Framework for Fiscal Rascality Index (FRI) for Benchmarking Ministries, Department and Agencies (MDAs) of the Federal Government of Nigeria

CSJ

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LIST OF ACRONYMS

Acronyms	Meaning
AfDB	African Development Bank
AFR-PREM	Africa Regional Poverty Reduction and Economic Management
ATAF	African Tax Administration Forum
AUC	African Union Commission
BECANS	Business Environment Competitiveness Across Nigerian States
CSOs	Civil Society Organizations
ECA	Economic Commission for Africa
FCT	Federal capital Territory
FGN	Federal Government of Nigeria
FRA	Fiscal Responsibility Act
FRI	Fiscal Rascality Index
GIFT	Global Initiative for Fiscal Transparency
GIZ	Gesellschaft für Internationale Zusammenarbeit
GmbH	German Technical Cooperation
GPFG	Good Public Fiscal Governance
IATI	International Aid Transparency Initiative
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MDAs	Ministries, Department and Agencies
N	Naira
NDDC	Niger Delta Development Commission
NEITI	Nigerian Extractive Industry Transparency Initiative
NGOs	Non-Governmental Organisations
OBI	Open Budget Index
OBS	Open Budget Survey
OECD	Organisation of Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PFM	Public Financial Management
PREM	Poverty Reduction and Economic Management
RCTs	Randomised Controlled Trials
ROSCs	Reports on the Observance of Standard Codes
SBOs	Senior Budget Officials
SEEDS	State Economic Empowerment and Development Strategies
SFRI	Sovereign Fiscal Responsibility Index
SNA	System of National Accounts
TAIs	Transparency and Accountability Initiatives
UN	United Nations
UNGA	United Nations General Assembly

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CHAPTER ONE

INTRODUCTION

1.1 Background

Fiscal policy is a tool which is used by national governments to influence the direction of the economy, generally with the goal of promoting economic stability, growth and development. Fiscal policies can be approached in a variety of ways, and they tend to vary as heads of state change, because different people have their own approaches to economic issues but it is equally noteworthy that nations must strike a balance with their fiscal policies, so that they benefit all facet of the economy.

The underlying component of fiscal policy is the government's budget, which determines how much the government will receive in terms of revenue and the amount is will spend on various goods and services within the fiscal year. The amount of the budget is usually tied to tax revenues and other sources of income for the government. In a nation with a neutral fiscal policy, the budget and the tax revenues are equal, while expansionary policies create a budget deficit, because the government is spending more than it takes in. Contractionary or tight policies, by contrast, create a surplus, as tax revenues exceed budget expenditures.

The budget therefore is an important tool of governance[1] because it translates in financial terms, the action programme of the state, coordinating planned expenditures with expected revenue collection and proposed borrowing operations – hence can be regarded as a national plan that cuts across departmental boundaries and ties together all plans and projects (Agbakoba & Emelonye 2001).

The Nigerian 1999 Constitution as amended, with a host of legislations and regulations[2], constitute the legal framework for budgeting in Nigeria. Although there is no constitutional definition of the word 'budget', the Constitution makes provisions for who does what and when during the budget cycle[3].

Section 80 of the Constitution gives the National Assembly authority to determine the contents of the budget by – making it mandatory that all revenues or other monies raised or received by the federation be paid into and form one Consolidated Revenue Fund of the Federation[4]; providing that all funds can only be withdrawn from the Consolidated Revenue Fund by an Appropriation Act passed by the National Assembly[5]; making it clear that funds cannot be withdrawn from any other

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[1] It ensures that the security and welfare of the people remain the primary purpose of government. See Section 14(2)(b) of the 1999 Constitution.

[2] The legislations and Regulations include Allocation of Revenue (Federation Account etc) Act; Public Complaints Commission Act; National Economic Intelligence Committee Act; National Planning Commission Act; Finance (Control and Management) Act; and Financial Regulations.

[3] In simple terms, the Budget Cycle will include Initiation, Preparation and Approval; Implementation; and Oversight, Audit and Evaluation.

[4] Section 80(1)

[5] Section 80(2)

public fund unless as authorized by the National Assembly[6]; and prescribing that no monies shall be withdrawn except in the manner prescribed by the National Assembly[7].

