Fiscal Responsibility and Repositioning of Nigerian Budgetary Process and Outcomes

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Abstract

Fiscal stability, control, transparency, accountability and probity served as bases for the Fiscal Responsibility Act of 2007 enacted by the National Assembly. Corruption and mismanagement are very popular in the vocabulary of financial management in Nigeria. Corruption is not an accident of history or a genetic disorder peculiar to Nigeria, it festers where there are loopholes that give people free rein to cut corners and where there is absence of sanctions to punish bad behaviour. Unfortunately, the budget is where perpetration of corruption is rampant. The objective of this paper is to critically examine how Fiscal Responsibility has ensured prudent management of resources and macroeconomic stability; whether it has secured greater accountability and transparency in public financial management and to determine, if it has promoted national economic objectives. The research methodology adopted was essentially content analysis or documentary survey and limited interview using purposive sampling method. In the documentary method, Newspapers, Magazines, Journals, Textbooks, periodicals and official documents of the Ministry of Finance, Office of the Accountant General of the Federation, Budget Office, Office of Fiscal Responsibility Commission and the official publications of the National Assembly were utilized. The study established that Fiscal Responsibility Act is operational mainly at the federal level. States and Local Governments were not captured but are expected through a memorandum of understanding to adopt at their level, if they so choose, because of the federal structure we operate. Some states and local government have adopted it, while many others have not. The study also revealed the commencement of the production and presentation of Medium Term Expenditure Framework (MTEF), started since 2009 as demanded by the Fiscal Responsibility Act. Though there were flaws here and there but certainly, it shows the determination of government in putting things right. It was established that Fiscal responsibility has been able to keep the budget in check. It is therefore recommended that the Fiscal Responsibility Commission should be able to enforce its principles to ensure that the government and ministries,

departments and agencies (MDAs) adhere strictly to it. States and local governments should adopt the fiscal responsibility Act in their various areas of jurisdictions as the states and the local governments draw more than half of their revenue from the federation account and so should be compelled to adopt fiscal responsibility in the best national interest. Nigeria should take a cue from the experience of Brazil, in Brazil, fiscal responsibility legislation covers all the three tiers of government and the result is that there is more optimal growth and fiscal stability compared to India where fiscal legislation applies only to the centre with unsatisfactory result. Government should have the political will to enforce strictly provision of fiscal responsibility to curtail budget indiscipline, ensure order and discipline taking loans by all tiers of government.

1.1 Introduction

According to Socrates (399 BC), "Accountability in the management of public finance isso important, that public accounts should be displayed in the market place for all to see and debate". This is indeed one of the major thrusts of Fiscal Responsibility Act which seeks to make the budget open and transparent, as well as to ensure government revenues; expenditures, borrowing and other related fiscal matters are keptunderproper check and control. The Fiscal Responsibility Act (FRA) passed in 2007, is a set of rules embodied in legislation, committing all tiers of government to fiscal prudence in public financial management and inter-governmental fiscal co-ordination to secure greater macroeconomicst ability.

Fiscal Responsibility policy started as a response to demands during Obasanjo's administration by Nigerian Civil Society and International Financial Institutions for more transparent and people-centered development policies and actions, especially within the context of Poverty Reduction Strategy Papers (PRSPs), which Nigeria had earlier subscribed to, and domisticated under its National Economic Empowerment and Development Strategy (NEEDS). The FRA was initiated as an executive bill by former President Olusegun Obasanjo in 2004 and signedintolaw by the latePresident Umaru Musa Yar'adua in 2007.

As defined in the preamble of the Act, the objectives of the FRA (2007) are as follows:

i. To provide for prudent management of the nation'sresources.
ii. To ensure long term macroeconomicstability of the nation's economy.

iii. To secure greateraccount ability and transparency in fiscal operations.
iv. To establish the Fiscal Responsibility Commission (FRC) to ensure the promotion of the nation's economic objectives.

