

**KEYNOTE ADDRESS BY THE HONOURABLE MINISTER OF STATE FOR  
FINANCE, REMI BABALOLA AT THE RETREAT FOR APPROPRIATION,  
FINANCE AND PUBLIC ACCOUNTS COMMITTEES OF THE SENATE  
AND HOUSE OF REPRESENTATIVES HELD AT CRYSTAL GARDEN  
HOTEL, KADUNA  
ON THURSDAY, 10<sup>TH</sup> MARCH 2008**

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**RESTRUCTURING OF THE NATIONAL BUDGET**

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**[PROTOCOL]**

I am pleased to be invited to give a keynote address on this all important topic at this retreat. I sincerely thank the organisers for this opportunity to bridge the gap in the budgeting process in the country. The budget is the single most important governing tool in any democracy, as it determines the sources and uses of public resources. I am aware that the key objective of this gathering is to facilitate discussions on the development of a new framework for structuring the National Budget and thus be able to empower our law-makers with the required capacity to monitor the budgetary process.

2. We are all aware of the various challenges that trailed the passage of the 2008 Appropriation Act. It is my belief that this occasion would afford me the further opportunity to interact with you on this important subject, towards charting a proper way forward in our budgetary process. Therefore, my presence before this esteemed audience today underscores the need for continuous interaction between the Executive and Legislative arms of government, towards delivering quality service to our people.

**Framework for the Preparation of a Performance-based Budgeting System**

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3. There is an urgent need to move from an input to an output based budgeting system, and ultimately towards a performance-based budgeting system. Currently, the Budgetary process in Nigeria basically allows the Government to set its fiscal objectives in respect of revenue, expenditure, debt repayment and investment; maintain effective fiscal control and plan for the coming year and beyond; allocate the available resources, consistent with the Government's strategic objectives and priorities and seek authority from the National Assembly for spending. Budget monitoring and evaluation needs to now become a major part of our budgetary process focusing on assessing the impact projects and programs are having on average Nigerians, rather than just funds released and spent. The guiding principle for the preparation of the National Budget since 2006 when the reform process was being fully implemented had been the Medium-Term Sector Strategy (MTSS). Continuous usage of the MTSS is important to achieving a set performance-based budgeting system. In addition to this, we need to also strengthen the linkages between the MTSS, NEEDS II, 7-Point Agenda vis a vis NV2020 and the annual budget.

4. This is a 3-Year Rolling document that clearly articulates the Federal Government's medium term goals and objectives for all Ministries, Departments and Agencies (MDAs). The current edition are the 2009-2011 Medium Term Sector Strategies, which will be used as a policy document against which each MDA's budget proposals will be aligned and evaluated. The overarching objective of the MTSS is to improve the linkage between the spending of the Federal Government and the various Development Programmes such as NEEDS II, Mr. President's 7-Point Agenda and the Vision 2020 as well as the Millennium Development Goals ("MDGs").



5. The MTSS is the framework by which high level policies are operationalised and broken down into tangible initiatives in terms of projects and programmes. It thereafter forms the basis for the spending plans of each MDA for the next three years. It is the policy document against which all budget proposals of each MDA will be evaluated and tested. For 2009 National Budget, efforts are already ongoing by the Budget Office of the Federation to sensitise all relevant stakeholders towards ensuring an efficient budgetary process.

### **Stakeholders involvement in the Budgetary Process through Prioritisation**

In order to ensure that the annual budgets take into account the interests of our people's representatives, ALL stakeholders must be engaged from an early stage. Representatives of the National Planning Commission, MDGs, Civil Society, Organised Private Sector and National Assembly as well as members of the MDAs must be invited to participate in the budgeting process including the MTSS. In fact, we have begun the process for the 2009 – 2011 MTSS. The strategy session will take place next week. Ten ministries have been invited to participate from Monday to Wednesday whilst 9 will participate from Thursday to Saturday. As you may be aware, the Chairmen of the committees from the National Assembly have been invited to participate and encourage you all to express your opinions and priorities regarding all sectors.

