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Improving Budget Credibility for Access to Agricultural Inputs and Services in Nigeria

BudgIT is a civic organisation that uses creative technology to simplify public information, stimulating a community of active citizens and enabling their right to demand accountability, institutional reforms, efficient service delivery and an equitable society.

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Summary of Key Findings

1

Tackling budget credibility on the expenditure spectrum for focus sectors like agriculture in Nigeria depends on understanding where the biggest budget deviation is happening for each sector. The set of solutions needed to tackle budget credibility as a result of deviations between the actual cash released for expenditure and the budget for expenditure for that fiscal year is different from the set of solutions needed to address deviations between the actual cash utilised for expenditure and the actual cash released for expenditure.

2

Nigeria and the two focus states, Anambra and Oyo, failed to meet the 10 percent budgetary provision threshold for agriculture agreed upon in Maputo in 2003[1]. While the federal government and Anambra allocated less than 3 percent of its total budget yearly to agriculture between 2017 and 2021, Oyo's highest budgetary provision for agriculture within the same time frame was 3.6 percent of its total budget.

3

Despite the fact that agriculture is the largest sector contributor to the GDP of Nigeria, Anambra, and Oyo State, the allocations and budgetary provisions for the procurement of agricultural inputs by Anambra, Oyo State and the federal government between 2017 and 2021 were negligible.

4

Concerning expenditures across focus sectors, it is observed that amongst other drivers of weak budget credibility, there exist procedural, regulatory, and contextual political bottlenecks that contribute to weak budget credibility in Oyo and Anambra states and also at the federal level. These bottlenecks contribute to budget deviations observed in the allocations to the agriculture sector. Per this report's recommendations, they need to be addressed on a case-by-case basis.

1 At the Second Ordinary Assembly of the African Union in July 2003 in Maputo, African Heads of State and Government commitment to the allocation of at least 10 percent of national budgetary resources to agriculture and rural development policy implementation.

Introduction

Nigeria's federal government has budgeted 87 trillion naira for improving infrastructure and service delivery for its growing population between 2013 and 2022. Have these budgeted sums translated to commensurate improved food security? Has access to agricultural equipment and farming inputs improved, given their budgeted sums in the past ten years? In the next ten years, we estimate the government would budget at least 150 trillion naira; how can stakeholders ensure that these budgets deliver commensurate value?

Budget credibility (or budget realism, as some policymakers prefer to refer to it) is an important metric in governance worldwide. According to Renzio and Cho, it reflects a government's ability to accurately and consistently meet its expenditure and revenue targets. (Renzio, 2020). In Nigeria, analysis of budget credibility as it affects revenue targets approved in the budget is pretty straightforward -- this can readily be calculated as the difference between the final revenue recorded by the government and that budgeted at the start of the fiscal year. However, analyzing budget credibility as it affects expenditure targets approved in the budget is not straightforward.

> A country's performance in its Budget credibility metric foretells how effectively a government can achieve its infrastructure and service delivery goals outlined in its expenditure targets - no matter how laudable those goals may seem on paper.

Nigeria experiences two levels of deviation of its expenditures from budgeted sums that contribute to the overall budget credibility and, by extension, service delivery. First, there are deviations between what is budgeted and what is recorded as cash released for expenditures. Second, there are deviations between cash released for expenditures and the actual amount utilised for the expenditures. Both observations contribute to forming a more complete picture of the country's budget credibility/realism situation on the expenditure spectrum. Unpacking why both forms of deviations persist and the severity with which each deviation persists lays the groundwork for thinking through targeted solutions to improve the country's overall budget credibility. BudgIT's Research and Policy Advisory team thinks of Budget credibility as the degree to which the actual utilisation of public funds (for budgeted expenditure) deviates or differs from planned expenditures recorded in the budget at the commencement of any fiscal year. This emphasis on "actual utilisation" is important for the Nigerian context because there exists the risk that journalists and citizens could interpret cash released for expenditures as announced by the government as actual expenditures made, whereas the reality is significantly different.

A country's performance in its budget credibility metric foretells how effectively a government can achieve its infrastructure and service delivery goals outlined in its expenditure targets - no matter how laudable those goals may seem on paper. Weak budget credibility, signaled by large deviations or volatility in revenue and expenditure projections, often compromises the best development plans for infrastructure, improved service delivery, and quality of life.

This study focuses on Oyo, Anambra states, and the federal government. Oyo state is in South West Nigeria, with an estimated population of 9.3 million[2], Anambra state is in South East Nigeria, with an estimated population of 6.4 million.

Though the drivers of budget credibility on the revenue end of public finance are well documented, this report will focus on budget credibility as it affects revenue and expenditure. They include unrealistic revenue projections in the budget, weak revenue collection mechanisms, revenue leakages due to corruption, and weak accountability mechanisms.

2 Said population figures are based on the NBS Population set of 2006 and extrapolated to determine 2021 numbers.

Methods

This research examines budget credibility trends in agriculture inputs and services over time. It intends to discover the key drivers of budget credibility trends observed in Anambra, Oyo State, and at the federal government level. It employs a mixed-method approach with the following:

Quantitative Analysis: Data was mined from budget documents of Anambra, Oyo, and the federal government for trend analysis on budget credibility for 2017-2021 on agriculture inputs and services.

Qualitative Analysis: Key Informant Interviews (KIIs) were conducted with selected state and non-state actors. The objective was to generate in-depth information via Learning about the drivers and the impact of budget deviations on access to agricultural imputs and services. Also, to ascertain the key drivers of budget credibility trends observed in Anambra and Oyo State.

In addition, primary and secondary data were gathered. The primary component was achieved via KIIs with purposely selected respondents[3]. The secondary data came via desk review on the existing International Budget Partnership (IBP) and other leading literature on budget credibility, research findings on budget credibility issues in International Budget Partnership (Strengthening Public Accountability for Results and Knowledge program) SPARK focus states, annual budgets, and budget implementation reports. Similarly, a review of the Fiscal Responsibility Act and Public Procurement Laws of Anambra and Oyo State was conducted to ascertain if some procedural rules or regulations cause a lag in the system and result in the low utilisation of available government revenues. Data and responses sourced using the above data collection techniques and approaches were triangulated for increased quality and reliability.

Research Questions

- What are the budget credibility trends in budget data mined between 2017 and 2020?
- What are the effects of budget deviations on service delivery, bothering on the supply of agricultural inputs and services in the focus states and at the federal level?
- What are the root causes of budget credibility trends observed in the focus states?
- Are there procedural rules or regulations that cause low utilisation of available government revenues?
- What contextual factors or hidden variables lead to low budget credibility?
- What can be done to improve budget credibility in the focus areas of the research?
- How does the lack of access to agricultural inputs impact food security?

3 The participants for the Key Informant Interviews (KIIs) included: SPARK partners for the agriculture entry point (SWOFON and their CSO/technical partners), the Director-General of Budget Office in focus states, the Head of State Bureau of Public Procurement, Director in State Ministry of Finance or Office of the Accountant General, and a Director in the Federal Ministry of Agriculture.

Budget Credibility Trends at the Federal Government Level, Anambra and Oyo State

Federal Government

In 2003, African Heads of State and Government met at the Second Ordinary Assembly of the African Union and declared on Agriculture and Food Security in Africa. One of the major highlights of the declaration is the commitment to allocate at least 10 percent of national budgetary resources to agriculture and rural development.[4]

Table 1: Showing Federal Government Allocation to Agriculture

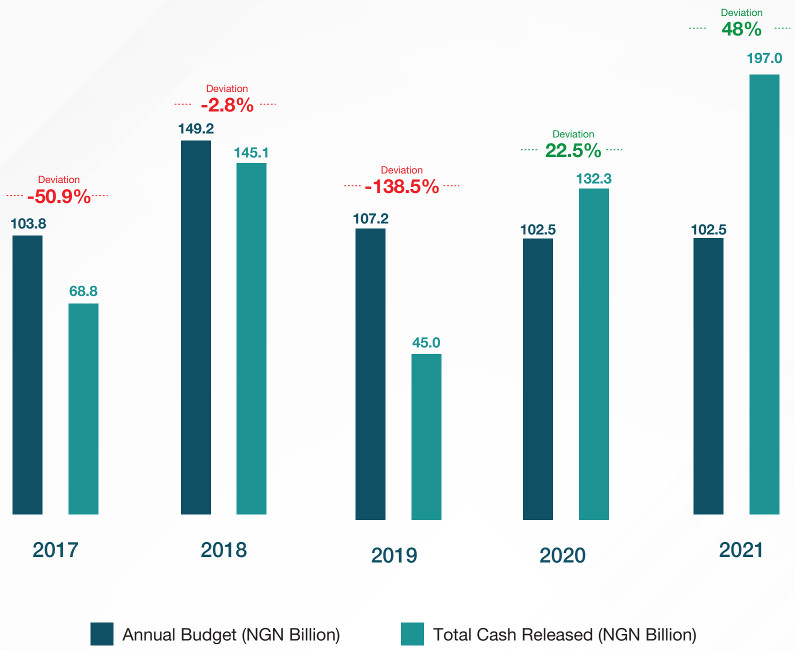
Year	Federal Budget Size (NGN Billion)	Expected share (NGN Billion)	Actual share (NGN Billion)	Actual share (percentage)	Expected - Actual (NGN Billion)
2017	7441.1	744.1	123.4	1.7%	620.7
2018	9120.3	912.0	203.0	2.2%	709.0
2019	8917.0	891.7	164.9	1.8%	726.8
2020	10810.8	1081.1	160.5	1.5%	920.6
2021	13082.4	1303.2	280.3	2.1%	1022.9

As seen in table 1, the federal government of Nigeria has consistently failed to meet the 10% budget allocation to agriculture which it committed to doing in Maputo in 2003. Sadly, the federal government allocated less than 3 percent of its annual budget between 2017 and 2022. The country's allocation to agriculture is grossly inadequate considering the fact that agriculture is responsible for about a quarter of Nigeria's GDP: It contributed 26.2 percent to the nation's GDP in 2020 and 25.9 percent in 2021.[5]