In view of the high rate of corruption, dwindling revenue and ever demanding needs of the people especially within the climate of democracy being experienced in the country, fiscal responsibility can go a long way to curtail these vices in our system. In a speech delivered by his Excellency, the late President Alh. Umaru Musa Yar'adua at the Inauguration of the Fiscal Responsibility Commission on Friday, January 25, 2008, he stressed the importance of more prudent utilization of scarce domestic resources. As a specialized fiscal institution, therefore, he insisted must take charge and enforce prudential rules in our fiscal management.

He reminded the commission that his government had an ambitious agenda to implement and tackle issues that had for long dampened our growth prospects, and the quality of government institutions and public financial management are critical for the effective scaling-up public spending. The success of any Fiscal Responsibility framework hinges on appropriate design, consistency in public financial management (PFM) regulations, and enforcement of their provisions. Certainly the adoption of the fiscal responsibility act and its strict adherence is key to the effective and efficient public financial management in Nigeria.

Over the years the Nigerian budget had often been seen as an annual ceremonial ritual. Today with the enactment of the Fiscal Responsibility act, the budget would be subjected to greater scrutiny, discipline, monitoring and control of finance, loans and wider consultation. The Fiscal Responsibility Act, 2007, Part II (Sections 11 – 17) provides for Medium Term Expenditure Framework (MTEF). According to the Act, the Federal Government after consultation with the states shall cause to prepare and lay before the National Assembly for consideration and approval an MTEF for the next three financial years. The MTEF is prepared every year and submitted to the National Assembly (NASS) not later than August every year proceeding the next three financial years. The MTEF, according to the Act, shall contain the following:

i. Macroeconomic framework,
ii. Fiscal strategy paper,
iii. Expenditure framework
iv. Revenue framework,
v. Consolidated debt statement and

vi. Statement on contingent liabilities

The MTEF contains aggregate expenditure ceilings for the Ministries, Departments and Agencies (MDAs) and the budget deficit, if any, should not exceed three percent (3%) of the Gross Domestic Product (GDP), except in period of emergency such as war, earthquake, flood, famine or general insecurity as the prevailing “Boko Haram” insurgency in the country etcetera.

Section 13 of the Act mandates the Minister of Finance to prepare the MTEF after consultation with some MDAs such as the CBN, National Planning Commission etcetera and Non-Governmental Organizations (NGOs), the organized private sector and civil society organizations and clear it with the Federal Executive Council (FEC) before submitting it to the National Assembly (NASS). Annual budgets of the Federal Government, including the MDAs, shall be derived from the MTEF as approved by NASS as contained in Section 18 of the Fiscal Responsibility Act.

With regards to the institutionalization of the MTEF in fiscal governance in Nigeria, the FRA, in Section 17, provides: States and Local Governments which so desire, should be assisted by the Federal Government to manage their fiscal affairs within the medium term framework. In other word, Section 17 of the FRA recognizes the constitutional autonomy of the States and Local Governments within the context of the federal system we operate to manage their public finances in their own way. However, following the provisions of the Act, the Federal Government will provide states that are willing to adopt it, assistance and some incentives.

On 29th July 2009, for the first time in the economic history of Nigeria, MTEF was submitted to NASS in accordance with the Fiscal Responsibility Act.

As Section 17 of the FRA indicates, the Act is applicable to the Federal Government of Nigeria (FGN) and its MDAs alone excluding the States and Local Governments otherwise known as Sub-National Agencies (SNAs). However, through a memorandum of understanding, they can join on their own volition in order not to harm the federal system we operate. The federal system, makes components units of the federation relatively autonomous to the extent that the centre cannot just foist any policy on them hook line and sinker. However, the researcher thinks differently to the extent that fiscal matters that are critical to our survival should fall within the context of core national interest and the federal government should be allowed to foist it on them if leaving them will bring our economy on harm's way. This should be a clear case of subordination of every other interest to national interest. All the same, some states like Taraba had agreed to establish Budget Departments and Debt Management Departments which will collaborate and partner with their Federal FRC counterparts others have not.