The President is charged with the initiation of budget proposal by Section 81 of the 1999 Constitution. The reference to 'financial year' in Section 81 is instructive as different countries and institutions operate different financial years. Nigeria's Financial Year Act defines a financial year as the period of twelve months commencing on 1st January and ending 31st December[8] (Amakom, Ibe and Obi 2007).

Section 153 establishes institutions responsible for budget implementation. They are Code of Conduct Bureau; Council of State; Federal Character Commission; Federal Civil Service Commission; Federal Judicial Service Commission; Independent National Electoral Commission, National Defence Council; National Economic Council; National Judicial Council; National Population Commission; National Security Council; National Police Council; Police Service Commission and the Revenue Mobilization Allocation and Fiscal Commission.

Effective implementation of the budget can only be ascertained if there are independent reviews and assessments from the public using relevant indexes and/or indicators. Therefore, strengthening external oversight of public finances is a defining challenge for Nigeria in its quest to foster fiscal responsibility and curb corruption. The continuous call for increasing budget transparency, effective participation and financial accountability is extremely relevant in order to safeguard the integrity and improve the efficacy of public spending, so that public resources can be more effectively deployed to promote development and reduce poverty and inequality. This is also crucial to boost the effectiveness of resources usage and ensure that these resources are used for the purpose intended, satisfying the concerns of the citizens.

Controlling total expenditure is an essential purpose of every budget system but this may not make sense if the expected outcomes and impact (results) are not achieved. There would be no need for governments to budget if total spending were merely the sum of all claims on public resources and not linked to some desired results. Budgeting is said to be ubiquitous because claims always exceed what government is able or willing to spend which then suggest that these resources must be put to the best use or be considered waste. Without limits on the totals and a clear priority setting and sound implementation, unconstrained demands would likely result in chronically high indicators such as fiscal deficits that will produce little or no results at the end of the day.

The indicators for a sound and effective fiscal governance and public finance management regime have been established in law and practice at the national, regional and international levels. These include indicators for the pre-budget,

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[6] Section 80(3)

[7] Section 80(4)

[8] It is useful to observe that adoption of Transformation Agenda by the current administration as her Medium Term Economic Framework where the medium term Expenditure Framework is drawn from is making *multi-year budgeting* imperative. Multi-year budgeting is a practice that involves enacting into law budgets that specify spending and income amounts for more than one year.

approval, implementation, monitoring and evaluation and audit stages. A good number of the requirements are found in the Fiscal Responsibility Act, Public Procurement Act, and the Nigerian Extractive Industry Transparency Initiative (NEITI) Acts. They are also found in the Financial Instructions and Regulations, Treasury Circulars, Civil Service Rules, and the Code of Conduct for Public Officers, etc. At the international level, the IMF has a Code of Good Fiscal Practices.

The Nigerian Fiscal Responsibility Act 2007 was enacted as a law to provide for prudent management of the nation's resources, ensure Long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within the Medium Term Fiscal Policy Framework, and the establishment of the Fiscal Responsibility Commission, to ensure the promotion and enforcement of the nation's economic objectives; and for related matters. The bill was passed under the tenure of President Obasanjo and in June 2007, President Umaru Musa –Yar' Dua signed it into law and constituted the Fiscal Responsibility Commission to ensure the implementation of the Act in furtherance of the administration's commitment to check malfeasance in public finance management.

1.2 History and Conundrum in Nigeria's Federal Public Finance Management

Public finance in Nigeria has been characterized by the "*common pool problem*" where revenue are drawn from every part of the economy and from the larger population fund expenditure programs targeting narrow interest groups thereby creating differences in benefits between the larger group of taxpayers and the smaller group of program recipients, with abundant possibilities for huge free riders. With such situation, representatives of interest groups receiving targeted spending have an incentive to overspend compared to the socially optimal levels and abuse the system.

Experience in Nigeria has shown that the fiscal policy objectives of government are often missed, either through the wrong specification or application of rules and procedures or through failures relating to fiscal management. Many countries, including Australia, New Zealand, Brazil and Argentina have therefore found it necessary to guide and control the process through specific legislation. Nigeria's Fiscal Responsibility Act 2007 is in this tradition. Organic budget laws cover three broad areas – organisational, transparency and accountability.

- The organisational aspects normally include the basis and coverage of the budget, budget calendar, budget implementation processes, accounting, internal and external audits, role of central and spending agencies, intergovernmental fiscal relations including the roles of states and local governments.
- The transparency requirements may specify the sectoral roles, nature, sources and regularity of fiscal information production and dissemination and observance of both internal and international standards on fiscal transparency.
- The accountability aspects may cover levels and types of horizontal and vertical accountability, and the role of oversight bodies and their functions, as well as the mechanism in place for addressing fraud and corrupt practices.

