

# **A REVIEW OF THE 2009 FEDERAL CAPITAL BUDGET IMPLEMENTATION EXPERIENCE: ISSUES AND WAY FORWARD**

## **SUMMARY**

**by**

**MIKE. I. OBADAN, Ph.D, FNES**

**Professor of Economics**

**and**

**Chairman,**

**Foundation for Education**

**and Development**

**Benin City**

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## INTRODUCTION

- The annual budget in Nigeria has continued to be relied upon by the government as the major tool for achieving development objectives.
- The budget is the framework for achieving the Seven-Point agenda of the present Administration.
- Rather, fortunately, the domestic macroeconomic environment improved significantly in 2009 against the background of gradually improving global economic environment.

- Besides, the government took a number of measures in 2009 geared towards improved capital budget implementation outcome.
- In spite of the measures, MDAs had difficulties absorbing the capital budget funds released and cash-backed.
- This paper therefore reviews the capital budget implementation experience in 2009. The specific issues addressed include the following:
  - Environment of budget implementation
  - Capital budget performance
  - Challenges/constraints
  - Going forward

## 2. ENVIRONMENT FOR BUDGET IMPLEMENTATION

- The environment for enhanced capital budget performance gradually improved in 2009 compared to the gloomy picture in the last quarter of 2008.
- Fairly good economic growth rates.
- Crude oil prices gradually recovered in the world market.
- Even though revenue performance provided cause for concern, the ensuing financing gap was met from other sources.
- Very importantly, the government a number of measures to improve budget implementation in 2009. The measures include the following:

- (i) Early releases and full cash-backing of capital warrants. The first quarter capital Warrant in respect of all on-going projects was issued on 9 January, 2009.
- (ii) Release of the Development Fund Warrant on aggregate basis as a one-line item rather than by project.
- (iii) Simplification of procurement process/procedures with
  - ✓ higher ministerial approval thresholds;
  - ✓ and the decentralization of procurement procedures to MDAs.
- (vi) Devotion of a cabinet meeting each month to budget execution by MDAs. Such meetings addressed progress and implementation challenges.
- (v) Strengthening of implementation and executive capacity following the work of a committee led by the Hon. Minister of Finance.

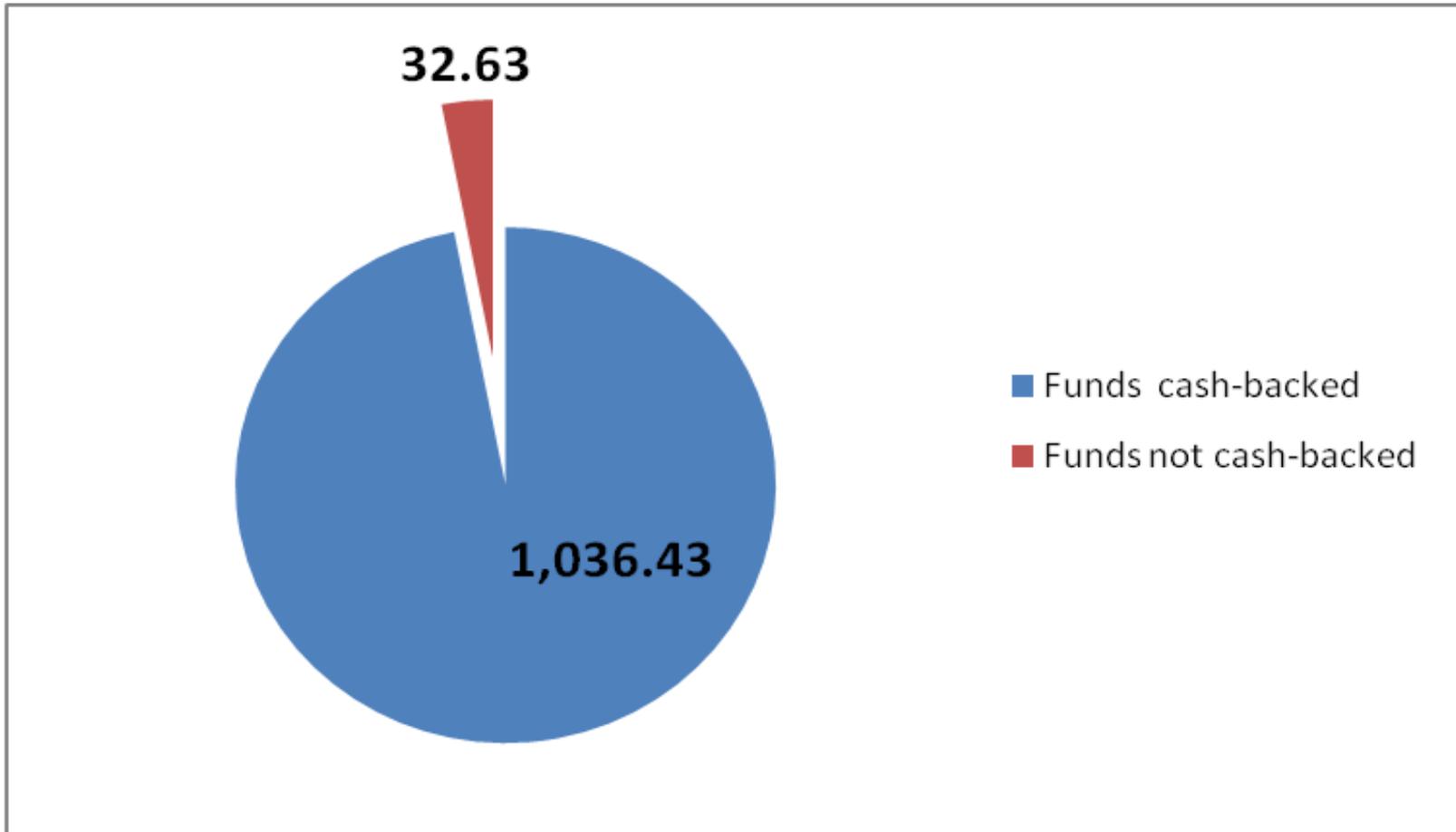
- (vi) Monitoring visitation of selected projects by the Budget Office, in collaboration with relevant officers from MDAs.
- (vii) Budget implementation, Monitoring and Evaluation capacity building workshop, organized in March 2009 by the Budget Office.
- (viii) Capacity building for MDAs by the office of Bureau of Public Procurement.