Yelwa (2010) who is the Chairman of Fiscal Responsibility Commission, presented useful tips that could ensure the success of implementing Fiscal Responsibility Act within the context of public finance. He observed that,

> the overriding fiscal risk for macroeconomic stability relates to its institutional constraints in managing the large exposure to volatile oil revenue, unemployment, poverty, declining accountability and transparency, rising budget deficits and unrepentant corruption. This raises the importance of fiscal policy coordination across government tiers with a view to addressing the following fiscal challenges to macroeconomic stabilization and growth. These challenges are;
> i) How to conduct a fiscal policy aimed at smoothening spending levels (including deficits) over time, to avoid boom-and-bust and build up savings for future periods of low revenue.
> ii) How to harmonize and regulate external and domestic borrowing across the federation and institute hard budget constraints, in order to enable orderly access to financial markets and finance large infrastructural projects.

To achieve the above, the FRA institutionalized the MTEF in the fiscal governance of Nigeria across all government tiers. It made it a point of duty for FRC to partner and collaborate with its stakeholders and assist the States with the institutional development of their Fiscal Responsibility projects.

1.2 Statement of the Problem

Prior to the enactment of Fiscal Responsibility Act, Nigeria's fiscal policies were generally characterized by poor planning, massive waste and wrong priorities. The situation was so bad that budget indiscipline was the order of the day. In fact monies were spent for items not budgeted for and those budgeted releases were delayed or denied. Loans were obtained indiscriminately by government at different levels. Some loans were obtained even when it was clear there was no need for them. More often than not, they were uncoordinated and not properly documented or accounted for. Nigeria was in serious debt crisis and only recently exited from the Paris Club. One thought issues like dwindling revenue, corruption and others would be addressed to enable the government access more revenue to meet ourexpenditures demand and by so doing keep our pride. Budget indiscipline has denied us huge revenue, made access difficult to many things that citizens of other countries take for granted. These include good roads, potable water, affordable healthcare, constant power supply, quality education, clean and sanitary environment and assured security of life and property. A recent United Nations Report revealed that $400 billion had been stolen by Nigerian corrupt leaders between 1960 and 1999. If the period is stretched further to 2013, the figure would be much higher due to the long history of economic plunder by successive leaders. It is hoped, with the enactment of Fiscal Responsibility Act, its enforcement would address squarely the lingering problems that have impinged on good budget practices in Nigeria.

1.3 Objectives of the Study

The objectives of this paper are the following:

i. Ascertain how Fiscal Responsibility Commission has affected prudent management of the nation'sresources.
ii. Determine the extent to which Fiscal Responsibility Commission has ensured long term macroeconomicstability of the nation'seconomy.
iii. Find out whether or not Fiscal Responsibility has secured greater accountability and transparency in fiscal operations or public financial management.
iv. Establish whether or not Fiscal Responsibility Commission (FRC) has been able to ensure the promotion of the nation'seconomic objectives and regulate discretionary management of public debts.

1.4 Research Methodology

Generally, research is an objective and systematic process of gathering, recording, analyzing and interpreting data for effective decision-making. In the course of this research, data was collected through documentary survey method as well as interview. A number of documents/materials including official publications, Circulars, Files, Fiscal Responsibility Act 2007, Memos and other relevant documents of the Budget Office, Office of the Accountant General of the Federation, the Ministry of Finance, Journal Articles, Newspapers, Magazines and other Periodicals were utilized. Limited Interview was also carried out with some staff of the above agencies using purposive sampling by targeting those who are adequately informed about the subject matter and their responses were found useful. Therefore, both primary and secondary data were used and they both complemented each other.