The Nigerian budgetary experience has been tortuous and troubled, affected by rapid succession of regimes, constitutions and administrations as well as significant changes in the macroeconomic framework and the global economic order.

Colonial budgets were minimalist but tightly controlled under a comprehensive and stringent code of *Financial Instructions.* Inherited at Independence, the code was modified to take account of the constitutional change to a presidential form of government, but the traditions of budget discipline were maintained. With the advent of military rule, however, the traditions were summarily abandoned or progressively eroded. The brief civilian inter-regnu (1979-1983) did little to restore due process but the return to democratic civil rule in 1999 heralded a new beginning.

By 2004 an Economic Reform Agenda was in place, dramatically improving the performance of the system with much remains to be done to bring it up to standard. Analysis of the Federal Government of Nigeria (FGN) budget over the period 2004-2009 by the Fiscal Responsibility Commission (FRC) shows that budgeted revenue rose from N1,562.4 billion naira in 2004 to 2414.6 in 2008, while actual revenue rose from N1,383.2 billion to N2,386.9 billion, averaging N1,863.4 billion and N1,799.7 billion respectively. Revenue performance averaged 96.6%. In terms of actual recurrent expenditures, personnel costs seem fairly stable which is a function of general staffing levels but there was a tendency to under-perform on overhead charges, resulting in the common complaint that duties cannot be properly or fully carried out because of inadequacy of operational funds, tools and equipment expenditure. On the capital expenditure side for the major MDAs in 2005-2008, it was observed that the actual sectoral shares often differ significantly from the budgeted.

On average the biggest gainers in implementation were Agriculture (budget 9.1% but actual 13.4%), the Presidency (3.6% budget but actual 4.6%), the Judiciary (2.0 budgeted but actual 2.4%), the National Assembly (1.0 budgeted but actual 2.4%), Niger Delta Development Commission (NDDC) (2.5% budgeted but actual 3.2%) and the Federal capital Territory (FCT) (7.0% budgeted but actual 7.7%). Heavy losers included Power and Steel (11.2% budgeted and actual 6.0%), Health (5.0% budgeted and actual 4.6%), Transport (2.2% budgeted and actual 1.4%), Science and Technology (1.5% budgeted and actual 1.1%), Internal Affairs (1.6% budgeted and actual 1.1%) and Federal Inland Revenue Service (0.9% budgeted and actual 0.3%). Actual capital budget performance averaged 62.1% over the period, but fluctuated widely from year to year. The lowest performance was in 2005 (40.2%) and the highest in 2007 (100.2%).

Historically, as a succession of World Bank Public Expenditure Review (PER) and Public Expenditure Management and Financial Accountability Review (PEMFAR) and other studies have noted, budget implementation in Nigeria has faced many challenges, among them:

- The tendency to concentrate on inputs and outputs, not outcomes;
- Concern with legal requirements and appropriate processes and procedures rather than with effectiveness;
- Non-rigorous preparation on the basis of realizable revenues, proper costing and absorptive capacity;

- Poor translation of macro-economic goals and sector priorities to effective budget programmes;
- Admission of under-prepared and un-implementable budget items;
- Under-utilisation of resources;

Other problems identified highlight the management dimension. They include:

- Confusion and/or conflict of roles among stakeholders;
- Exclusion of some critical stakeholders from significant roles in the budget process;
- Lack of executive and management capacity;
- Poor discipline;
- Corruption and lack of due process;
- Poor project management;
- Poor financial management; and
- Inadequate control, monitoring and review processes.

Indeed, the problems of budget expenditure have manifested at all stages of the budgetary process, as well as across sectors and Ministries Departments and Agencies (MDAs) of government. On the revenue side, much of the potential revenue is lost as a result of lack of proper monitoring and control of oil-related flows as well as insufficient attention to optimisation of non-oil revenue. Although it is true, as the 2007 Public Expenditure Management and Financial Accountability Review (PEMFAR) report remarks, that “the core problem with Nigeria’s budget system has been low efficiency in budget spending, not inadequate current of funding”, there is need to pay due attention to the revenue budget and how to improve it.

