF THE STUDY

This study is necessitated by the need to undertake an in-depth appraisal and budgetary control measures in Nigeria as to gauge their effectiveness. Furthermore, in recent times literatures are limited with regards to budgetary control, practices and procedures in Nigeria. This can be partially attributed to the fact that Nigeria was under the military rule for more than 30 years out of the 44 years of her independence. Whenever budgets are formulated, planned, prepared and presented, the control mechanisms were never adhered to thus resulting in budget implementation failures. There has therefore not been any established laid down procedure for the implementation of budget in Nigeria. With the advent of democracy, this bad practice of non-implementation of budget to the letter has continued unabated thus becoming the major source of friction between the Executive and the Legislative arms of government. This study is intended to unveil those factors that are responsible for poor budget implementation frequently leading to their failures while also highlighting the control mechanisms required for a successful budget implementation. It is therefore the opinion of the authors that

the findings of this study will translate to a good reference material for academics, financial institutions, parastatals, governments and the public in general in budgeting, their control, practices and procedures in Nigeria.

METHODOLOGY

Secondary data were obtained from the Central Bank of Nigeria as contained in their Economic and Financial indicators bulletin as well as their Annual reports and statement of accounts from 1986 – 2000. These information were subjected to analysis, discussion and interpretation using appropriate tools.

RESULTS AND DISCUSSION

As Table 1 indicates, while the Federally allocated revenue is derived from oil receipts which accounts for 75% to 85% of the total Federal Government finances, the non-oil sector consisting of mainly Custom and Excise duties, accounts for 15% to 25% of the Government total revenue. The Federal Retained Revenue on its part comprises the statutory allocations from the Federation Account, independent revenue and deductions from loan-on-lent to state and local government. However, a review of the fiscal operation of the Federal Government between 1986 (inception of SAP) and 2000 showed that there was a worsening fiscal imbalance within this period as the deficit-GDP ratio increased from 4% to 10%. During this period, such instruments as import licenses and counter trade were used excessively and arbitrarily too. The ratio average of 6.8% between 1986 and 1993 increased to 11.2%, 12.3% and 13.3% in 1991, 1992 and 1993 respectively; and this however reflected the worsening gap between government revenue and expenditure. The federally collected revenue between 1986 and 1993 decreased to 31.6% in 1992 and finally to 25.1% in 1993. Federal Government retained revenue (Federation Account) contributions also declined from a peak of 92% in 1993 to 43% in the year 2000. Thus the mode of operation of fiscal policy management determines the level of success accruing to the government from achievement of surplus, deficit or balanced budget as evident in table 1.

Table 3: Government Expenditure (N Billion)

Expenditure	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
Fed. Govt. Exp.	16.2	22.0	27.7	41.0	60.3	66.6	92.8	177.3	141.6	256.5	306.7	337.2	428.2	487.1	947.7	
Non-Debt Recurrent Exp.	4.7	9.4	10.2	12.7	12.4	11.8	17.1	87.5	41.1	84.3	86.3	90.1	87.7	93.2	98.9	
Non-Debt Capital Exp.	3.2	5.1	6.2	9.0	8.3	8.7	9.9	15.4	31.1	102.6	106.2	111.3	119.0	122.1	130.0	
Debt Payment	Service	8.9	7.5	11.3	19.3	39.5	46.1	65.8	74.4	69.6	69.6	70.0	72.4	76.3	81.2	85.0

Source: CBN Economic Indicators.

Table 4: Inflation, Exchange Rate, Savings, Lending rate and Capacity Utilization in Nigeria. (1980-2000).

Year	Inflation Rate (%)	Exchange rate (N:\$)	Saving Deposit Rate	Lending Rate	Capacity Utilization%
1980	9.9	0.5464	6.00	9.90	70.10
1981	20.9	0.06100	6.00	10.00	73.30
1982	7.7	0.0729	7.50	11.75	63.60
1983	23.2	0.7241	9.50	11.50	49.70
1984	39.6	0.7649	9.50	13.00	43.00
1985	5.5	0.8938	9.50	11.75	38.30
1986	5.4	0.0206	7.50	12.0	38.80
1987	10.2	4.0179	14.0	19.20	40.40
1988	38.3	4.5367	14.5	17.60	42.4
1989	40.9	7.3916	16.4	24.60	43.8
1990	7.5	8.0378	18.8	27.70	40.3
1991	13.0	9.9095	14.29	20.80	42.0
1992	44.5	17.2984	16.10	31.20	38.10
1993	54.2	22.3268	16.66	38.1	37.20
1994	57.0	21.8861	12.61	21.00	30.40
1995	72.8	21.8861	12.61	21.00	29.30
1996	29.3	21.8861	10.11	21.00	32.50
1997	8.5	21.8861	6.10	20.25	37.20
1998	10.0	21.8861	5.20	21.40	32.20
1999	9.4	90.8421	4.80	21.20	31.30
2000	9.2	111.7001	4.3	20.71	30.50