4 https://www.nepad.org/caadp/publication/au-2003-maputo-declaration-agriculture-and-food-security

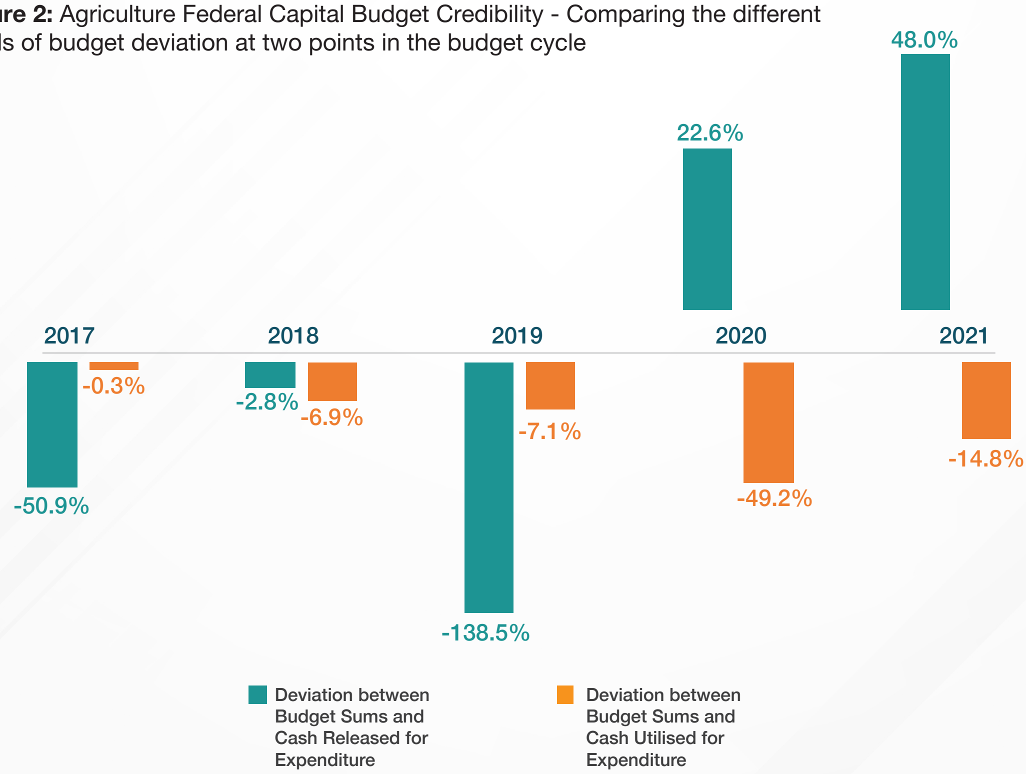
5 https://nigerianstat.gov.ng/elibrary/read/1241137

Figure 1: Agriculture Federal Capital Budget Credibility - Measuring deviations between cash released and budgeted sums only



Interestingly, between 2017 and 2021, Figure 1 shows that the allocation to the agriculture sector has remained relatively the same except for 2018 when there was a 44 percent increase to 149.2 billion naira from the previous year's allocation of 103.8 billion naira. Also noteworthy is that the federal government disbursed 94.5 billion naira in excess of the funds allocated to the sector in 2021, which accounts for 192 percent of the sector's allocation.

Figure 2: Agriculture Federal Capital Budget Credibility - Comparing the different levels of budget deviation at two points in the budget cycle



Note: *Total cash released includes amounts captured under Authority to Incur Expenditure (AIE)*

Beyond the problem of poor budget allocation to the agriculture sector, there seems to be an issue with the utilisation of disbursed funds by MDAs within the agriculture sector. Figure 3 shows that every year between 2017 and 2021, some funds disbursed to MDAs for expenditure were not utilised. In 2020, as much as 49.2 percent of the funds disbursed to MDAs within the sector were not utilised. In later sections, this study tries to unpack some drivers of the underutilization of disbursed funds.

Figure 3: Agriculture Federal Capital Budget Credibility - measuring deviations between actual cash released and actual cash utilised only

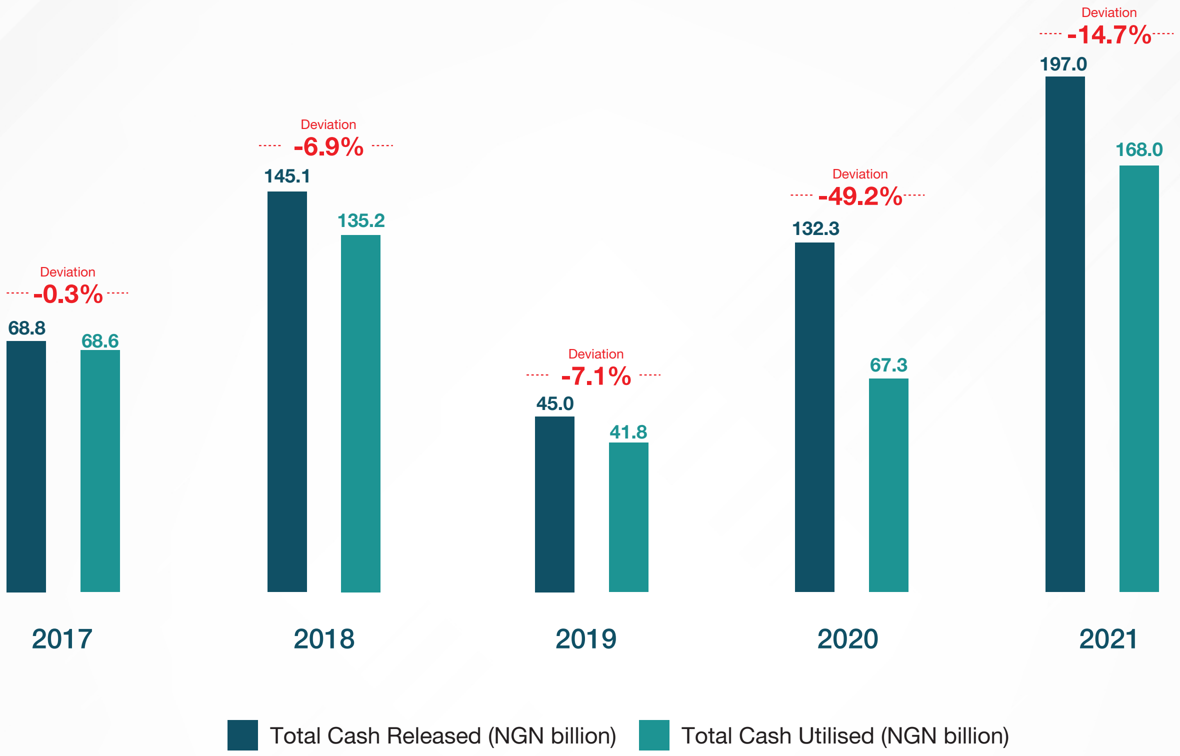
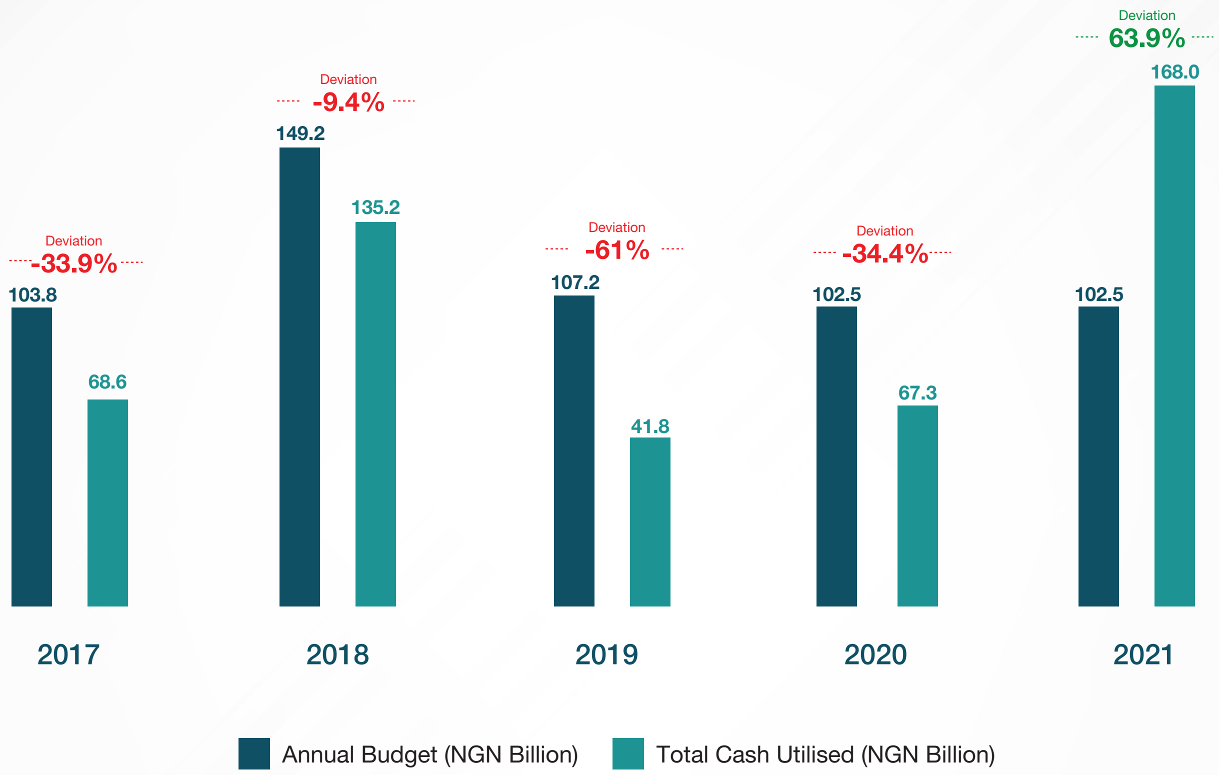