1.5 Result and Discussions

Jenyo (2012) gave an exposition of how the implementation of Fiscal Responsibility Commission has fared in Nigeria so far. First is the area of Excess Crude Account (ECA), which was created essentially to protect planned budgets against short falls due to the volatile nature of crude oil prices in the international market. The aim is to insulate the Nigerian economy from external shocks. As a result of increasing fluctuation of oil price in the international market. The Excess Crude Account Increased almost four fold, from $5.1 billion in 2005 to over $20 billion by November 2008. It was discovered that it accounted for more than one-third of Nigeria's external reserves at that time. During Obasanjo era, about $12.4 billion was withdrawn from the Excess Crude oil Account (ECA) to pay part off the debt owed the Paris club, and 17 million to offset part of the 2006 National Population Census and more than $2.3 billion for Niger Delta Power plants. Since then, the Excess Crude Account could not be properly accounted for. Several withdrawals were made from the Account in 2010 even though the international market price did not fall below the oil benchmark price of N67 per barrel and the projected production of 2.39 million barrels per day (mpd). The Exces Crude oil Account which had a credit balance of $20 billion in 2007 went down to about $400 million in 2010. This decline in external reserve was essentially due to withdrawals that were not clear. This affected public confidence in the Nigerian currency by international investors. Infact, an Investment Rating Agency, "Fitch Ratings and Standards and Poor" slightly underrated Nigeria from B+ to B-.

Another challenge of Fiscal Responsibility Act is in the area of delay in budget implementation and poor- execution of development plans. The Fiscal Responsibility Act (FRA) 2007 provides that the federal government, after consultation with states, shall not later than four months before the commencement of the next financial year; cause to prepare a Medium Term Expenditure Framework for the next three years. The minister of finance is required to consult widely not only with states but civil society organizations, the organized private sector and other non- governmental organization in the course of preparing the budget estimates. The idea behind this, is to allow the people to make inputs in the budgeting process. Although consultation takes place, it appears more needs to be done to ensure more participation of the population. There still exists a disconnect between the people and the government. Government needs to devise strategy of involving more people both at sectoral and grassroots levels for the budget to be meaningful. It is true, the minister of finance in collaboration with the budget office has been producing the MTEF even though with some flaws. Tardiness in its production has always resulted in late passage of budgets. According to report released by the Fiscal Responsibility Commission, the MTEF 2012- 2015 covered four years contrary to the provision of Fiscal Responsibility Act, 2007 which stipulates that MTEF should be prepared for the next three years. Despite some of these flaws observed, the budget is gradually being stabilized within the context of a medium framework.

Another issue worth considering is the provision that says states and local government can adopt fiscal responsibility Act in their various domains, if they so wish. This sounds too conciliatory. One wonders why an issue that is crucial to the economic development of the nation could be pursued based on voluntary acceptance by some critical members of such a group. This is more so as the states and the local governments draw more than half of the revenue from the federation account. It would be improper to attack only one side of a system that is entirely afflicted. Like a cancerous tumour, it would spread to other parts of the system. Therefore the state and the local government should not just be part of the fray, but active members in the positive revolution taking place within the parlance of public financial management. If this is not done, no matter the success achieved at the federal level, the financial system would remain chaotic. The experiences of Brazil and India are worth mentioning here. In Brazil, fiscal responsibility legislation covers all the three tiers of government, while that of India applies only to the centre and the Brazilian experience has proved to be more stable and coordinated than that of India.

Lack of transparency and prudence in the budgetary process has denied most Nigerians access to many things that citizens of other countries take for granted, given the arrant primitive accumulation of wealth by the elites. There has been so much misappropriation and corruption leading to diversion of huge money meant to fund the budget. To that extent, essential amenities like good roads, potable water, affordable healthcare, constant power supply, quality education, clean and sanitary environment and assured security of life and property have been difficult to provide.

The study also revealed the indiscriminate and uncoordinated loans that are collected from different sources by federal, states and local governments without good reasons for doing so. Most times the loans, so collected are mismanaged with little or nothing to show for it. Sometimes, when the tenure of some chief executives is about to end, they still go for loans and transfer the debt burden to the incoming executive. This is nothing short of financial recklessness. The Nigerian debt as at 2013 stands at $10.1 trillion. Recently, the minister of finance was at the National Assembly to make a case for legislative approval for the procurement of another foreign loan, when she was instrumental in making Nigeria to exit from the Paris Club. This portrays lack of policy consistency in our public financial management. The penchant of going for loans at the slighted need hurts our economy and even our national pride. We are not against collecting loans by government, but the reasons for it must be cogent.