Source: CBN Annual Report and Statement of Accounts (Many Series).

Table 2 shows the classification of Government revenue into:

- i. Oil and non-oil Revenue:- Oil revenue includes petroleum profit tax, rent, royalties and NNPC earnings, etc, while non-oil revenue refers to Custom and Excise Duties, Company income tax, etc.
- ii. Direct and indirect tax:- Direct tax comprises of personal duties, income tax, petroleum tax etc while indirect tax includes, Excise duties, Import duties, Purchase tax, etc.
- iii. Tax and Non-tax Revenue:- Tax revenue consists of both direct and indirect taxes while the non-tax revenue refers to income accruable to the government of Nigeria outside its taxes, such income from its investments, for example, Nigeria ports Plc, Nigerian airways etc.

From the mid 1970s, history recorded that the economy had been mono-cultural with the crude oil exports accounting for over 90% of foreign exchange earnings and 80% to 85% of government revenue even till date. A functional breakdown of total expenditure of the Federal Government of Nigeria (FGN) shows an increasing share was being accounted for by transfer payments such as debt service on both external and domestic debts, outstanding pension and gratuities, etc. The share of transfer payments (53%) increased progressively as table 3 shows between 1986 and 1993, while the share of productive expenditure declined (those that do not add to the volume of current goods and services), and gratuities declined progressively from 77.7% to 40.1% in the same period. Thus, the growth pattern in the fiscal operations herein reflected adverse developments in revenue from the oil sector which helplessly accounted for the 90% foreign exchange earnings and 80% to 85% government revenue in Nigeria.

Following from Table 4, it is apparent that;

- i. Inflation rate rose from 9.9% in 1980 to 40.9% in 1989 and to 72.8% in 1995 before declining to about 9.2% in the year 2000.
- ii. Exchange rate started from a very low base of N0.546:\$1 in 1980 and depreciated persistently to about 7.4:\$1 in 1988; N17.3:\$1 in 1992; N21.9:\$1 in 1996 and about N111.7:\$1 in the year 2000.
- iii. Savings deposit was 6% in 1980 relative to the lending rate of 9.9%. that is, the savings cum-lending rates gap was about 3.9% in 1980. This gap in favour of the lending rate rose persistently to 8.9% in 1990; 21.44% in 1993 before slightly declining to about 16.2% in 1998.
- iv. Capacity utilization worsened from 70.1% in 1980 to 40.3% in 1990 and 30.5% in 2000.

It is therefore apparent from these statistics that the level of interest rate remains unattractive and the spread between deposit and lending rates remain high, possibly reflecting inflationary expectations, high risk premium and poor risk assessment on the financial sector. These negative financial developments within an efficient banking system under deregulatory device constitute one major source of high cost of production in Nigeria.

In addition to the inefficiency in the banking system in Nigeria, there are the negative implications of government indecisions on what to do with respect to public utilities in Nigeria coupled with the impact of the deregulation of the tariffs on utilities. This has elicited expensive demand responses for industrial substitutes, inefficient and costly alternative for the supply of these utilities. Thus, these are not good enough to allow for an effective industrialization process in a developing country particularly within the globalization process.

PERFORMANCE APPRAISAL OF PAST BUDGETS IN NIGERIA, 1986 - 2000.

Despite the macro-economic achievements of some administrations in Nigeria, basic structural imbalances persist. These include the lingering problems of import dependence, reliance on a single economic sector-oil, weak industrial base, low level of agricultural production, a weak private sector, high external debt overhang, inefficient public utilities, low quality of social services and unabating unemployment.

Below is a detailed performance appraisal of the past budgets in Nigeria, 1986 - 2000.