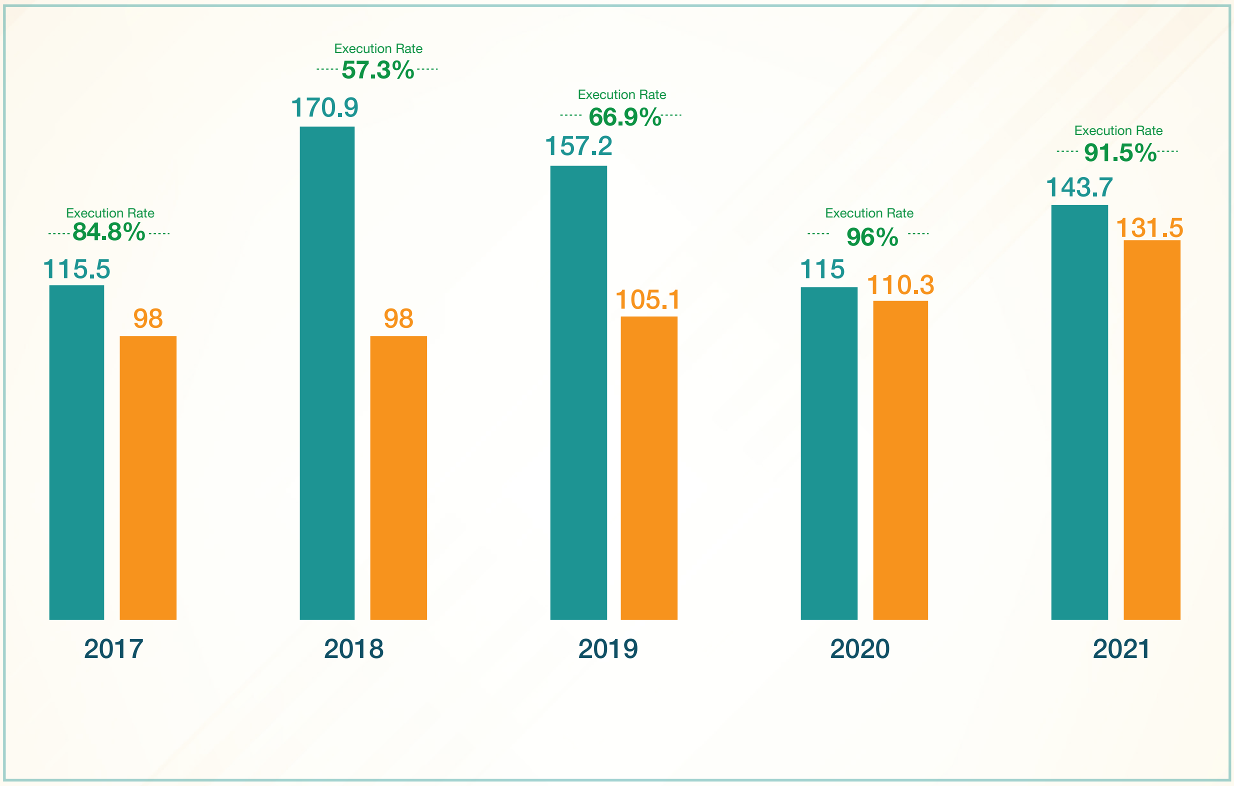
Figure 4 below reveals that there were huge deviations between appropriated funds for capital expenditure in the agriculture sector and the funds eventually utilised/spent in the period under review. While the deviation was -9.4 percent in 2018, it jumped to -61 percent in 2019. Notably, in 2021, the sector had 63.9 percent more than its capital budget allocation of 102 billion naira.

Figure 4: Agriculture Federal Capital Budget Credibility – Measuring overall deviations between budgeted sums and actual cash utilised



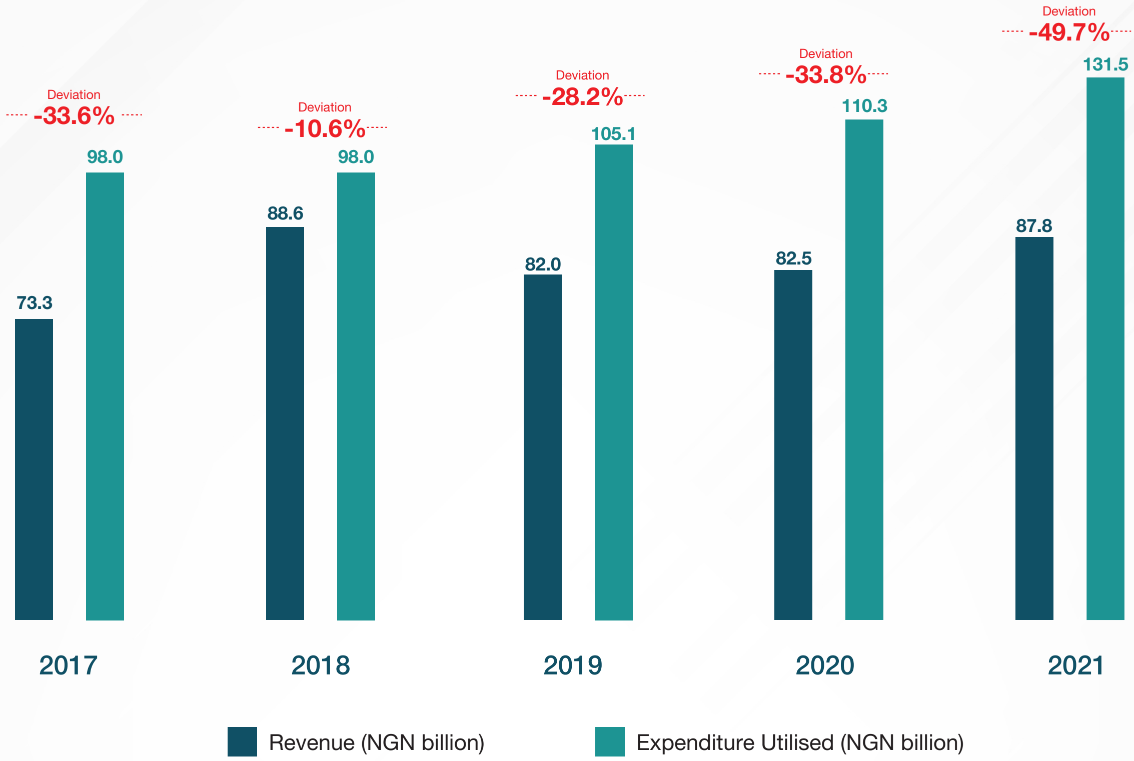
Anambra State

Figure 5: Anambra Overall Budget Execution Rate Trends (2017-2021)



A look at Anambra's budget execution rates as articulated in Figure 5, between 2017 and 2021 Anambra had the worst budget execution rate in 2018 as it implemented just 57.3 percent of its budget. Expectedly, in a bid to respond to the socio-economic impact of the Covid-19 pandemic that occurred in 2020, Anambra implemented 96 percent of its approved budget in 2020.

Figure 6: Anambra Fiscal Balance Trends (2017-2021)[6]



Although Anambra has had a comparatively low actual budget deficit in the years under review, it has failed to duly prioritise spending on its agriculture sector. Figure 6 shows that there has been a constant increase in the revenue accruing to the state from 73.3 billion naira in 2017 to 87.8 billion naira in 2021. However, implementing key budget lines in the agriculture sector has been below par.

6 See page 15: https://www.anambrastate.gov.ng/storage/Anambra-State-2021-Report-of-the-Accountant-General.pdf

Table 2: Anambra Budget Prioritization Trend by Sector (2019-2021)

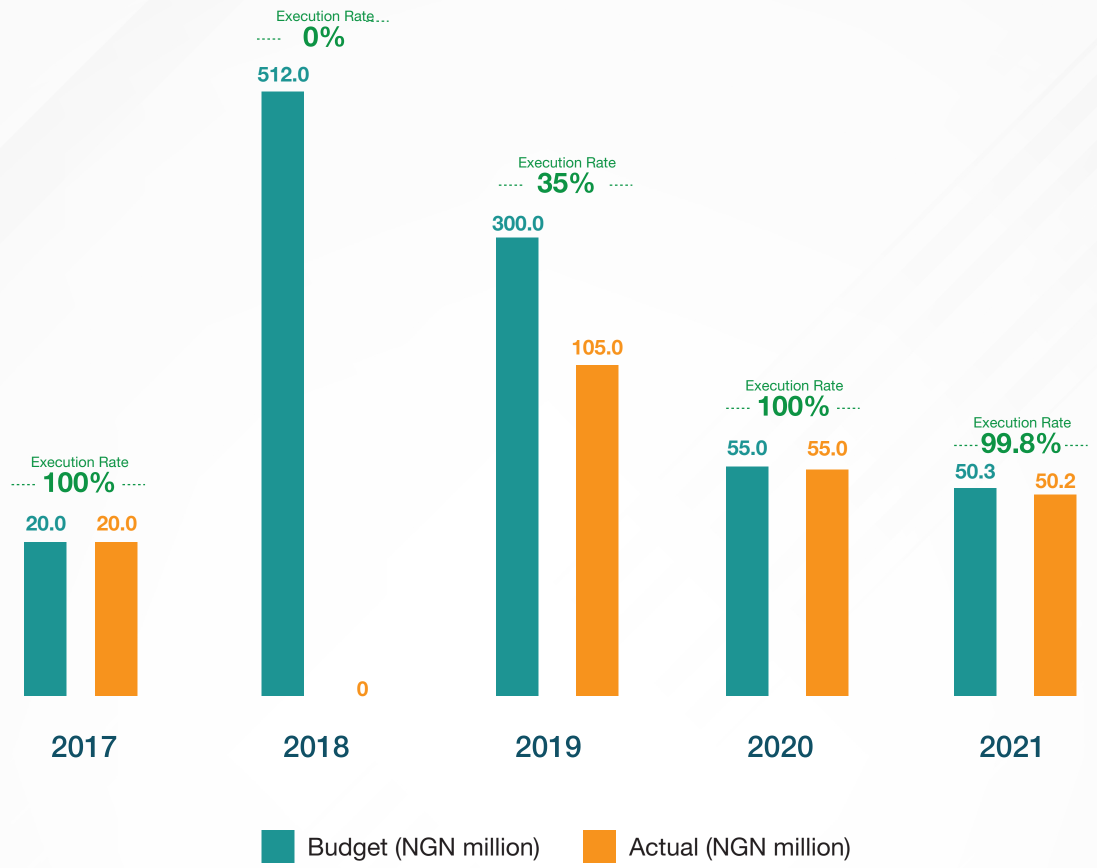
Programme Description	2017		2018		2019		2020		2021	
	Budget as a percentage of Total Budgeted	Actual as a percentage of Total Actual Expenditure	Budget as a percentage of Total Budgeted	Actual as a percentage of Total Actual Expenditure	Budget as a percentage of Total Budgeted	Actual as a percentage of Total Actual Expenditure	Budget as a percentage of Total Budgeted	Actual as a percentage of Total Actual Expenditure	Budget as a percentage of Total Budgeted	Actual as a percentage of Total Actual Expenditure
Improvement to Human Health	4.8%	2.7%	7.3%	1.1%	10%	3%	8%	3%	6%	4%
Agriculture	2.3%	1.5%	3.5%	0.8%	3%	1%	2%	1%	2%	1%
Enhancing Skills and Knowledge	5.9%	3.8%	8.6%	3.8%	10%	7%	9%	5%	6%	5%
Water Resources and Rural Development	1.2%	1.0%	1.1%	0.2%	1%	0%	1%	0%	1%	0%
Road	36.8%	59.6%	27.0%	51.2%	24%	42%	21%	26%	24%	27%
Airways	0.0%	0.0%	1.6%	0.0%	3%	0%	8%	36%	20%	24%