### **3. CAPITAL BUDGET IMPLEMENTATION**

- Funding is a very key determinant of budget implementation. But it may not be a sufficient condition for high performance.

- ✓ The budget implementation experiences in 2008 and 2009 have borne out this statement.
- ✓ Funds have been available but capital budget implementation has been very much below expectation.
- Capital budget funds were released for all the four quarters in 2009, and in most cases fully.
- As at December, 2009:
  - ✓ total capital budget funds released was N1,069.058 billion
  - ✓ N1,036.428 billion or 96.9 percent was cash – backed (FIG. 1).
  - ✓ The cash –backing represented 91.2 percent of the capital budget.
- But only 54.26 percent of the funds was utilized.

**Figure 1: Funds released and cash-backed in 2009  
(Billion Naira)**

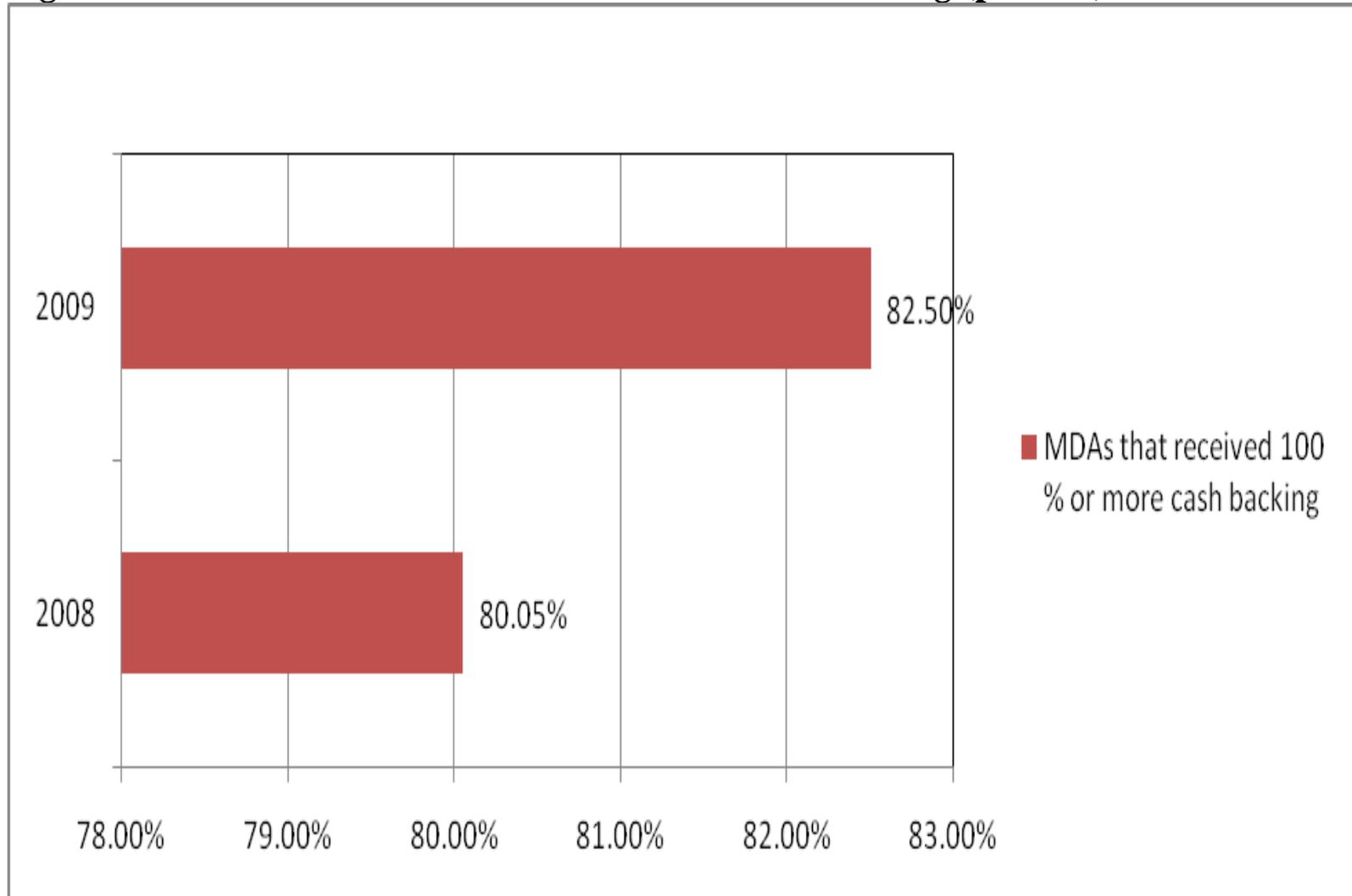


- 82.5 percent of the MDAs received 100 percent or more of their budget as cash-backing (Table 1 and Fig.2)) compared to 80.0 percent for 2008.
- The 18 that had more than 100 percent of budget as cash-backing had access to other funds through Supplementary Warrant, Authority to Incur Expenditure, etc.
- Variance between the amount cash – backed and the budget provision was quite low in 2009 at -N99.6 billion compared to -N504.9 billion for 2008.
- **Thus, generally funding was less of a problem in 2009.**

## Table 1: Cash – backing in relation to Capital Budget

		<b>2008</b>	<b>2009</b>
1	MDAs that received less than 100% of budget as cash backing	10(27.8%)	7(17.5%)
2	MDAs that received 100% of budget as cash backing	31(68.9%)	15(37.5%)
3	MDAs that received more than 100% of budget as cash – backing	5(11.1%)	18(45.0%)
4	MDAs that received 100% and more of budget as cash-backing	36(80.0%)	33(82.5%)