The MTSS once prepared under due care and intense consideration will serve the following purposes for all Ministries and stakeholders so long as in its implementation we take ownership and work collaboratively:

- form the basis for the expenditure plans of each MDA for the next three years;



- form the basis for preparing the 2009 budget; and
- form the basis for which all future budget proposals for all MDAs will be evaluated and tested.

### **The Legislature in the Budgetary Process**

6. In Nigeria, the position or role of the National Assembly with regard to budgetary and fiscal matters is explicitly spelt out in the Constitution and I am sure subsequent speakers will dwell extensively on them. Of concern here is that the National Budget must be passed by the National Assembly. The moment it is passed, it becomes part of our body of laws. But nowhere in the Constitution is the National Assembly explicitly assigned a role in shaping fiscal policy in alignment with National Economic objectives.

7. It is thus incumbent upon the legislature to give informed consideration and weighty deliberation to the many paragraphs of the budget bill, following the normal procedure for enacting a law - the various readings in the plenary sessions, deliberations in the Appropriation Committees, etc.

8. Experiences from other countries show that a constitution could be more specific, however, and authorise the legislature, where it deems fit, to introduce amendments to the budget bill it receives from the executive branch. The German constitution, for example, gives Parliament the power to introduce amendments to the budget bill even without the consent of the Cabinet, so long as these amendments either increase revenues or decrease expenditures. For proposing the opposite - decreasing revenues or increasing expenditures - Cabinet approval is required. This contrasts sharply with Britain and Australia, whose Parliaments are not authorised to increase either expenditures or revenues.



9. The Legislature has an onerous role to play in discharging its statutory duty in approving the Budget proposal of the Executive arm. In doing this, it appears the Legislature in Nigeria has had to confront certain challenges. The first major challenge concerns the issue of organisational infrastructure. While the Executive has a wide array of resources and institutions at its disposal, the same cannot be said of the Legislature. The legislature, at present, appears to have almost no independent organisational infrastructure to help it in its legislative tasks.

10. This hinders the effectiveness of budget deliberations by the Legislature for several reasons:

- The Appropriation Committee of each House has a huge burden of work, as it must deliberate budget matters, taxation, state revenues, and all other fiscal issues.
- The Appropriation Committees, charged with the responsibility of reviewing budget proposals in depth are usually professionally under-staffed
- Members of the Legislature have no professional staff to advise them on budget issues, since each Honourable member is limited in the number of Legislatives Aides he/she can hire.

11. Thus, a major challenge exists for the National Assembly to ensure that appropriate arrangements are made to be to ensure the necessary quality technical staff are available to guide the members in performing their statutory roles.

### **Are Reforms in the National Budget Necessary?**

12. Budget reforms traditionally aim at improving allocative efficiency and operational efficiency, since reforms are often



legitimised from accountability and transparency perspectives. By linking resources to results, accountability to the legislature and to the citizenry would be improved. Which conditions need to be fulfilled in order to use a performance budget as an instrument for accountability? First, the quality of information available to the Parliament is crucial. Second, the legislative organisation needs to be adequately adapted to utilise this information.

13. The Federal Government under the Presidential System was conceived to have a defined scope of authority and a limited set of actual responsibilities. Today, the role of the Federal Government is far removed from its original intent. While our Appropriation Acts over these years are symptoms of this, they are further compounded by the duplicative services also offered by States, projects and programmes that would better be handled in the private sector, and entirely unnecessary spending. This scenario has given rise to our yearly budget ritual being driven by special interest lobbying and general unwillingness to make tough budget decisions by some MDAs of government. Nonetheless, given this year's experience, reform is imperative and also inevitable. Budget reform must occur for our nation to move forward.