While the government prioritised investments in roads and the airport during the period under review, the agric sector, as shown in Table 2, remained under-prioritised. The aforementioned speaks to a bigger prioritization problem than it does to the paucity of funds, which the government frequently posits as the reason for the poor budgetary allocation and implementation of some key sectors, including agriculture.

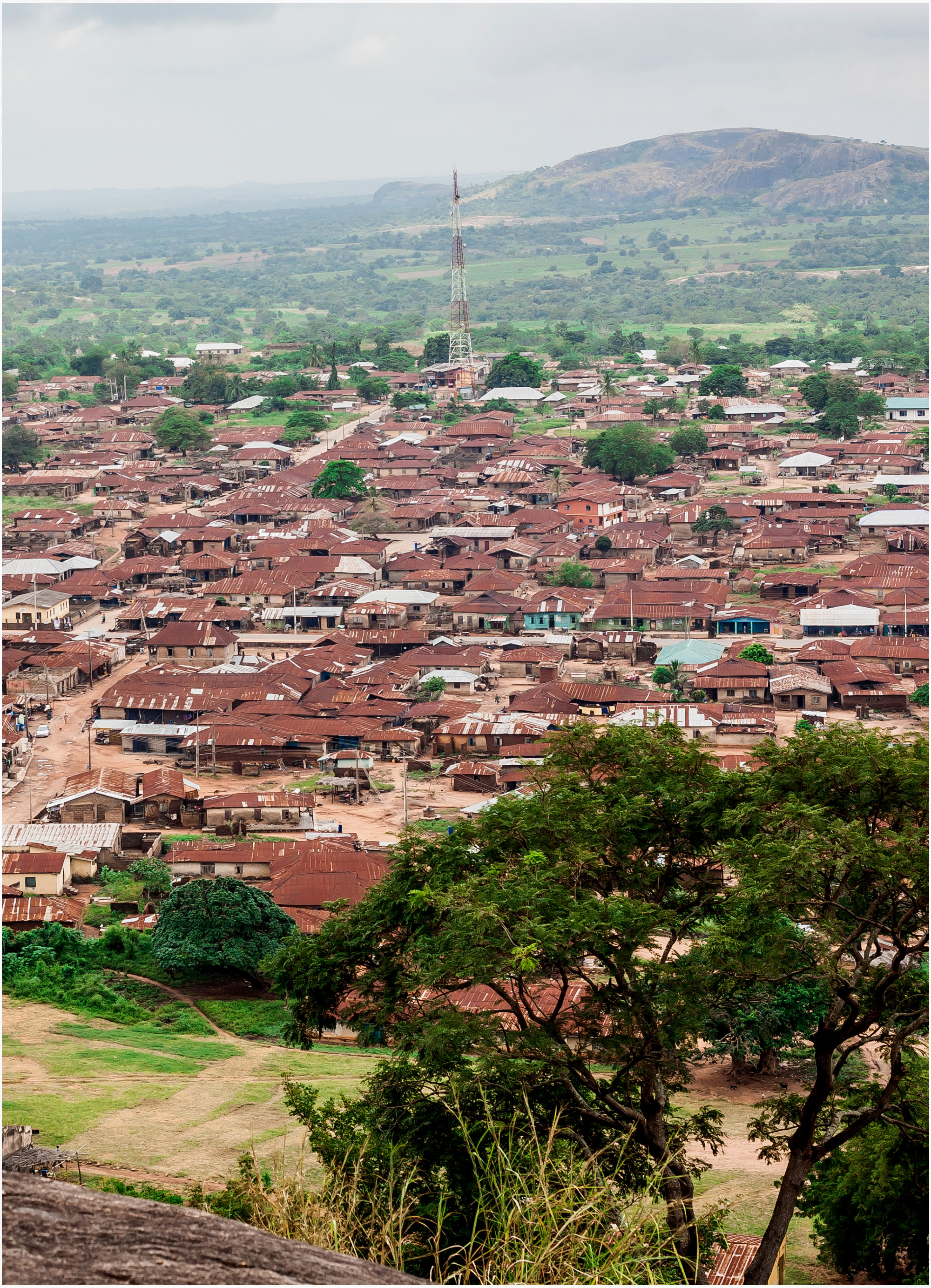
As shown in Table 2, Anambra, between 2017 and 2021, failed to meet the 10 percent budget allocation to agriculture as agreed in Maputo in 2003. Within the period under review (2017-2021), the state with the highest percentage allocation to agriculture was 3.5 percent in 2018. Even though agriculture reportedly contributed 19.6 percent to the state's GDP in 2017, a paltry 2.3 percent of the total budget in the same year was allocated to agriculture. The allocation to the agriculture sector has been reduced in the most recent years, 2020 and 2021, to 2 percent, signally a de-prioritisation of the sector. On actual expenditure, the state, within the review period, never spent up to 2 percent of its total actual expenditure on agriculture.

A comparative assessment of the state's spending priorities shows that roads took a chunk of government expenditure between 2017 and 2021. In 2018 and 2019, road spending was responsible for over 50% of government expenditure. The Anambra State Government commenced the construction of an airport in 2019, which prompted it to spend 36% and 24% of its total budget on the airport in 2020 and 2021, respectively. While the government prioritised investments in roads and the airport during the period under review, the agric sector, as shown in Table 2, remained under-prioritised. The aforementioned speaks to a bigger prioritization problem than it does to the paucity of funds, which the government frequently posits as the reason for the poor budgetary allocation and implementation of some key sectors, including agriculture. The state government confirmed that due to the deplorable state of some roads essential to the state's economy, the improvement of road infrastructure was a key priority of the state government, hence the deployment of resources in that regard.

Figure 7: Anambra Budget Execution Trends for the Procurement of Agricultural Inputs

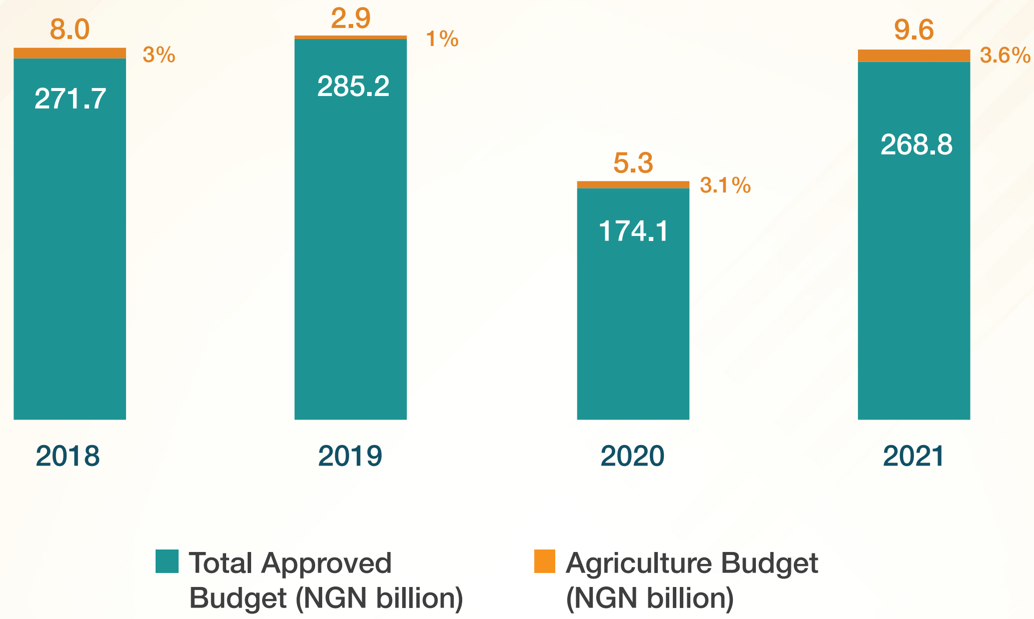


A look at Figure 7 reveals that Anambra increased its budgetary provision for the procurement of agricultural inputs by 2460 percent from 20 million naira in 2017 to 512 million naira in 2018. However, 100 percent of the allocated funds were disbursed and spent in 2017, while none of the funds allocated to procuring agricultural inputs were disbursed in 2018. Budgetary provision has consistently declined since 2018, as the provision of 50.3 million naira in 2021 was a 917.9 percent decline from the 2018 provision of 512 million naira.



Oyo State

Figure 8: Oyo Agriculture Share of Total Budget Trends (2018-2021)



Oyo, just like the federal government and many other states in need in Nigeria, have failed to meet the Maputo Declaration of 10 percent allocation to the agriculture sector. As seen in Figure 8, between 2018 and 2019, the state allocated less than 4 percent of its total budget to agriculture.