**Figure 2: MDAs that received 100% or more cash-backing (percent)**

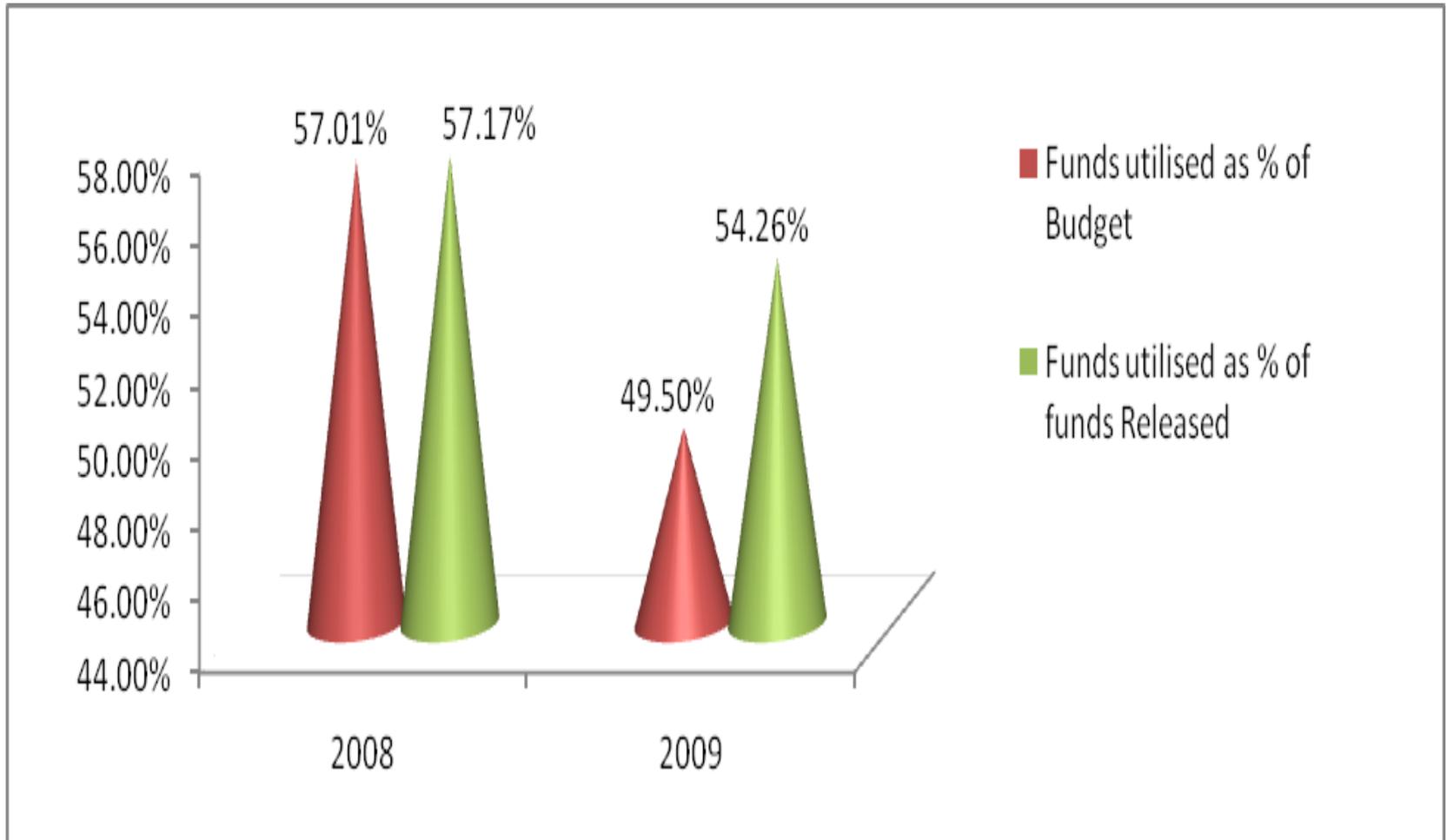


**Table 2: Funds utilisation in Relation to Capital Budgets of MDAs**

		<b>2008</b>	<b>2009</b>
1	Total deviation of Funds utilisation from Budget (N'mn)	-536,548.0	-573,622.9
2	Average variance between funds utilisation and budget (N'mn)	-13,757.64	-14,340.6
3	No. of MDAs that utilized their budgets/funds released fully	12	1
4	No. of MDAs that utilized a proportion of the funds released	27	42