The report by United Nations which revealed that $400 billion had been stolen by Nigerian corrupt leaders between 1960 and 1999 from the national treasury is enough reason to adopt fiscal responsibility act to check some of these incidence of corruption. It has also brought to the fore the lack of political will by our leaders to address the issue of corruption to save the treasury from these rampaging vampires. President Goodluck Jonathan declared that the Nigerian society partly encourage corruption in the country. As those who have corruptly enriched themselves are hero-worshipped instead of being condemned. As the president too, he has a responsibility to ensure that agencies in charged of corruption are effective and hard on those involved in corruption. If he does that, it will send the right signal and if he can be hard on those guilty of corruption, no doubt he become the peoples hero.

In spite of the problem encountered, the fiscal responsibility commission has braced up to its assignment as there is marked departure from the disjointed, ad-hoc and poorly enforced fiscal policy management to a new system aimed at expenditure restraint. The passage into law of the FRA at the federal level has helped to reduce financial recklessness and has improved efficiency in fiscal management, especially in areas of allocation and management of public expenditure, revenue collection, saving and transparency in fiscal matters.

The adoption of ruled-based public expenditure process such as multi-year approach to budgeting and the savings recorded recently all bear testimony to the potential of the efforts of fiscal responsibility act (FRA). For instance, not less than N21 billion was realized in 2007 and 2008 from payment of 80% operating surplus into the Consolidated Revenue Fund of the Federal Government.

It is gratifying to note that the commission has succeeded in ensuring compliance by the Federal Ministry of Finance with the Medium Term Expenditure Framework (MTEF) in the preparation of the budget while also insisting that the budget elements match those specified in the Fiscal Responsibility Act.

1.6 Conclusions and Recommendations

The success of any Fiscal Responsibility framework hinges on appropriate design, consistency in Public Financial Management (PFM) regulations, and enforcement of their provisions. Certainly the adoption of the fiscal responsibility act and its strict adherence is key to effective and efficient public financial management in Nigeria. Over the years public commentators have viewed budget and its process as an annual ceremonial ritual that is yearly celebrated but without any visible impact on the growth and development of the economy. Also, the budget is a financial document for allocation, accountability, probity and control reflecting the wishes and aspirations of Nigerians.

The Commission needs to take more decisive actions against public corporations and agencies that are not willing to comply with the Act. Another issue worth considering is the need for all the states and local governments to adopt fiscal responsibility Act in their various states as a matter of national policy. This is more so that states and the local governments control more than half of the entire revenue of the country. It would be improper to attack only one side of a system that is entirely afflicted.

The Commission needs to ensure that the inputs of various stakeholders, especially civil society groups are reflected in future budgeting process as specified in the Act. The deepening and widening of consultation among civil society groups, the organized private sector, the people through their representatives and ministries, departments and agencies (MDAs) in order to boost their capacities.

Budget indiscipline is so common that monies are spent for items not budgeted for and virement has become a common practice. Crude oil theft should be curtailed. The various sources of revenue should be effectively and efficiently

administered. Nigeria should also avoid going for loans, unless when it is absolutely necessary and the loan when collected should be judiciously utilized.
The subsisting Memoranda of Understanding should be fully pursued and implemented in order to achieve a reformed public financial management for Nigeria designed to strengthen fiscal policy coordination, safeguarding macroeconomic stability and promoting growth, while being consistent with the rules and practices underlying the federal system of government. The three tiers of government must work hand in hand complement each other and ensure pursue the cause of development through the use of the budget.

The Chairman of the Commission, and his team should understand that Nigerians look upto them to stem the tide of corruption arising from leakages in the budget. The Commission should also take decisive actions against public corporations and agencies that do not comply with the provision of the fiscal responsibility act so that our budget will be an actual document reflecting the aspiration and yearnings of the people and not a mere charade.

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