Figure 9: Oyo Fiscal Balance Trend (2018-2021)

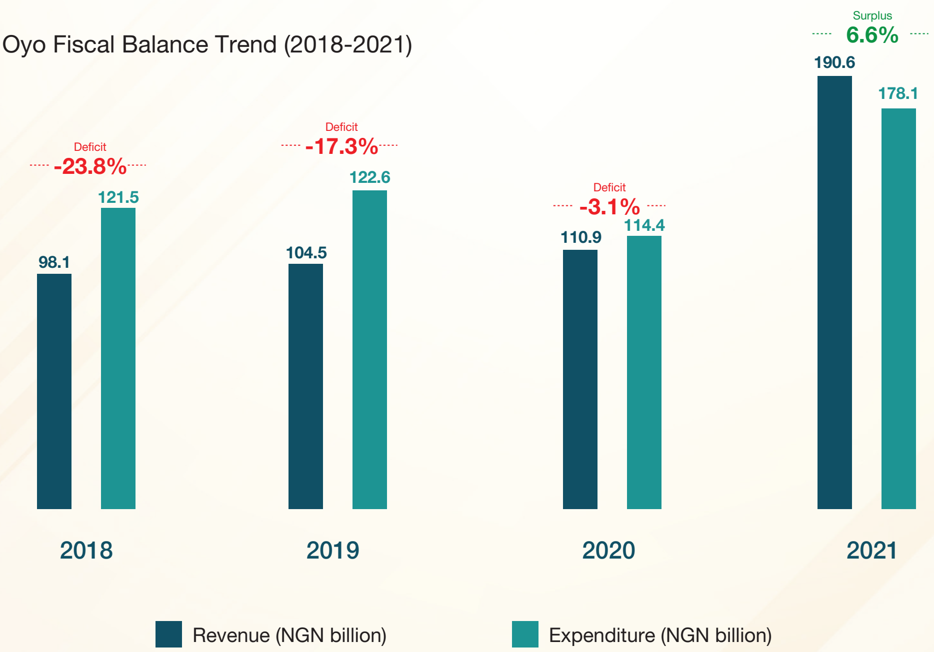


Figure 9 shows that Oyo State has consistently grown its revenue from the 98.1 billion naira earned in 2018 to 190.6 billion naira in 2021. In the period under review, the state had a budget deficit in 2018, 2019, and 2020 but a surplus in 2021. The fiscal balance trend in Table 11 shows that the state creditably reduced its budget deficit year-0n-year from 2018 to 2021.

Table 3: Oyo State Agriculture Budget Execution Rate Trend (2018-2021)[7]

MDA	2018	2019	2020	2021
Ministry of Agriculture, Natural Resources and Rural Development	8.8%	51.5%	65.5%	44.1%
Oyo State Tree Crops Development Unit (CDU)	3.6%	9.0%	13.1%	5.4%
Agricultural Credit Corporation of Oyo State	7.0%	23.3%	63.4%	2.2%
Oyo State Agribusiness Development Agency (OYSAIDA)	44.8%	62.4%	22.3%	7.0%
Total Agric Budget	**11.6%**	**51.5%**	**31.9%**	**12.5%**

The budget execution rate of the agriculture sector in Oyo State has been very poor as seen in Table 3. While there was a commendable increase in the state's agriculture budget execution rate from 11.6 percent in 2018 to 51.5 percent in 2019, the budget execution rate dropped subsequently, as just 12.5 percent of the sector's budget was implemented in 2021. Because the state is mainly agrarian, poor allocation and implementation of the state's agriculture sector budget, to a large extent, compromises the food security of the state and threatens the domestic resource mobilisation capacity of the state.

7 See 2018-2021 Audited Financial Statements of the State.

Table 4: Oyo State Agric Budget vs Actual Trend (2018-2021)[8]

MDA	2018		2019		2020		2021	
	Actual (NGN Million)	Budget (NGN Million)	Actual (NGN Million)	Budget (NGN Million)	Actual (NGN Million)	Budget (NGN Million)	Actual (NGN Million)	Budget (NGN Million)
Ministry of Agriculture, Natural Resourses and Rural Development	598	6763	1128	2189	736	1123	749	1698
Oyo State Tree Crops Development Unit (CDU)	4	108	3	30	2	15	2	33
Agricultural Credit Corporation of Oyo State	36	506	38	165	41	65	46	2149
Oyo State Agribusiness Development Agency (OYSAIDA)	294	656	330	530	916	4115	398	5695
Total Agric Budget	**931**	**8032**	**1500**	**2914**	**1695**	**5318**	**1195**	**9575**

As seen in table 4, there was a huge decline in Oyo agriculture budget allocation from 8.03 billion naira in 2018 to 2.914 billion naira in 2019. Although there was an 80.1% increase in the sectors budget from 5.32 billion naira in 2020 to 9.58 billion naira in 2021, the total amount disbursed to the sector in 2021 dropped from the previous year—despite a 72.1% year-on-year revenue growth in 2021.

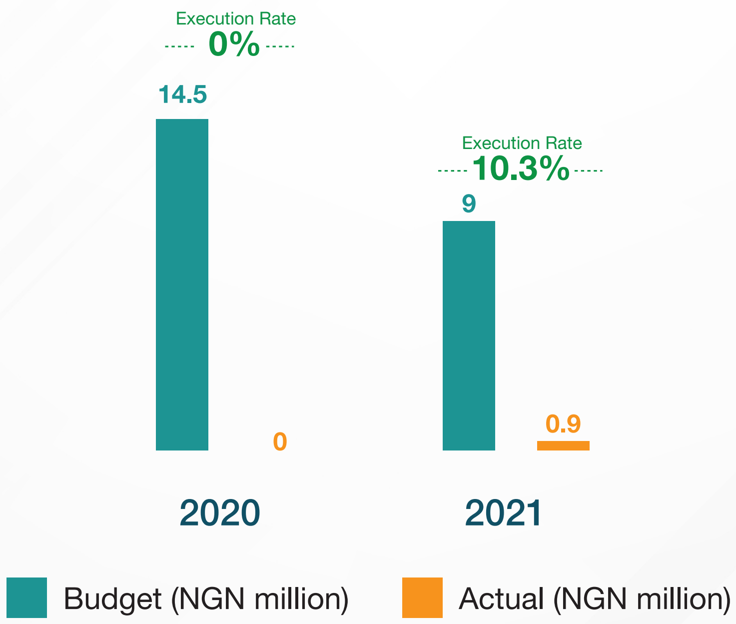
8 See 2018-2021 Audited Financial Statements of the State.

Table 5: Oyo State 2021 Budget Execution Rate by MDA

MDA	2021 Approved Budget (NGN Billion)	2021 Actual Expenditure (NGN Billion)	Execution Rate (percentage)	MDA Approved Budget As a percentage of Total Budget	MDA Actual as a percentage of Total Actual Expenditure
Health	9.6	1.2	12.5%	3.6%	0.7%
Education	53.0	41.2	78.0%	19.7%	23.1%
Social Protection	0.5	0.3	54.0%	0.2%	0.1%
Construction	30.5	42.6	140.0%	11.3%	23.9%
Executive Organs & Legislative Organs	41.3	27.6	67.0%	15.4%	15.5%

As depicted in table 5, while its 19.7, 11.3 and 15.4 percentage of its 2021 budget were allocated respectively to education, construction and the executive and legislative organs of government, a paltry 3.6 percentage was allocated to agriculture. Regarding budget prioritization, less than 1% of the state's actual expenditure was directed toward its agriculture sector. An official of the Oyo State Government revealed that a tax refund of about 10 billion naira, which likely came in later in the year, may have been responsible for the budget surplus recorded in 2021.

Figure 10: Budgetary Provision for the Procurement of Agricultural Inputs (2018-2021)




R.O.K ARMY

Root cause analysis of budget deviations

All budgets are merely revenue and expenditure projections in a specific fiscal year. Government's plan their expenditures based on what they intend to raise as revenues. Without perfect information, budgets are, by nature, an incomplete forecast of the future[9]. When government revenues fall short of projections, its expenditure plans are equally affected. Deviations between planned and actual expenditures often have implications for the smooth running of government, provision of infrastructure, improvement in human capital development, and service delivery. This section outlines the identified drivers/causes of budget credibility at the federal and subnational levels of government.

The TSA policy was introduced for two principal reasons: firstly, to create central control over governments' cash resources, and secondly, to eliminate the instances of government resources idling away in several bank accounts operated by the MDAs, whilst the government resorted to massive borrowing to fund its budget deficit.

1 Revenue leakages

Within the Nigerian context, several loopholes for corruption pose a major problem and appear to affect the implementation of government budgets significantly. The result is that before resources are allocated in the budget, inaccurate/compromised revenue projections will ab initio cause inaccurate/compromised expenditure outturn.

At the federal level, before the implementation of the Treasury Single Account (TSA)—"a unified government account or set of accounts, through which all the receipts and payments of a specific government are transacted"—MDAs maintained about 20,000 accounts spread across different Deposit Money Banks (DMBs) across the federation[10].

The TSA policy was introduced for two principal reasons: firstly, to create central control over governments' cash resources, and secondly, to eliminate the instances of government resources idling away in several bank accounts operated by the MDAs, whilst the government resorted to massive borrowing to fund its budget deficit. Hitherto, implementing the TSA policy, multiple bank accounts were run by MDAs and Government Owned Enterprises (GOEs): constituting a major source of revenue leakages. Although the implementation of the TSA policy, to a considerable extent, has yielded positive results, the exemption of some key GOEs, like the Nigerian National Petroleum Corporation (NNPC), has prevented the federal government from maximising the gains of a fully operational TSA.

9 See generally Simson, R and Welham, B. (July, 2014). Incredible Budgets: Budget Credibility in Theory and Practise. Working Paper 400. Overseas Development Institute (ODI). Available at: https://cdn.odi.org/media/documents/9103.pdf

10 See generally, Omolehinwa, E., and Naiyeju, J. (2015). Government Accounting in Nigeria: An IPSAS Approach.

Another instance of revenue leakage emanates from MDAs and GOEs breaching Section 22(2) of the Fiscal Responsibility Act, which mandates all MDAs and GOEs to remit 80 percent of their operating surpluses to the Consolidated Revenue Fund (CRF) account.