5	No. of MDAs that utilized more funds than budget	0	5
6	Funds utilisation as a proportion of total budget	57.01	49.5

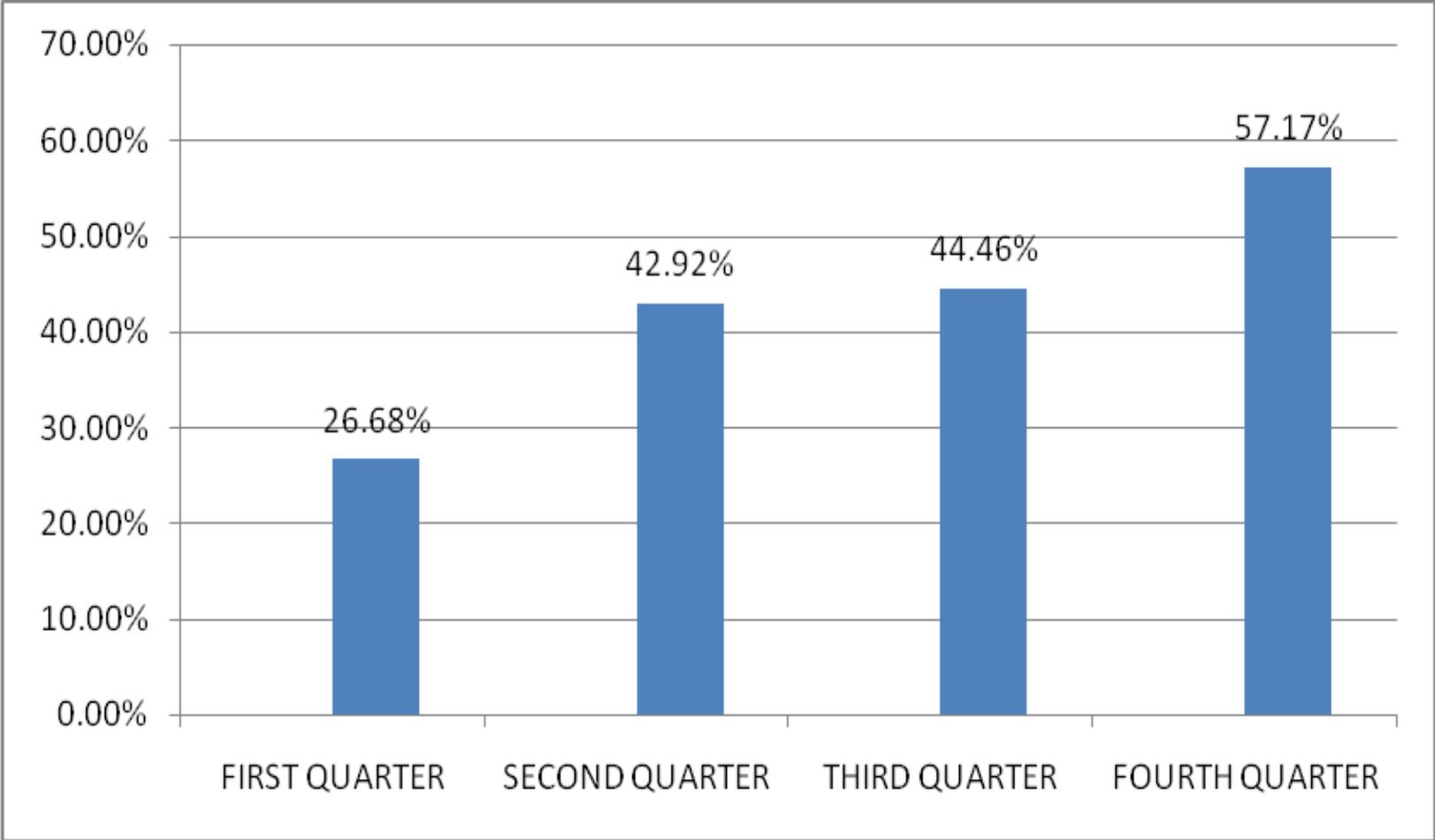
- Table 2 shows the utilization of funds released in relation to the capital budgets of the MDAs.
- The variance between funds utilisation and the capital budget, in aggregate and average terms, was higher in 2009 than in 2008.
- The overall capital funds utilisation rate in relation to the budget was 49.5 percent in 2009 compared to the 57.01 percent reported for 2008 (Fig. 3).