### **Areas for Reforms in the Current Budget Process**

14. There are two key areas where reforms are imperative:

- **Procedural reform**

The first aspect of this reform is to have the President and the National Assembly initially agree on an overall cap for the



entire budget, as well as caps for each parliamentary appropriations committee, which would help to streamline and simplify the entire budget process. Obviously, this may not be the ideal reform for those who believe in the politics of political handouts for expediency to ensure their own job security. However, for those who are truly committed to making tough choices and standing by them, this is the way to go. Under this proposed model of budgeting, after the Executive and Legislative arms agree on caps early in the year, the regular budget process would commence.

By setting a broad framework from the start, the budgetary process thereafter would be a matter of deciding how to prioritise the spending of the fixed amount of money in the purse, instead of just handing out the budget envelope, as is the practice now. This sounds like a simple change. Yes – it is all about National Planning.

A second meaningful reform is what is known as a "mandatory rescission request." Presidents usually send *discretionary* rescission requests to Parliament. Using this tool, the President can ask the National Assembly to consider a separate Bill that would carve out wasteful spending in Appropriations before the funds are actually spent. Unfortunately, today in Nigeria we do not enact rescission bills in our National Budgeting exercise and we do not even consider it at all.

Under a *mandatory* review policy, the National Assembly would be obligated to consider the President's rescission requests in an expedited manner. The mandatory rescission request is a novel alternative to the line item veto. The line item veto would give a President authority to unilaterally strike individual expenditures in an omnibus bill. Opponents of the line item veto assert that it improperly shifts legislative

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authority to the executive branch. The line item veto is unrealistic to even propose at this time, since it has been the subject of debate for years in other countries.

Like the line item veto, the mandatory rescission request would similarly be used to cut wasteful spending, but it stands a better chance of surviving a constitutional challenge by keeping the onus of crafting the budget with the National Assembly.

- **Substantive reform**

As a general rule we should stop using Federal money to fund local projects as local projects are better managed by States and Local Government Councils, instead of by distant bureaucrats in Abuja. Yet, year-in-year-out, included in our National budget are countless outlays for local projects. There are brazen examples of Federal money improperly appropriated on undeserving local projects.

A second category ripe for reduction and elimination in our National Budget is Federal spending that neatly overlaps State spending on the same issue. A perfect example is Education. Thus, the Federal Government should hand the bulk of education spending back to the States. This will allow say Oyo State to decide what is best for Oyo State. Likewise, allow Sokoto State to spend its money the way it sees fit.

Privatising Federal projects that are better handled by the private sector is another major restructuring component, which the National Budget would need to undergo. Capitalism is built on the empowerment of individuals to work hard and spend money wisely. Government-run institutions are prone to inefficiency and unresponsiveness in their activities. Privatisation spurs growth and competition



among businesses that interact with such newly privatised projects and it allows market pressure to improve efficiency in the privatised projects themselves. There are many government-run and government-sponsored projects that may be better handled by the private sector, and deciding which programs are properly severed from the Federal budget would require analysis far deeper than this address.

### **Strengthening civil society**

15. In addition to the vital need for better balance among the three arms of government, another critical consideration for reform of the budget-making process concerns the economic and social implications of the budget. As the central tool of governance, which has implications for economic growth and the distribution of resources, the budget has far-reaching consequences for all matters related to equality, economic disparities, and social justice. Budget reform is crucial not just in order to increase the transparency and rationality of the budget-making process, but also in order to democratically shape the country's order of priorities.

16. Additionally, in democratic societies like ours, the legislative arm is the primary point of access of the population to the political process - it is the most open and accessible arena for deliberating the national order of priorities. This is especially true for plural societies like Nigeria marginalized groups. Enhancing the influence of the legislative branch, in the State budget will therefore serve not just the democratic need for transparency of government activities, but also the interest of political and social justice.

17. Distinguished Senators, Honourable Members, Ladies and Gentlemen, budgetary process is the responsibility of all



stakeholders in the Nigerian project and as such we need to ask if there are other, more pragmatic instruments or approaches, which could make performance information more useful in parliamentary oversight, within the context of political rationality? This crucial question is begging for an answer as you deliberate on the restructuring of the National Budgetary process at this Retreat.

18. I thank you all for listening.

**Remi Babalola**

Honourable Minister of State for Finance