According to the Fiscal Responsibility Commission, MDAs were yet to remit 1.7 trillion naira in operating surpluses as of September 2020[11]. To put this in proper context, the value of operating surpluses not remitted to the CRF is 40.68 percent of the country's fiscal deficit in 2019. In addition to the non-remittance of operating surpluses, the Fiscal Responsibility Commission posits that Nigeria loses 1 trillion naira yearly in operating surpluses as a result of "wrong computations by agencies of government, direct diversion of funds, application of wrong accounting standards and the non-inclusive listing of all government corporations."[12]

> According to the Fiscal Responsibility Commission, MDAs were yet to remit 1.7 trillion naira in operating surpluses as of September 2020.

At the sub-national level, many states are yet to operationalize their TSA fully. The World Bank initiated a State Fiscal Transparency Accountability and Sustainability (SFTAS) Program for Results in 2018 to incentivize states to increase fiscal transparency and accountability, strengthen their domestic revenue mobilisation capacity, strengthen their efficiency in public expenditure, and strengthen their debt sustainability.[13] The program has several Disbursement-Linked Indicators (DLIs); one is to help states improve cash management and reduce revenue leakages by implementing State TSA. The goal of this indicator was to ensure that by the end of 2021, states have an established and functional TSA, covering a minimum of 80 percent of the state government's finances. Despite the opportunity of earning an aggregate incentive of $6 million (from 2018 to 2021) for achieving the DLI on implementing the TSA, Oyo and Anambra (the two focus states for this report) failed to operationalize their TSA sufficiently. The implication of not having a fully functional TSA is that MDAs continue to run several bank accounts that are not under the purview of the state government, leading to massive revenue leakages. The IMF posits that implementing a TSA improves appropriation and operational control during budget execution.[14] The aforestated revenue leakages, resulting from the non-implementation of a TSA, often lead to lower-than-projected revenues, compromising the government's capacity to fund its budget fully.

11 See "MDAs yet to remit over N1.7trn operating surplus, says Muruako", by Anthony Otaru, on 9th September 2020, in the Guardian-Business News (Online) Newspapers. Available at: https://guardian.ng/business-services/mdas-yet-to-remit-over-n1-7trn-operating-surplus-says-muruako/

12 See "Nigeria loses N1trn to Non-remittance of Operating Surplus", by Chijioke Nelson and Anthony Otaru, on 15th May 2016, in Sweet Crude (Online) Reports. Available at: https://sweetcrudereports.com/nigeria-loses-n1trn-to-non-remittance-of-operating-surplus/

13 See SFTAS (Online) Homepage. Available at: https://www.sftas.org.ng/

14 See generally, Pattanayak, S and Fainboim, I. (2010). Treasury Single Account: Concept, Design and Implementation Issues. International Monetary Fund Working Paper. Fiscal Affairs Department. Available at: https://www.imf.org/external/pubs/ft/wp/2010/wp10143.pdf.

2 Unrealistic revenue projections

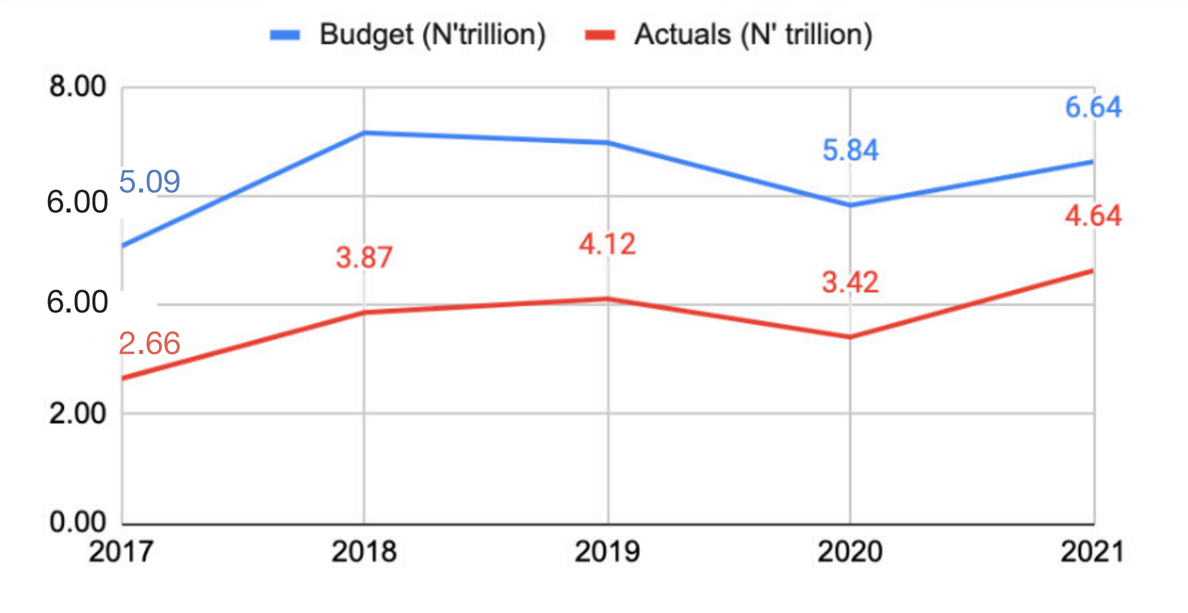
Governments, both at the federal and subnational level, in Nigeria have historically set annual revenue targets that have never been actualised, leading to increased fiscal deficits. Incessant shortfalls in Nigeria's revenue targets over the last five years have resulted in rising fiscal deficits. There exists a positive relationship between fiscal deficit and public debt. As seen in Table 16, as Nigeria's fiscal deficit increased from 3.64 trillion naira in 2018 to 7.05 trillion naira in 2021, its public debt rose from 24.39 trillion naira in 2018 to 39.56 trillion naira in 2021.

Table 6: Federal Government Revenue Profile (2018-2022)

Year	Revenue			Fiscal Deficit	
	Budget (NGN trillion)	Actuals (NGN trillion)	Execution Rate (Percentage)	Projected (NGN trillion)	Actual (NGN trillion)
2017	5.1	2.7	52.3%	2.4	3.8
2018	7.2	3.9	54.0%	2.0	3.6
2019	7.0	4.1	58.9%	1.9	4.2
2020	5.8	3.4	58.6%	5.0	6.6
2021	6.6	4.6	69.9%	5.9	6.4

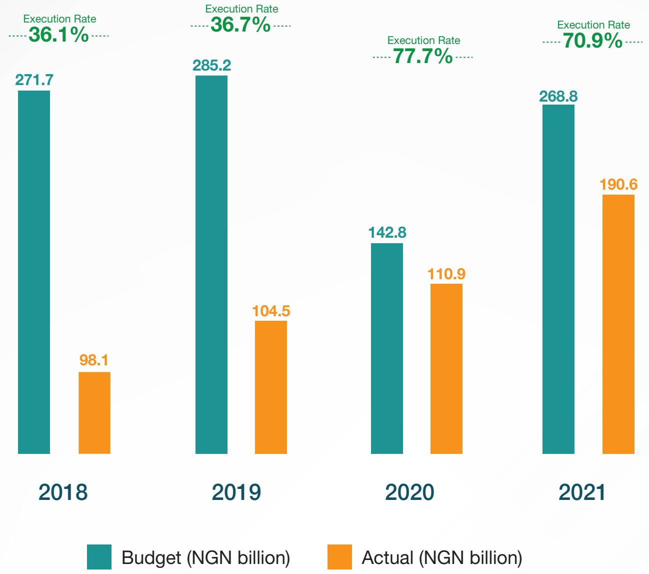
As seen in Table 6, the country could only realise 54 percent of its projected revenue in 2018, 58.9 percent in 2019, 58.6 percent in 2020, and 67.8 percent in 2021. Between 2018 and 2021, more than 30 percent of the federal government's revenue projections were not actualized. Even though Nigeria has never reached the 6 trillion naira mark in actualized revenue since its creation, the federal government still went ahead with an ambitious revenue projection of 10.7 trillion naira in the 2022 fiscal year. The credibility of the 2022 budget is at risk, considering Nigeria's historical revenue collection and vast petroleum subsidy cost. The implication of the government being unable to actualise a sizable portion of its projected revenue is that it will have to acquire more debt to finance its budget. Thereby, it would increase its debt stock and debt service obligations, which often crowd out spending on core sectors of the economy, in the following years.

Federal Government Revenue Trend



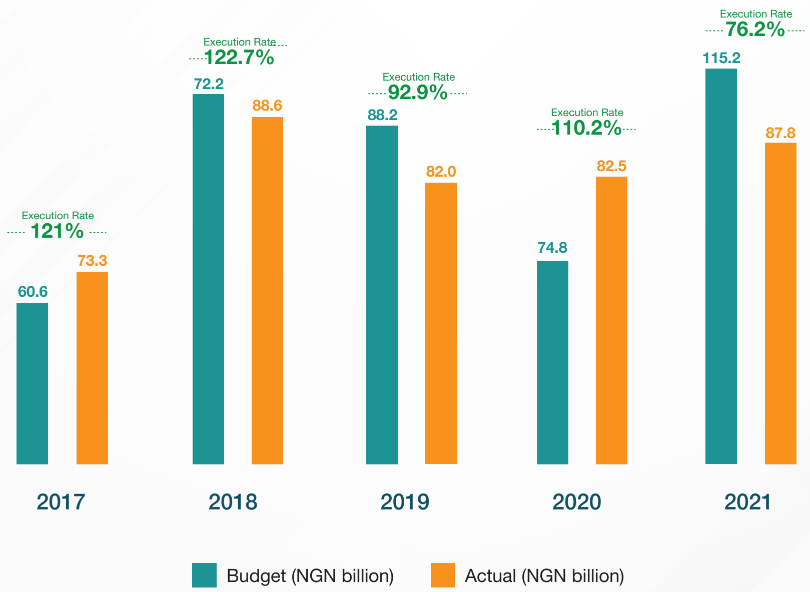
The federal government's revenue projection is usually predicated on some macroeconomic assumptions, including the oil price, oil production, foreign exchange rate, and interest rate. The subnational governments use the macroeconomic assumptions of the federal government to prepare their budgets. Although the federal government is usually conservative in its annual oil price forecast, there are some years when actual oil revenues often fall short of the projections due to other factors, including but not limited to the volume of oil produced.

