

Review of 2008 Budget Performance

Martin N. Oluba Ph.D., DBA is the President/CEO of [ValueFronteira Limited](#). He is also adjunct Professor of economics at the Swiss Management Center, Switzerland and Vienna; adjunct faculty (mentor) at Northcentral University, Arizona USA. Send him your comments at martin@martinoluba.com or visit his website www.martinoluba.com for his views on other subjects of national concern.

The public budget enables the government to put in place the machinery that will enable the economy run smoothly such that relevant economic agents can add positive value in terms of the provision of goods and services as well as meet other socio-economic demands. For a budget to be considered well done, it should possess several features including comprehensiveness, transparency, probity and accountability. Of course it must be well implemented such that the purposes for which the plans were made in the first instance will be achieved. Our experience in Nigeria seems to be the contrary. Budgetary outcomes have been the antithesis of the usual themes at presentations. The inputs do not yield corresponding outputs because fiscal efficiency is never consciously pursued. The 2008 is another good example.

On April 14, 2008, the budget was enacted into law while an amendment bill was submitted to the National Assembly soon after. Eventually, this received the desired approval three months away from the end of the fiscal year towards the end of October. But with late budget enactment, very little would be expected of its eventual execution. Thus aside the incentive problem, the delayed approval of the budget was the first disaster that hit the 2008 budget.

Secondly, the actual performance of some of the parameters that underlay the budget deviated strongly, albeit that some remained on course. The exchange rate, for example, witnessed minimal or no significant deviation from the earlier projection largely because of huge inflow of foreign exchange from oil earnings. The assumed growth of real output for the year 2008 on the other hand, deviated very far from the target of 11.0 per cent. It averaged 6.1 per cent in the first half of the year. Similarly, the inflation rate has been off-target (11%), having risen from 6.4 per cent in the second quarter of 2007 to 7.8 and 12.0 percent respectively, in the first and second quarter of 2008. However, the crude oil price benchmark of \$59.0 per barrel turned out to be conservative as oil prices rose to US\$140 during the year. In any case considering the speedy nosedive of crude oil prices, the deviation of the benchmark from the average price might be much. On the otherhand, crude oil production was off-target mainly because of disruptions in the Niger Delta Region. Crude oil production averaged 1.92 million barrels per day (mbd) in the first three quarters of the year compared to the target of 2.45 mbd. However, in spite of the adverse variances in production, the federally-collected revenue exceeded the budget targets. The realized revenue from January to August exceeded the budgeted target by 37.4 per cent because of the compensatory effect of rising oil prices. In the second quarter, fiscal deficit overshot the target: N132.48 billion compared to the proportionate budget deficit of N38.8 billion.

In spite of the almost 100% cash backing for most of the capital budget releases, funds utilization rate was very low during the year at about 24%. Virtually all the MDAs achieved less than 15% of the funds utilization rate. Consequently, while the MDAs have accumulated huge cash balances at the CBN the Nigerian people lack the desired public services. Why have this been the case? Top on that list is the incentive system which has (a) accounted for the outright embezzlement of budgeted amounts (b) mid-way redefinition of priorities by the executive arm outside of the constitutionally agreed target areas (c) poor quality of spending as a consequence of these factors (d) the discouraging bureaucratic rigours of 'due process' meant to check these abuses which in turn discourages the bureaucrats from seeing fiscal programmes through to the end. The result is that there is a wedge - oftentimes deliberately put in place by these bureaucrats - between the budgeted funds meant to be absorbed by the economy and the economic agents

that should absorb them. There have been two major interpretational fallouts from this namely the erroneous conclusion that the economy lacks absorptive capacity and/or that the bureaucrats lack the technical capacity to see through the delivery processes of complex projects. Historical realities prove to some extent that public sector bureaucrats have considerably failed in managing budgeted resources, but that is largely a function of corruption and has little to do with their technical abilities. (e) Unrealistic assumptions underlying several of these budgets is a culprit. The more unrealistic these underlying assumptions are, the more the underperformance deviation of the actual from the proposed. (f) There is also the problem of conflicts of roles in the budgeting cycle. For instance, it is not yet clear from the actions of the legislative arm of government who should prepare the budget. The fact that the legislature and the executive arms play practically the same role in the budgeting process takes a toll on the time at which the budget is implemented. It equally affects the quality and credibility of overall budget.

With this fiscal scenario the eventual economic outcomes can hardly be imagined. The inflation rate escalated in the first half of 2008 while huge fiscal deficit prevailed in the second quarter of the year. The effective interest rate rose almost uncontrollably to about 30%. There were however other positive developments which were exogenous such as high crude oil prices with positive impacts on foreign exchange earning, foreign exchange reserves accumulation (over US\$60.0 billion), and exchange rate appreciation. Developments on the other sides of the divide were however not as cheering. Poverty and unemployment levels are still very high and increasing. The complexity of this situation is aggravated by the rising rates of inflation and lack of progress in the real sectors of the economy. Human capital development, reflecting developments in the education and health sectors did not witness any significant improvement. Performance of the industrial sector has equally not been inspiring. The published manufacturing capacity utilization equally declined from 50.5% in December, 2007 to 48.0% in April, 2008.

In conclusion, the 2009 budget can be different depending on a number of factors. The first concerns the array of underlying assumptions which must be well thought out so that they can be reasonably realistic. In addition to this, the prompt enactment of the budget is very important as it equally influences the timeliness of budget releases to the MDAs. A review of the due process mechanism to find out how it affects effective implementation is equally important. In addition to all these will be the overall quality of spending because if the quality of spending improves, then the quantity of resources needed to finance the various projects and programmes would be far less than what is budgeted and ostensibly spent each year. Planned pursuit of revenue diversification is important. For this to be done without harm to existing quantum of value creating businesses, government needs to commit more resources to infrastructure establishment and upgrades, easing the taxes on businesses as well as improving on the justice system.