### Figure 3: Yearly capital budget performance (Percent)



- As table 2 further shows only one MDA utilized its budget fully in 2009 compared to 12 in 2008.
- Funds utilisation as a proportion of the capital budget was quite low in 2009 in relation to what was achieved in 2006 (95.4%) and 2007 (68.3%).
- ✓ The relatively better performance was due to the government policy then which allowed budget implementation beyond the fiscal year ending in December.
- A summary of the capital budget performance of each MDA in 2009 in relation to 2008 is shown in table 3.
- Figure 4 shows the quarterly performance of the capital budget in 2009.
  - ✓ Capital budget implementation improved consistently from quarter to quarter but by the end of the year the overall average rate was just 54.26 percent.

**Figure 4: Quarterly performance of capital budget in 2009 (Percent)**



- In Table 3, two columns are shown for 2008, one column shows capital budget performance as at November 2008 while the second shows performance as at December, 2008.
- The columns reveal very wide gaps between the figures which are rather difficult to explain given that the time gap is just one month.
- MDAs that achieved very low capital budget performance as at November 2008 suddenly achieved 100 percent performance after one month.

**Table 3: Capital Budget Performance of MDAs, 2008 –  
2009 (Percent)**

<b>S/N</b>	<b>Ministry, Department, Agency</b>	<b>2008 (Nov)</b>	<b>2008 (Dec)</b>	<b>2009 (Dec)</b>
1	Presidency	69.0	90.84	28.07
2	Office of SGF	n.a	n.a	69.25
3	Youth Development	n.a	n.a	43.58
4	Police Affairs	4.86	100.0	81.30
5	Police Formation	8.89	100.0	61.63
6	Women Affairs	72.11	60.16	80.54
7	Agric & Water Resources	71.16	87.18	83.59
8	Auditor-General	22.4	100.0	8.98
9	ICPC	37.03	100.0	49.08

10	Defence	58.06	69.33	82.20
11	Education	48.95	94.29	65.21
12	Federal Capital Territory	68.52	75.99	45.75
13	Foreign and Inter Govt Affairs	42.15	64.52	73.31
14	Finance	43.87	97.48	58.73
15	Health	39.61	79.01	48.67
16	Commerce and Industry	45.5	95.98	89.76
17	Information and Communication	35.6	53.82	95.66
18	Interior	11.6	100.0	66.42

19	Head of Service	60.87	100.0	65.63
20	Justice	43.34	78,96	64.22
21	Labour and Productivity	41.55	99.89	53.14
22	Science and Technology	72.98	97.56	91.42
23	Works	39.95	99.34	47.53
24	Aviation	48.37	70.84	35.37
25	Transport	46.15	100.0	35.15
26	Power	54.63	98.26	25.61
27	Petroleum	21.15	76.58	22.68
28	Mines & Steel	67.05	97.27	50.68
29	National Wages & Salaries	54.36	100.0	76.73
30	Environment	20.38	95.59	68.81
31	Tourism, Culture & NOA	20.38	90.10	83.48