Figure 11: Oyo State Revenue Profile (2018-2021)



Oyo State has historically underperformed in realising its projected revenue, as seen in Figure 11. The state earned only 36.1 percent of its projected earnings in 2018. Although Oyo State's revenue rose by 94.3 percent from 98.1 billion naira in 2018 to 190.6 billion naira in 2021, it was only able to realise 70.9 percent of what it had planned to earn in 2021. Several reasons were revealed by a senior official in the Oyo State Government as drivers of deviations of actual revenues from projections, and they include the following: Weak domestic resource mobilisation capacity; overdependence on federal transfers/allocations; external shocks like Covid-19, and security challenges affecting the real sector (SMEs, service providers, transportation, etc.).

Figure 12: Anambra State Revenue Profile (2018-2021)



As shown in Figure 12, Anambra surpassed its revenue projections in 2017, 2018, and 2020. The state grew its revenue by 19.7 percent from 73.3 billion naira in 2017 to 87.8 billion naira in 2021. Despite Anambra's stellar revenue collection, on average surpassing its revenue projections in the period under review, the state has relatively under-implemented its health budget in the period under review. An official of the government of Anambra State averred that the excess of revenue projected is often recorded as part of the opening balance in the following fiscal year.

Before 2007, Nigeria had no existing legislation guiding the procurement of goods, services, and works by MDAs and government-owned enterprises (GOEs), leading to massive revenue loss from procurement fraud.

3 Procedural, Regulatory, and Contextual Issues

Beyond acts of parliament establishing government MDAs, other laws, regulations, and guidelines regulate the operational and financial conduct of government MDAs.

The performance of government budgets is largely influenced by the quality of established public procurement processes. Before 2007, Nigeria had no existing legislation guiding the procurement of goods, services, and works by MDAs and government-owned enterprises (GOEs), leading to massive revenue loss from procurement fraud. A World Bank Country Assessment survey conducted in 2000 revealed that Nigeria, at the time, lost 60 percent of its spending to procurement fraud[15].

To solve this behemoth problem confronting the country, Nigeria enacted its Public Procurement Law (PPL) in 2007. This law was established to ensure transparency, probity, accountability, competitiveness, cost-effectiveness, value for money, and professionalism in Nigeria's public sector procurement system[16]. While the purpose of the PPL, 2007 is to ensure that procurement of goods, services, and works are conducted in a manner that is transparent, just, and based on established guidelines and thresholds, there are extrinsic factors that are causing well-intended provisions of the law to inhibit the implementation of government budgets. One such extrinsic factor has, up until 2020, been the late passage of the annual budget.

Before 2020, Nigeria's federal budgets were often signed into law months after the budget implementation was supposed to have commenced. For emphasis, while the federal government budget for 2017 was signed into law on the 12th of June, 2017, those for 2018 and 2019 were granted presidential assent, respectively, on the 20th of June, 2018, and the 20th of May, 2019. The inference of the aforementioned example is that the budgets of 2017, 2018, and 2019 were passed into law approximately six months into the fiscal year. Late passage of the budget often has adverse implications for the implementation of the budget.

15 See generally, Abah, J. (2020). Development for Sale: Public procurement in Nigeria is stuck in a quagmire. Issue 1, 2020. Available at: https://digitalmallblobstorage.blob.core.windows.net/wp-content/2020/10/NGI-1-Development-for-Sale.pdf

16 See Olatunji, S., Olawumi, T., and Odeyinka, H. (2016). Nigeria's Public Procurement Law- Puissant Issues and Projected Amendments. In the Journal of Public Policy and Administration Research, Vol.6, No.6, 2016. Available at: https://core.ac.uk/download/pdf/234669931.pdf

Late passage of the annual budget distorts the annual operational plan of MDAs, leading to the late commencement of procurement activities by MDAs. Section 16 (1b) of the PPL, 2007 stipulates that "... no procurement proceedings shall be formalised until the procuring entity has ensured that funds are available to meet the obligations and subject to the threshold in the regulations made by the Bureau…": The import of this provision, vis-a-vis the late passage of the annual budget, is that MDAs are constrained in allocating resources to a planned program of activities and projects early in the fiscal year.

Similarly, section 2(a) of the PPL, 2007 empowers a National Council on Public Procurement to establish monetary thresholds for procuring entities (MDAs). However, 15 years after the enactment of the Act, the National Council on Public Procurement has not been constituted, thus contravening section 1 of the Act. Despite this flagrant violation of section 1, the Bureau of Public Procurement set monetary thresholds for procuring entities (MDAs).

Table 7: Bureau of Public Procurement (BPP) Approved Thresholds and Composition of Tenders Board[17].

Approving Authority/ "No Objection" to award	Goods	Works	Non-Consultant Services	Consultant Services
BPP issues "No Objection" to award/ FEC approves	100 million naira and above	500 million naira and above	100 million naira and above	100 million naira and above
Ministerial Tenders Board	5 million naira and above but less than 100 million naira	10 million naira and above but less than 500 million naira	5 million naira and above but less than 100 million naira	5 million naira and above but less than 100 million naira
Parastatal Tenders Board	2.50 million naira and above but less than 50 million naira	5 million naira and above but less than 250 million naira	2.50 million naira and above but less than 50 million naira	2.50 million naira and above but less than 50 million naira
Accounting Officer: Permanent Secretary	Less than 5 million naira	Less than 10 million naira	Less than 5 million naira	Less than 5 million naira
Accounting Officer: Director General/CEO	Less than 2.50 million naira	Less than 5 million naira	Less than 2.50 million naira	Less than 2.50 million naira

17 See the Federal Republic of Nigeria. Bureau of Public Procurement (BPP). Approved Revised Thresholds For Service-Wide Application. Available at: https://www.bpp.gov.ng/wp-content/uploads/2019/02/Approved_Revised_Thresholds_for_Service-Wide_Application-updated.pdf

In light of the current fiscal realities, while monetary thresholds were established to ensure probity in the public procurement process, these thresholds seem to now constitute a major spanner in the wheel of progress by creating a lag and frustrating the procurement process. As seen in Table 6, MDAs require the approval of the Federal Executive Council (FEC) to award contracts for the procurement of goods valued at 100 million naira and above, works valued at 500 million naira and above, and consultant and non-consultant services valued at 100 million naira and above. To put it in proper context, there were 4,681 capital projects valued at 100 million naira and above in the 2021 federal government-approved budget[18]. Going by the aforementioned, 83.6 percent (2.6 trillion naira) of the funds allocated to capital expenditure in the 2021 budget required the approval of the Federal Executive Council (FEC) for the award of contracts—a function assigned to the National Council of Public Procurement by the PPL, 2007. A similar review of the 2022 federal government budget revealed that there are 5095 capital projects valued at 100 million naira and above in the 2022 federal government-approved budget, representing 67.1 percent (2.9 trillion naira) of the funds allocated to capital projects. The implication of having the FEC award contracts for projects that take the bulk of capital budget allocations is that procurement activities get buried in a web of bureaucracy, decelerating the speed at which projects must be executed. Ultimately, MDAs return some disbursements to the treasury at the end of the fiscal year because approvals for awards and disbursements to MDAs often come very late in the year.

There were 4,681 capital projects valued at 100 million naira and above in the 2021 federal government-approved budget.

The procurement process at the subnational level is slightly different from what is obtainable at the federal level. In most states, before MDAs can execute a capital project, the MDAs have to send a memo to the state governor requesting approval. Thereafter, the governor directs the State's Accountant General to release funds for the projects subject to the availability of funds, after which the procurement process commences. In the case of Oyo State, all expenditures above the 100 million naira threshold require the approval of the state governor/the State Executive Council before contract award. Similarly, all expenditures above 10 million naira but below 100 million naira require the approval of the governor. According to an official of the Oyo State Government, the threshold of the state tenders board has been reviewed from 5 million naira to 99 million naira, with final approval from the governor. While these thresholds are established to ensure that projects are executed by the most qualified contractors in the most cost-effective manner, the existing layers of bureaucracy sometimes delay and frustrate the funds request memo approval process. This will then lead to excessive delays in the implementation of budgets.

18 See the. Budget Office of the Federation. 2021 Signed Budget. Federal Republic of Nigeria Available at: https://www.budgetoffice.gov.ng/index.php/resources/internal-resources/budget-documents/2021-budget

Table 8: Threshold for consideration and award of contracts in Oyo State[19]

Approving Authority	Current Thresholds	Thresholds for Goods	Thresholds for Works	Thresholds for Consultant Services	Thresholds for Consultant Services
Executive Governor/ State Executive Council	50 Million naira and above	100 Million naira and above	100 Million naira and above	100 million naira and above	100 million naira and above
Executive Governor/ State Tenders Board	5 million naira - 50 million naira	10 million naira - 50 million naira	10 million naira to 50 million naira	10 million naira to 50 Million naira	10 million naira to 50 million naira
Ministerial/ Parastatal Tenders Board	1million naira -4,999,999 million naira	5 million naira - 10 million naira	5 million naira to 10 million naira	5 million naira to 10Million naira	5 million naira to 10 million naira
Deputy Governor	250,000 thousand naira	1 million naira - 4,999,999 naira	1 million naira to N4,999,999 naira	1 million naira to 4,999,999 naira	1 million naira to 4,999,999 naira
Secretary to State Government	200,000 thousand naira	1 million naira	1 million naira	1 million naira	1 million naira
Head of Service	200,000 thousand naira	1 million naira	1 million naira	1 million naira	1 million naira

4 Political interference in Public Finance Management mechanisms, overspending by ministries

A State's expenditure priority is largely influenced by the political agenda of the state Governor, disregarding budgetary realities and compromising fiscal discipline. For example, if physical infrastructure like roads, airports, and international conference centres are top on the agenda of the Governor, resources will be deployed heavily to those areas at the expense of social sectors like health and education, regardless of whether these infrastructures align with the development plan.