The passage of the Fiscal Responsibility Act (FRA) in 2007 has not been seen to have the desired effect in terms of improved fiscal performance and fiscal governance at the federal level and across MDAs in the last two years. A telling indicator is the fact that budget performances in the last few years have been characterized by huge variances of actuals as against budgeted both in revenue and expenditure. See tables 1.1 - 1.3 in the annex for details. Analysis of the tables reveals an uninteresting budget performance. This was most visible with capital expenditure where percentage utilisation across MDAs was 48.07% for five years on average.

1.3 Goals and Objectives of the Study

This study – Fiscal Rascality Index among Nigerian Federal MDAs seeks to promote prudent public financial management among the federal MDAs of Nigeria. By ranking the federal MDAs on their fiscal performances, the MDAs themselves will be challenged to eliminate such activities that have the tendencies of dragging their names in the mud. Also, the civil society and other private sector stakeholders will be armed with evidence-based tool to advocate for reforms that will bring about reduction in the current level of fiscal rascality (if any). Also, the government will understand some of the loopholes in the law that creates room for fiscal rascality among its MDAs. In a nutshell, this study intends to do the following:

- Identify a domesticated framework of indicators and indices for monitoring and assessing the level of fiscal prudence of the federal MDAs.

Subsequent research with such indicators can help to:

- Produce baseline empirical data and statistics for assessing the identified indicators and indices.
- Benchmark and rank the level of fiscal rascality (or otherwise) of the federal MDAs.
- Set up the baseline data that will be used for future benchmarking so as to monitor progresses (or failures) that may arise from the current benchmarking.
- Using the obtained assessment, develop a fiscal rascality report on the federal MDAs.
- Facilitate the use of the fiscal rascality report for advocacy by the civil society and other private sector stakeholders.
- Promote the use of the fiscal rascality report by the federal government of Nigeria in identifying, designing and implementing reforms.

1.4 Justification and Impact of the Study

So much has been said about the centrality of efficient public finance management in developing countries like Nigeria. Being a major driver of productivity in the macroeconomy, the federal government has to take necessary steps in ensuring an effective fiscal policy system. This implies enshrining the discipline of prudent fiscal behaviour among public servants.

In order to enshrine such disciplines, several laws have been made by the federal government of Nigeria such as fiscal responsibility law, public procurement law, etc. These laws are made to ensure that public servants conduct themselves within the confines of prudent public financial management rules and guidelines. However, there is no evidence that the laws have taken full effects on the entire public service. To be able to understudy the level of implementation of the laws, benchmarking the various MDAs in line with their conformity to the laid down procedures becomes necessary. This is why the study is of utmost importance in a time like this.

There could be several ways of ranking fiscal responsibility among Nigeria's federal MDAs. However, there is no known study that has tried to benchmark and rank Nigeria's federal MDAs in terms of fiscal prudence. Some studies that have tried to benchmark fiscal prudence in Nigeria only look at it from the perspective of the sub-national governments (States).

CHAPTER TWO

EXISTING FISCAL TRANSPARENCY, PARTICIPATION, RESPONSIBILITY AND ACCOUNTABILITY FRAMEWORKS AND PERFORMANCE INDEXES

2.1 Introduction

Fiscal transparency, participation, responsibility and accountability in other words fiscal governance reflect a system of well-organized windows on public policy making and policy implementation process which is not an end in itself, but a means to contribute to effective and comprehensive accountability that aims at securing full answerability from governments and their officials. Both these aspects have had a long history and have evolved over the years. States and governments depend on authority needed to provide services, to regulate the economy and to finance both types of activities. Markets are dependent on securing utility, but both governments and markets depend for their smooth functioning, on a large variety of information. The structure of information is heterogeneous, as are the users. The importance of information on the activities of the government to facilitate the twin roles of *individual decision-makers*, or *economic agents*, - to ascertain what the government is doing and to evaluate how the financial resources of the community are being utilized – has all along been recognized. Reasons for the growing interest and concern about fiscal governance according to Premchand (2001) are due to the following:

- First, the growing recognition of the importance of strengthening the civic society to perform its designated role has been an important factor in shaping the debate on fiscal transparency. What is civic society is itself, however, a controversial issue. To one school, it is one where the role of politics is reduced and that of individual liberty is expanded. To another school, however, the rule of private power over public goods, and the potential for malcontents, including anarchy, needs to be properly recognized if the civic society is to function smoothly. This, in turn, requires the development and strengthening of market based institutions, and a regulatory framework that is not overstretched. The strengthening of the civic society requires greater transparency in governmental actions, and greater trust on government agencies, accompanied by an effective framework of accountability. The determination of the content of transparency.
- Second, the demand for a strengthened civic society comes in the context of a profound paradox in the working of the governments. On the one hand, there is a view that governments have grown enormously in size and in the range of tasks undertaken, and their performance has yet to match expectations. Notwithstanding this prevailing sense of disappointment, there is also greater demand for services that only a government can achieve. As *Derek Bok* says “over the past sixty years, Americans have come to ask more and more (emphasis added) of their governments as newer concerns for economic security, the environment, access to health care, racial and gender equality, and consumer protection have joined more traditional demands for national defense and essential services.” A related issue is how this paradox may be addressed through greater fiscal transparency and improved accountability.

- Third, the series of financial crises experienced during the last two decade (i.e. 90’s and 2000’s) have raised two issues about *public policy making*, and the need to *reduce high vulnerability*. Public policy making, in general, and the national fiscal system, in particular has become a unit of analysis. What is the role of fiscal institutions in economic transformation, whether during an expansionary phase, or during a structural adjustment phase through deregulation, liberalization and in partnership with private programs? Given that the institutions involved in both phases are the same, how should they be evaluated and held accountable. The other aspect is, that to the extent market perceptions, and associated belief systems, can contribute to sudden changes and destabilizing effects, how the crises may be forestalled, through an enhancement of fiscal transparency. These have an impact on the nature and content of information made available to the public. Associated with this institutional approach, is the issue relating to the strengthening of governance, through participation and empowerment. If participation and empowerment are to be achieved, how should fiscal transparency and accountability framework is improved? These questions and several related ones have, indeed lent a degree of added urgency, for a detailed discussion of the subject.

Based on the foregoing discussion and reasoning, several organisations including world bodies and multilateral agencies have tried to measure fiscal transparency, participation, responsibility and accountability or fiscal governance using several indicators and variables. Some of these organisations have focused mainly on fiscal responsibility, while others have combined lots of fiscal issues including participation in constructing some indexes of fiscal performances. One thing that is common to all these indexes is the fact that they reflect government efforts towards building institutions that will lead to a system of well-organized windows on public policy making and policy implementation process. These frameworks have been used to compare countries and states of the world and have been to an extent generally accepted as a measure of fiscal governance. Some of the selected frameworks include:

2.2 The Public Expenditure Management and Financial Accountability Reviews (PEMFAR) and Public Expenditure and Financial Accountability (PEFA) Framework

Under the Public Expenditure and Financial Accountability (PEFA) Program, the Public Financial Management (PFM) Performance Measurement Framework (PMF) (or PEFA Framework) has been developed as a contribution to the collective efforts of many stakeholders to assess whether a country has the tools to deliver three main budgetary outcomes:

- aggregate fiscal discipline
- strategic resource allocation
- efficient use of resources for service delivery