OPTIONS FOR EFFECTIVE BUDGET CONTROL

For the fiscal operations of the government to arrest the decline in the economy and achieve the desired macroeconomic stability with regard to economic growth and commensurable development through efficient and effective budgetary control processes, the following measures have to be undertaken.

First, each year's budget estimates should henceforth aim at achieving a deficit free fiscal operation through a rigid fiscal discipline entrenched in accountability, transparency and policy consistency within the framework of macro-economic stability.

Second, any project not captured in the Rolling plan should not be listed in the capital expenditure programme to avoid double funding and duplication of projects already executed earlier or not listed in the Budget's rolling plan.

Third, all requests for extra-budgetary expenditure should be brought within the framework of accountability, needs and provisional supplementary budget.

Fourth, in line with the current practice, each fiscal year should be reviewed at the end of every quarter instead of the mid-year to appraise, evaluate and detect shortcomings in implementation with a view to taking appropriate remedial measures.

Fifth, the federal and state Governments or any other tier must not finance its extra-budgetary expenditure by borrowing through and/or from CBN's credit facility or any bank without measurable collateral security or ability to pay in order to bring sanity into the monetary and financial sector. This

Objective	Result	Impact on the Economy and Society.
1. To reduce level of unemployment	Though with no reliable data, but the government admitted that unemployment was rising.	Unemployment remained serious problem in the society.
2. To sustain single digit inflation	This has not been achieved; inflation rate rose to over 17.7%	The desired single digit has not been achieved.
3. To enhance efforts in capacity building and utilization	An assessment by the government indicates a decline in capacity utilization	Mainly falling output, rising unemployment and increased external dependence.
4. Elimination of the dual exchange rate regime.	This was achieved.	The problem and abuses that characterized the system were ended. But the expected stabilizing effects on prices and output were not noticeable, obviously because of problems with other macro economic policies.
5. To expand revenue base by exploring new source(s).	No evidence that anything substantial has been achieved.	The economy and society have continued to rely on one single sector - the oil for revenue.
6. To achieve at least 3.0% overall growth rate of the GDP.	This has not been achieved; information indicates a growth rate of less than 2.0%.	This must be a factor in the growing unemployment and poverty in the society.
7. To improve the purchasing power of the citizenry.	There were pay increases, particularly in the public sector. But given the small size of public sector workers in the population, the pay increase did not amount to a general improvement in purchasing power.	There are still complaints about weak purchasing power in the system.
8. To improve internal power of the citizenry.	There were reports about an improvement in the provision of operational equipment to security agents, especially police.	Internal security remains a serious problem up till date.
9. To maintain appropriate fiscal, monetary and exchange rate policies in order to achieve macro economic stability.	Several actions that defined the appropriate policies were taken, but macroeconomic stability has not been achieved. In the case of the exchange rate, the depreciation of Naira continues.	The expected stability has not been achieved. Instability is still evident till date.
10. Privatization of state owned enterprises.	Substantial progress has been made. Most of the steps outlined have been taken.	Has led to the escalation in the cost of utilities especially telephone.

would ensure a control of an achievable one digit inflation figure within budgetary goal thrust.

Sixth, the monetary policy for every fiscal year should be market determined and geared towards stimulating the real sector while the interest rate policy should be flexible and responsive to market fundamentals.

Seventh, timely release of appropriated funds should be rigidly followed by government to facilitate early budget implementation and at the same time engage the civil society in budget advocacy, budget defense sessions and monitoring of budget implementation.

Eighth, in order to maintain legality and legitimacy, Appropriation Acts should be fully implemented and non-excusable situations should attract appropriate legislative sanctions.

CONCLUSION

The need for effective budgetary control cannot be over-emphasized. Indeed, the prospect of building macroeconomic stability as a foundation for accelerated rate of growth and general improvement in public welfare can only result from sound economic policies that are implemented with commitment and credibility. In this regard, rechannelling of operational surplus and other savings recorded to productive sectors of the economy in order to improve social and economic conditions, particularly in rural areas, will be a step in the right direction. Moreso, the pursuit and fine tuning of various policies would lead to effectiveness in public expenditure management and bring about a jump-start in our socio-economic transformation.

From the analysis above, it becomes imperative that efficient budgetary control will have positive effect on the Nigerian economy.

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