Political interference can often lead to an increase in the expenditure allocated to other Ministries, Departments, and Agencies in the budget or lead to either overspending or completely extrabudgetary expenses. Also, political interference can lead to overspending by certain influential MDAs that render non-essential services or extrabudgetary expenses, thus making less money available for critical issues like the procurement of medical supplies. A critical look at the sector prioritisation of Anambra between 2017 and 2021 reveals that although 6 billion naira was approved for the construction of the airport in the 2020 budget, 22.6 billion naira was eventually spent. This sort of expenditure pattern often crowds out disbursements to other critical sectors of the economy.

19 See the Oyo State Government of Nigeria: Bureau of Public Procurement. (May, 2020). Procurement Procedures Guidelines For Public Procurement In Oyo State. Second Edition. https://old.oyostate.gov.ng/wp-content/uploads/2020/02/Oyo-State-Guidelines-on-Public-Procurement.pdf

The appropriation of funds and disbursement process is frequently subject to political interference. Political actors exert influence over the allocation of funds, leading to a deviation from transparent and merit-based decision-making. This interference undermines the efficiency and effectiveness of public financial management. A critical example of the aforementioned is the influence the legislature wields on how resources are allocated, distributed, and disbursed. Of truth, the legislature ideally should play a crucial role in appropriating funds through the budget, overseeing the disbursement of those funds, and ensuring financial accountability. However, there is evidence of political interference in this process, which hampers the efficient deployment of resources to address society's problems and effective financial management.

At the sub-national level, 33 states relied on federal transfers for at least 50% of their revenues, while 13 states relied on federal transfers for at least 70% of their revenues in 2021.

5 Late cash release

Late cash releases towards the year's end often mean that MDAs cannot fulfil the procurement process requirements needed to spend the cash released before the last day of the year. The result is that such unutilized funds-—irrespective of the reason-—would usually be refunded to the treasury even though the public projects they were meant to finance are still pending. According to an official of the Budget Office of the Federation, Nigeria runs a deficit budget, leading to sourcing for budget financing through borrowing, which could often drag on for long depending on the approval process by the National Assembly. The official revealed that the borrowed funds often become available in the last quarter of the fiscal year, resulting in the late release of funds to MDAs for budget execution.

At the sub-national level, 33 states relied on federal transfers for at least 50% of their revenues, while 13 states relied on federal transfers for at least 70% of their revenues in 2021. A high-ranking official in the Oyo State Budget Ministry revealed that fiscal shocks affecting the net distributable revenue significantly impact their revenue projections, and the state often resorts to borrowing and seeking bailouts from the federal government. If the aforementioned support becomes available late into the fiscal year, it will lead to late cash releases to implement MDAs.

6 Capacity gap for planning, program costing, and funds management

A study of certain MDAs in the South West, including Oyo State, revealed that mid-level managers had poor quantitative-related skills necessary for administrative and technical roles for the implementation of certain programs and operationalisation of special purpose vehicles. These capacity gaps foster inherent weakness in PFM systems within the state, often leading to poor planning, poor program costing, weak funds management, and other budget-related challenges that inevitably lead to unexpected budget deviations.

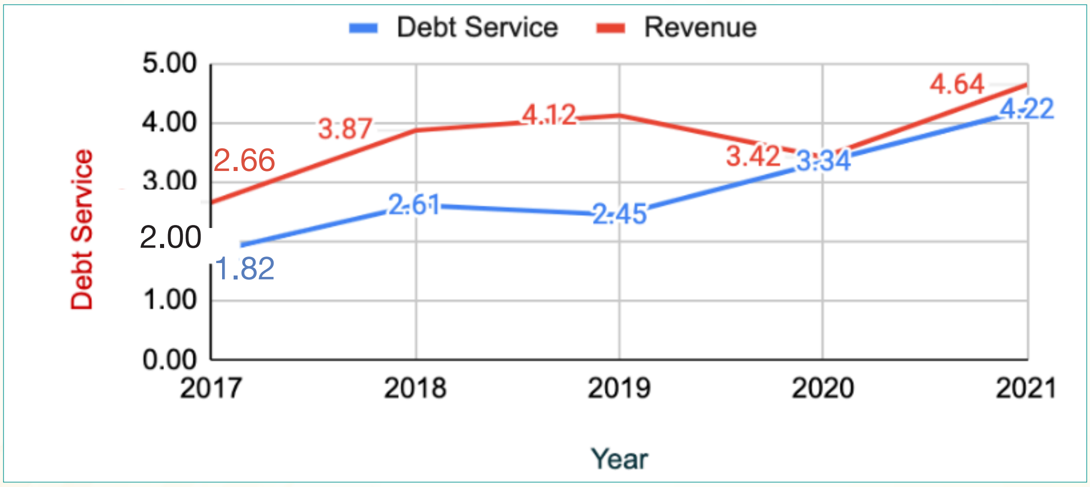
Effects of budget deviations on service delivery

1 Future spending on service delivery compromised:

Weak budget credibility on the revenue component of public finance poses a severe risk to future service delivery. Less public revenue, even when agreements have been entered into with contractors based on high revenue projections, often means there are two things - for one, either contractor will be owed, exposing public projects to the risk of abandonment, or the government would have to take on more loans than anticipated to meet up with financial obligations. More loans tend to mean more future debt servicing costs, which would ultimately crowd out funds needed for service delivery.

In Nigeria, unrealistic revenue projections over the years have led to wider deficits and debts than anticipated. The result has been increased debt servicing costs, which leaves less money available for financing service delivery and infrastructure. In 2020 and 2021, debt servicing wiped off over 90% of federal government revenue leaving only 10% of all revenues.

FG Debt Service vs Revenue



2 Post-harvest losses, poor farm yields

Weak budget credibility in financing expenditures for agriculture inputs like fertilizers, seedlings, advisory services, and farm equipment generally means that support needed by farmers does not get to them ahead of the planting seasons. In effect, farmers miss out on entire farming seasons, or—for those who still go ahead—they may experience poor farm yields. This scenario also applies to providing agricultural support equipment and facilities to help curb post-harvest losses. In effect, less quantity of food is produced, potentially leading to a shortage of food supply with respect to demand which ultimately affects food prices in the country and food security.

3 Compromised Food Security

A number of factors impact food security in Nigeria. However, two of the major drivers of food insecurity in Nigeria at the moment are climate change leading to water shortage and population growth. While the issue of population growth could be addressed through adequate investment in family planning, the climate change-induced water shortages for crops could be addressed by massively investing in irrigation and agricultural inputs. The poor budgetary provision for the procurement of agricultural inputs and implementation affects irrigation which in turn impacts water supply, leading to massive crop losses and shortage of food.

4 Substandard Service Delivery

Huge budget deviations often mean that budgetary allocations to promote agro-processing, preservation, and storage to reduce pre- and post-harvest losses, improve livestock species to meet the protein needs of the populace, produce raw materials like hides and skin for the manufacturing industry, intensify settlement programs for pastoralists, etc., will be compromised. Many of the aforementioned interventions are executed by contractors funded from the budget. Some offshoots of low budget credibility include the supply of poor quality seeds and fertilizers by contractors, increased post-harvest losses due to the unavailability of proper farming equipment, etc.

5 Compromised workforce, lower income taxes for Anambra and Oyo states

Agricultural being the largest contributor to GDP in virtually all the state's of the federation, suggests that the sector can be a major driver of revenues for the states and country at large through tax and non-tax channels. However, a lack of investment in the sector over time has stunted the contribution of the sector to the revenue pool of both the state and federal governments. Continuous neglect of the sector, especially within the context of burgeoning population growth, is not only forgone revenues for states and federal government but will result in serious socio-political and economic crises for the nation in the not-too-distant future.

Recommendations

1 Full Operationalisation of the Treasury Single Account:

The governments of both Oyo and Anambra State need to fully operationalize their treasury single account to ensure that it covers 100% of the state government's financing. This will plug the leakages of state revenue lost to multiple government accounts and give the government a full view of the revenues that accrue to the state for effective deployment to service delivery areas.

2 Increase budgetary allocation and disbursement to the agric sector:

The states and federal government need to significantly increase the budgetary allocations and disbursements, in line with 10% of the annual budget-Maputo declaration, to the agricultural sector if it's going to achieve the goal and strategic objects well articulated in the Medium Term National Development Plan 2021-2025 which includes increasing the sector's productivity to drive economic growth and meet domestic demand for food.[20]

3 Strengthen PFM Systems:

Stakeholders need to work hard to strengthen accounting and reporting mechanisms, budget execution mechanisms in states -- including public procurement systems, virement, and other relevant policies and the capacity of personnel to utilise these systems.

4 Constitution of National Council on Public Procurement:

The federal government must abide by Section 1 of the Public Procurement Act 2007, mandating it to set up the National Council on Public Procurement. The Public Procurement Law 2007 empowers the National Council on Public Procurement to approve and amend monetary and prior review thresholds, consider and approve policies on public procurement, and approve changes in the procurement process to adapt to improvements in modern technology. If allowed, establishing and operationalizing the National Council on Public Procurement can improve the speed of contract approvals and enhance the efficiency and effectiveness of Nigeria's public procurement process.

5 Peer Review Mechanism:

Establishing a peer review mechanism like the Nigerian Governors' Forum can facilitate inter-state comparisons and encourage healthy competition. By regularly assessing and benchmarking governors' performance, governments can promote accountability, knowledge sharing, and best practices. This mechanism should encourage constructive feedback and drive continuous improvement among participating states.

20 https://nationalplanning.gov.ng/wp-content/uploads/2021/12/NDP-2021-2025_AA_FINAL_PRINTING.pdf

6 Proactive Disclosure of Support from Partners:

Since state governments under-report the support they get from donor agencies and multilateral agencies, it is imperative that donor and multilateral agencies proactively disclose the support given to states to empower accountability actors to hold their governments to account. This approach fosters transparency, trust, and collaboration with government.

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