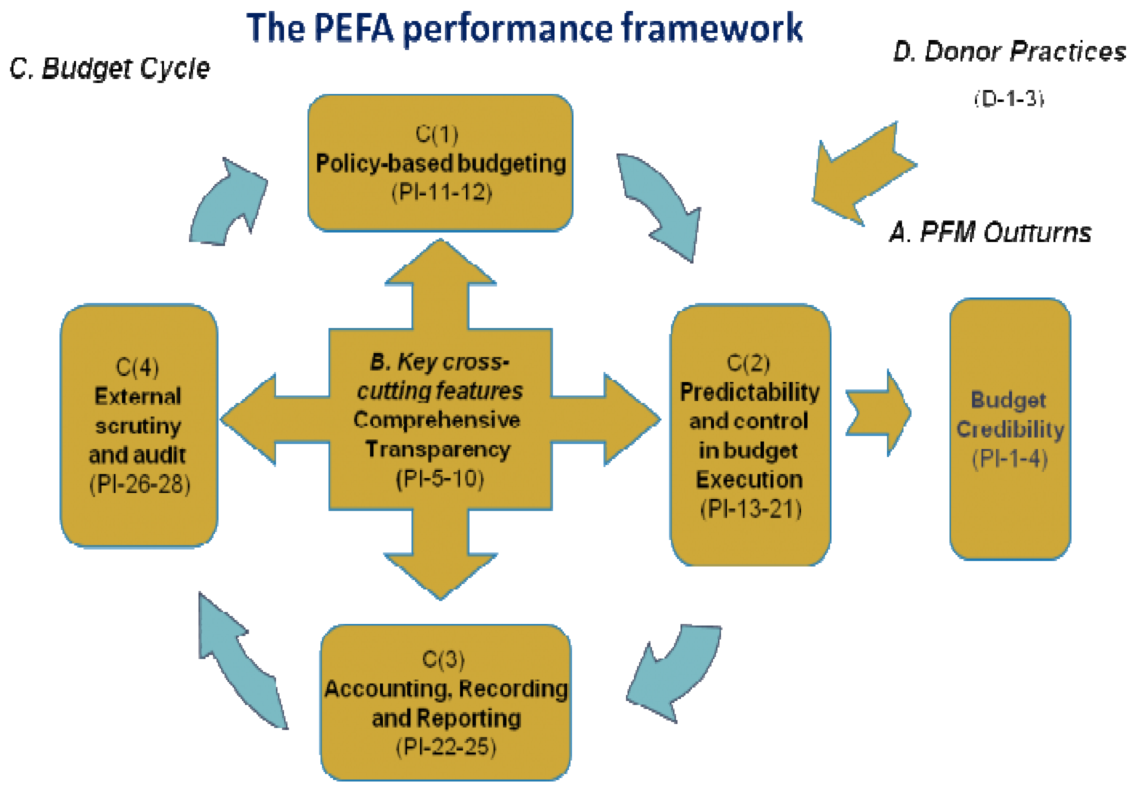
The objectives of the Framework are to:

- provide reliable information on the performance of Public Financial Management (PFM) systems, processes and institutions over time;

- contribute to the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success;
- facilitate harmonization of the dialogue on PFM performance, reform needs and donor support between government and donors around a common PFM performance assessment and therefore contribute to reduce transaction costs for country governments.

The above objectives are achieved through analysis of the following four broad components: Credibility of the budget; Comprehensiveness and Transparency; Budget cycle (Policy-Based Budgeting, Predictability and Control in Budget Execution, Accounting, Recording and Reporting and External Scrutiny and Audit); as well as donor practices. This framework has been one of the most popular public expenditure management frameworks and has been used for many countries across the world. By providing a common pool of information for measurement and monitoring of PFM performance progress, and a common platform for dialogue about PFM reform, it aims to contribute to the development of effective country-owned PFM systems. Detailed PEFA performance framework is depicted in figure 2.1 below

Figure 2.1: The PEFA Performance Framework



Source: http://www.pefa.org/en/content/pefa-framework

The PEFA Framework was created as a high level analytical instrument which consists of a set of 31 indicators and a supporting PFM Performance Report, providing an overview of the performance of a country's PFM system. Drawing on the established international standards and codes, and other commonly recognized good practices in PFM, it forms part of the strengthened Approach to supporting PFM reform, which emphasizes country-led reform, donor harmonization and alignment around the country strategy, and a focus on monitoring results. This approach seeks to mainstream the PFM best practices that are already being applied in some countries.

Through repeat assessments in a country, it is capable of demonstrating performance changes over time. The Framework was launched in June 2005 and updated in January 2011 and covers the entire financial management cycle focus on the central government. However, the application of the Framework at sub-national government level has become widespread and guidelines were developed in 2008.

Variables and Indicators

Variables and indicators used in PEMFAR and PEFA assessment are four major categories including:

A. PFM-OUT-TURNS: Credibility of the budget

- Aggregate expenditure out-turn compared to original approved budget
- Composition of expenditure out-turn compared to original approved budget
- Aggregate revenue out-turn compared to original approved budget
- Stock and monitoring of expenditure payment arrears

B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency

- Classification of the budget
- Comprehensiveness of information included in budget documentation
- Extent of unreported government operations
- Transparency of inter-governmental fiscal relations
- Oversight of aggregate fiscal risk from other public sector entities
- Public access to key fiscal information

C. BUDGET CYCLE

C(i) Policy-Based Budgeting

- Orderliness and participation in the annual budget process
- Multi-year perspective in fiscal planning, expenditure policy and budgeting