32	National Planning	n.a	99.44	94.62
33	National Sports Commission	0.07	99.89	94.45
34	Office of National Security Adviser	n.a	100.0	62.50
35	Niger Delta	n.a	n.a	66.55
36	National Population Commission	44.11	100.00	46.68
37	Code of Conduct Bureau	21.25	74.80	99.62

38	Code of Conduct Tribunal	n.a	n.a	99.44
39	Revenue Mobilization Allocation & Fiscal Commission	69.75	100.0	43.09
40	Federal Civil Service Commission	n.a	100.0	28.24
41	Federal Character Commission	38.28	75.71	100.00
42	Police Service Commission	n.a	n.a	n.a
43	INEC	24.02	64.25	33.90
44	National Assembly	50.02	99.83	74.71
45	<b>TOTAL</b>	<b>43.95</b>	<b>57.17</b>	<b>54.26</b>

- Nevertheless, the 2009 capital budget performance figures are compared to those as at December 2008 as follows:
- 34 MDAs out of 39 achieved 70 percent and above performance in 2008, but only 16 MDAs achieved 70 percent or more performance in 2009.
- The 16 included only five of the priority MDAs/ heavy spending MDAs, namely, Police, Agriculture and Natural Resources, Defence, Foreign Affairs and Science and Technology.
- But as table 4 reveals, out of the nine MDAs related to the Seven-Point Agenda, only 2 achieved capital budget performance of 70 percent and above – Police and Agriculture and Natural Resources.
- But then, the nine MDAs accounted for 61.4 percent of the capital budget.

**Table 4: Capital Budget Performance of MDAs related to the 7-Point Agenda, 2009.**

<b>MDA</b>	<b>Capital Budget N' million</b>	<b>Total Funds Released N'million</b>	<b>Amount cash Backed N'million</b>	<b>Amount Utilized N'million</b>	<b>Utilization (%)</b>
Transport	38,580	76,752.0	64,252.0	22,587.2	35.15
Power	94,774	39,599.2	39,599.2	10,143.1	25.61
Works, Housing & Urban Devt	208,616	209,093.8	209,093.8	99,382.9	47.53
FCTA	66,650	133,149.9	113,149.9	51,767.2	45.75
Police	11,992	21,560.2	21,545.2	13,322.3	71.46
Agriculture & Water Resources	138,929	138,824.9	138,724.9	115,954.4	83.59
Niger Delta	48,000	48,000.00	48,000.0	31,943.3	66.55

Education	40,005	36,386.6	36,372.3	23,719.6	65.21
Health	50,815	50,343.3	50,358.8	24,509.4	48.67
Average	77,595.7	83,745.5	80,121.8	43,703.3	54.4

- Among the 9 MDAs related to the 7-Point Agenda, the Power sector achieved the lowest performance of 25.61 percent, followed by Transport (35.15%); Federal Capital Territory (45.75%) (To be qualified soon) ; Works and Housing (47.53%); and Health (48.67%) – all below the overall average of 54.26 percent (Table 4 and Fig. 5).
- The implications of the inability of these MDAs to utilize the released funds are very disturbing.
- Take the power MDA, for example , one of the targets/deliverables expected of it was 6,000MW of electricity generation and distribution by December 2009. This target was never achieved.
- According to the Guardian Newspaper of February 5, 2010, only 3,700MW was achieved at the end of December, 2009. Power generation has since dropped by 1,000 to 2,700 MW!