C(ii) Predictability and Control in Budget Execution

- Transparency of taxpayer obligations and liabilities
- Effectiveness of measures for taxpayer registration and tax assessment
- Effectiveness in collection of tax payments
- Predictability in the availability of funds for commitment of expenditures
- Recording and management of cash balances, debt and guarantees
- Effectiveness of payroll controls
- Competition, value for money and controls in procurement
- Effectiveness of internal controls for non-salary expenditure
- Effectiveness of internal audit

C(iii) Accounting, Recording and Reporting

- Timeliness and regularity of accounts reconciliation
- Availability of information on resources received by service delivery units
- Quality and timeliness of in-year budget reports
- Quality and timeliness of annual financial statements

C(iv) External Scrutiny and Audit

- Scope, nature and follow-up of external audit
- Legislative scrutiny of the annual budget law
- Legislative scrutiny of external audit reports

D. DONOR PRACTICES

- Predictability of Direct Budget Support
- Financial information provided by donors for budgeting and reporting on project and program aid
- Proportion of aid that is managed by use of national procedures

2.3 Sovereign Fiscal Responsibility Index (SFRI)

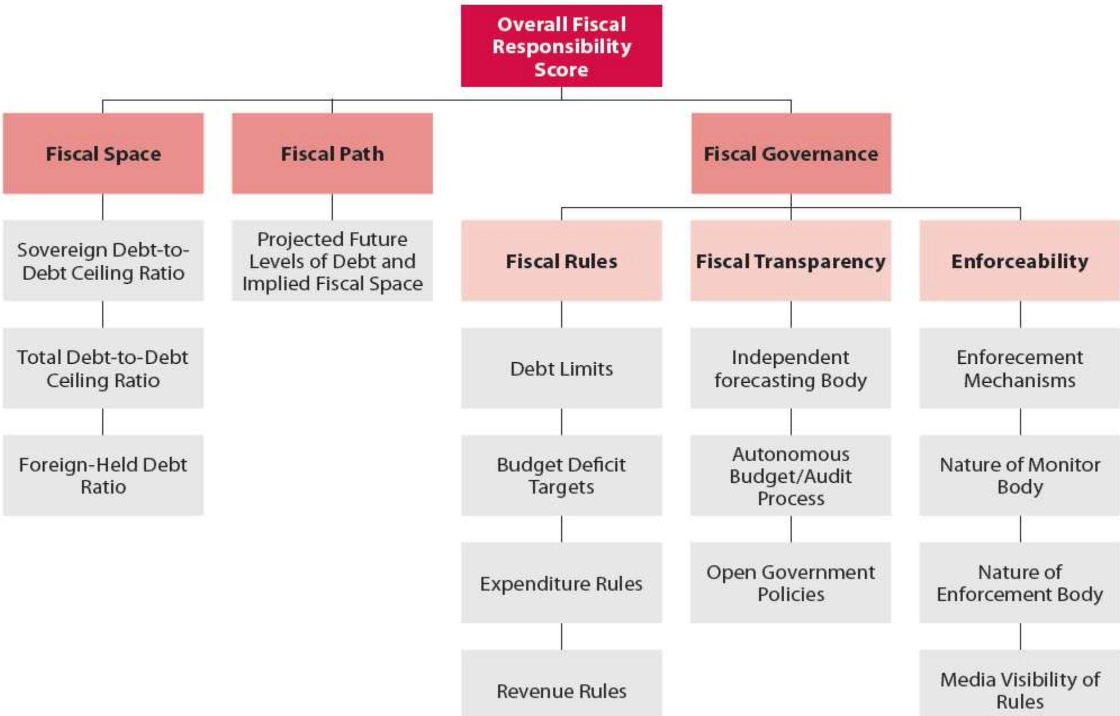
The Stanford Institute for Economic Policy Research developed what they call a Sovereign Fiscal Responsibility Index (SFRI) which is a result of a six-months long master's thesis project completed by a team of four students from the International Policy Studies (IPS) and Masters in Public Policy (MPP) programs at Stanford University (Augustine *et al* 2011). The index focused on issues of fiscal responsibility that can help prevent fiscal crisis in a country. SERI working definition of fiscal crisis is typically those caused by a loss of confidence in the ability of a borrower to effectively manage its financial affairs. In the case of a sovereign nation, it normally results in much higher interest rates and can result in a significant decline in the value of the country's currency. These actions could cause significant economic disruption in the affected country and, depending on the circumstances and the country involved, around the world.