## **Important note:**

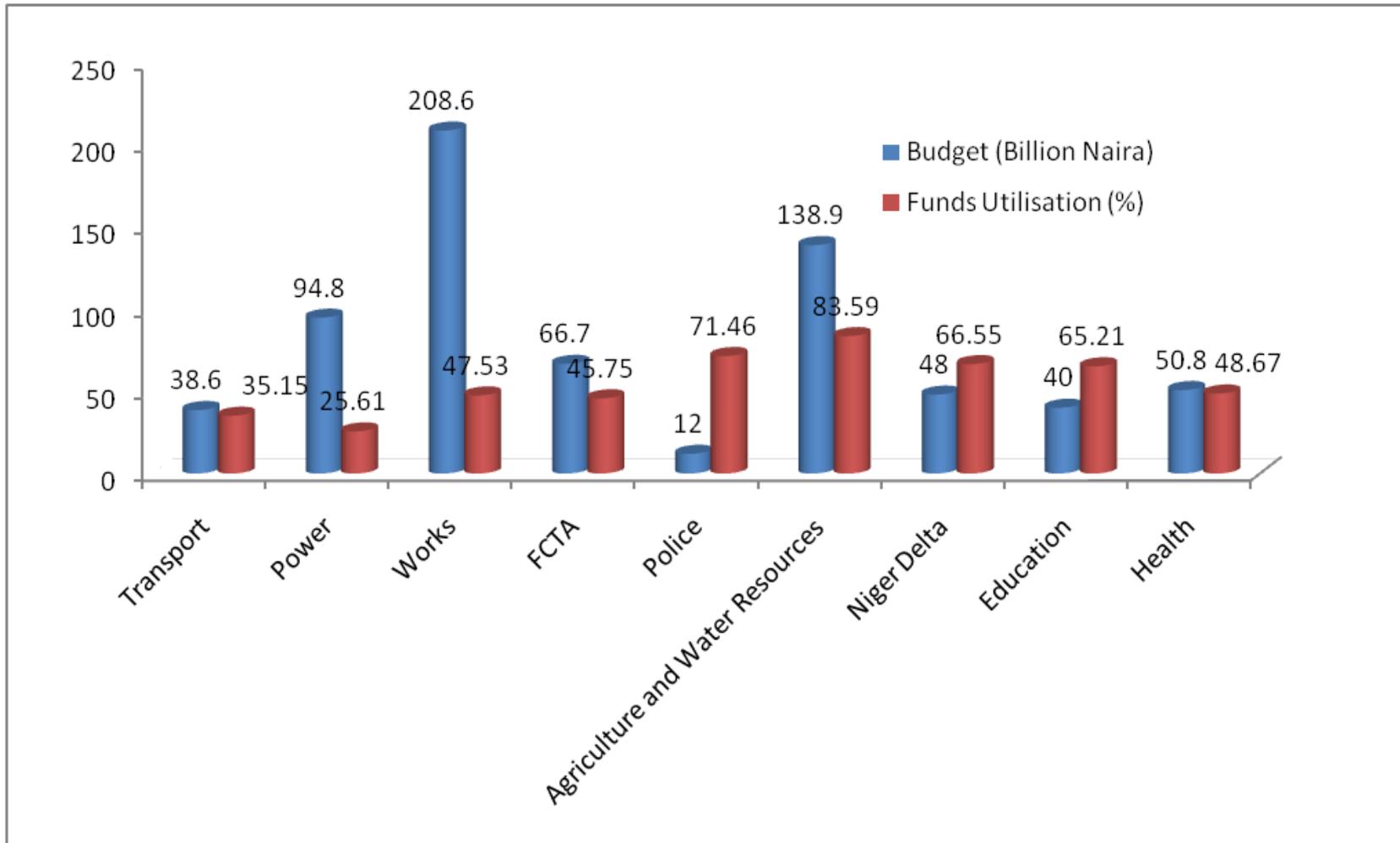
- **The performance data for 3 MDAs, viz: FCTA, Health, and Transport seem to distort their capacity to perform.**
- **The 3 received supplementary budgets late – N66.5 bn (out of which N20 bn already utilised), N1.7 bn, and N38.4 bn, respectively. Funds were released and cash-backed in December with no time to spend them.**
- **So, adjusting the cash-backed funds of the MDAs by the amounts of the supplementary budgets revealed improved performance as follows:**

- ✓ FCTA – 77.7% against 45.8%
- ✓ Health – 50.4% against 48.7%
- ✓ Transport – 87.17% against 35.14%.
- **In the Power sector**, in the absence of information on funds utilisation, OAGF data assumed zero % utilisation of the N55.2 bn released and cash-backed for PHCN successor companies. This may not be true.
- So, if 100% utilisation is assumed, Power sector performance will be 68.9% instead

of 25.6%.

- However, actual performance of the sector may be between 25.6% and 68.9%.
- Therefore, in the light of the above adjustments, actual implementation may be above the 54.26% indicated in the OAGF data

# Figure 5: Capital budget performance of MDAs related to the 7-Point Agenda



- The 9 MDAs related to the Seven-Point Agenda, on average, achieved 54.4 percent capital funds utilization.
  - Overall, 17 MDAs achieved less than this average including 7 of the 15 priority/big spending MDAs
  - The relatively poor capital budget implementation in 2009 was in spite of the fact that capital funds were released and cash – backed for the four quarters.
- **Thus, generally, funds appeared to be far from being a binding constraint.**
  - **Idle balances of MDAs at the CBN as at December 2009 stood at N474.139 billion or 41.74 percent of the capital budget.**
  - **Cash-backing stood at N1,036.428 billion or 91.23 percent of the capital budget.**
  - Why then were MDAs not able to utilize capital funds released to them or implement the budget as expected. The following section explores the challenges.

## 4. CHALLENGES/CONSTRAINTS TO BUDGET IMPLEMENTATION

- In my study of factors affecting capital budget implementation in 2008, the empirical investigation revealed the following (Obadan, 2009);
- ✓ All the MDAs considered late budget enactment / uncertainty about which budget to implement as a major constraint. However, the problem of uncertainty about which budget to implement was not an issue in 2009.
- ✓ Problems arising from compliance with due process mechanism / Public Procurement Act. This was considered important by 88 percent of the MDAs. In 2009, however, the due process procedures were simplified and decentralized.

✓ Complaint about low budget allocation / downward review of allocations in the amended budget. This was not an issue in 2009 vis-à-vis idle balances of MDAs in the CBN.

✓ Limited human capacity / technical expertise, especially relating to compliance with the Public Procurement Act. The office of the BPP implemented a series of capacity building activities for many MDAs in 2009.

✓ Other factors identified such as problems with contractors, unplanned new projects, tying of funds release to projects, etc, affected the MDAs in different degrees or not at all.

- If most of the above factors, were not operative in 2009 because of government's various interventions and measures, then what were the challenges/constraints faced by MDAs in capital budget implementation?

# Challenges to the Overall Budget Implementation

- Notwithstanding the highly improved macroeconomic environment, the 2009 budget faced significant implementation challenges on two fronts:
  - Underperformance of revenue receipts from both oil and non-oil sectors. However, the short fall was remedied.
  - But, while the funding challenge was effectively redressed, capital budget implementation remained a challenge throughout the year.

## Challenges to the MDAs

- The monitoring and evaluation reports of the Budget Office along with the interactions of the consultant with some MDAs revealed the following challenges/constraints to budget implementation.
- It is hoped that participants at this workshop would be able to confirm the significance or otherwise of the factors which include:
  - ✓ The tendency of some MDAs to attempt to implement a large number of new and on-going projects.
  - ✓ Overloading of some contractors with more contracts than they can materially or financially handle.
  - ✓ The execution of some projects, e.g, some types of construction projects, was influenced by the nature of the season, for example, by Ministry of Works.

- ✓ Delays in payment of compensation to displaced communities/persons.
- ✓ Use of preliminary designs in the award of project contracts by some MDAs.
- ✓ Disagreement between some MDAs and contractors on cost of work actually done.

## **Other challenges**

- In addition to the above, four other factors need to be given serious consideration.
- Issue of capacity in relation to the amount of budget approved. It seems that some MDAs receive too much budget allocation beyond their executive capacity.
- Issue of late supplementary budget and late cash-backing

- Inadequate planning of projects and programmes before budget allocation is made to them.
- Delays in enacting the Appropriation Bill into law. This problem has remained and such delays affect the implementation of new projects.

## **5. GOING FORWARD**

- One major lesson from the capital budget implementation experience of the past five years is that the 12-month fiscal year seems too short for budget approval and effective budget implementation.
- ✓ Consequence is extension of capital budget implementation by 3 to 6 months, into the succeeding fiscal year. But this is an aberration.
- ✓ So, need to avoid lapses that give rise to the need for extension of budget implementation period.
- ✓ Of specific importance for consideration are the following:

- Early preparation and submission of Appropriation Bill to the National Assembly and early enactment of the Bill into law.
- Start the budget process in April/May.
- Avoid overloading the budget. For multi-year projects, MDAs should budget for the component of the project that can be implemented in a fiscal year.
- ✓ The Budget Office and NASS should ensure this.
- ✓ Provide assurance that projects admitted into the budget will be funded annually to completion.
- ✓ Discourage MDAs with sanctions from lobbying NASS to increase their capital budgets from what the executive provided.
- ✓ Cooperation of NASS is highly required.

- New versus on-going projects. MDAs implementing on-going multi-year projects should focus on the on-going projects and avoid over stretching their implementation capacity as well as that of their contractors with new projects.
- MDAs should avoid overloading contractors with too many projects that are very much beyond their executive and financial capacity.
- Avoid admitting into the budget new projects that are not designed.
- Provide funds in the budget for project preparation in a fiscal year and then appropriate funds for its implementation in subsequent fiscal years.
- Such funds should also cover payments of compensation to communities/persons to be adversely affected by the projects.
- Stick to the discipline imposed by the MTEF/MTSS.
- Annual capital budget should be predicated on the prioritization indicated in MTEF/MTSS

- Timely preparation of project/procurement documents and early commencement of compliance with the due process requirements.
- Strengthening of the capacity of MDAs to implement projects
- Consider central deployment of technical/professional staff by the Ministry of Works to MDAs, mostly those in need.
- Systematic training and re-training of budget officers, procurement officers, M & E officers etc, on budget formulation and implementation processes.
- Periodic forum of the Budget Office with contractors/consultants handling major projects of MDAs to examine issues relating to
  - Progress in project implementation
  - Disagreements on projects
  - Any militating factors
  - Options to address constraints/challenges.
- Finally, strive to have effective monitoring and reporting on programmes and projects.