Variables and Indicators

SFRI provides a simple but comprehensive analytical tool and framework for citizens, research institutions, and advocacy groups alike to use in understanding sovereign fiscal responsibility and sustainability. It specifically illustrated where a country is, where it is headed, and how it compares with other nations in the area of fiscal responsibility and sustainability. Importantly, key data sets used to create the SFRI were obtained from the International Monetary Fund (IMF) and other authoritative, trusted, and neutral international organizations.

Three major variables considered under SFRI include: fiscal space, fiscal path and fiscal governance. Under the fiscal space, Sovereign Debt-to- Debt Ceiling Ratio, Total Debt-to-Debt Ceiling Ratio and Foreign-Held Debt Ratio were the main indicators. Fiscal path was measured using Projected Future Levels of Debt and Implied Fiscal Space while fiscal governance looked at three different compound indicators such as adherence to fiscal rules (Debt Limits, Budget Deficit Targets, Expenditure Rules, and Revenue Rules); fiscal transparency (Independent forecasting Body, Autonomous Budget/Audit Process and Open Government Policies); as well as enforceability (Enforcement Mechanisms, Nature of Monitor Body, Nature of Enforcement Body and Media Visibility of Rules). See figure 2.2 below for the detailed SFRI categories, indicators and variables.

Figure 2.2: Overview of SFRI Categories, Indicators and Variables



Source: Augustine et al 2011

2.4 The German Law and Fiscal Responsibility

In order to control and ensure the quality of the budget process, it is important to have specific guidelines. The guidelines established by law in Germany are worthy of note as a possible model. The German law specifies that the budget as presented must meet the following criteria:

1.	*Completeness*	The budget must include all revenues and expenditures separately
2.	*Clarity*	The budget must be organised along ministry and functional lines
3.	*Unity*	The budget must include all revenues and expenditures
4.	*Accuracy*	Revenues and expenditures must be estimated based on actual fair market values or expected values
5.	*Historical Succession*	The budget must be enacted before the fiscal year starts. If there is no budget for the current fiscal year, the previous budget continues in effect.
6.	*Specificity*	Expenditures must be designated as falling into a specific area, at a specific time and at a specific level.
7.	*Publicity*	All debates on the budget in the Bundestag as well as the final enacted budget are publicly available and accessible. Some expectations, however, may be classified with appropriate restrictions on who can access information on those.

Source: http://en.wikipedia.org.wiki/German_budget_process

2.5 The Global Initiative for Fiscal Transparency (GIFT)

The GIFT is a multi-stakeholder action network working to advance and institutionalize global norms and significant, continuous improvements on fiscal transparency, participation, and accountability in countries around the world. GIFT used high level intended to guide policy makers and all other stakeholders in fiscal policy in their efforts to improve fiscal transparency, participation and accountability, and to help promote improvements in the coverage, consistency and coherence of the existing standards and norms for fiscal transparency. GIFT was adopted by the United Nations (UN) General Assembly as a resolution titled 'Promoting transparency, participation and accountability in fiscal policies' endorsing the GIFT High Level Principles and encouraging Member States to intensify efforts to enhance transparency, participation and accountability in fiscal policies on December 21, 2012.

The resolution is geared towards recognizing that fiscal policies – taxing, borrowing, spending, investing, and managing public resources – have critical impacts on economic, social and environmental outcomes in all countries at all levels of development. The resolution also believed that access to high quality information, meaningful public participation, and effective accountability mechanisms are crucial because they will:

- enhance the integrity, quality and implementation of fiscal policies,
- reduce corruption,
- increase the legitimacy of and trust in government,
- increase willingness to pay taxes and provide financing,
- strengthen the effectiveness of development assistance,
- and thereby strengthen the efficiency, equity, effectiveness, stability and sustainability of fiscal policies and enhance the likelihood that fiscal policies have positive economic, social and environmental impacts.

GIFT rationale is based on the rate of unevenness and slowness in improving fiscal openness across many countries of the world and the fact that it might take a generation to have significant and sustainable improvement in important world regions. At the same time, the challenge is complex and broad and needs multiple stakeholders to address it in a coordinated manner. GIFT is a global network that connects important international actors with other networks, together with champion governments and civil society organizations: while facilitating dialogue and cooperation in a platform where relevant stakeholders and networks participate, GIFT strengthens norms and creates incentives for countries to engage in a dialogue with civil society organizations, to improve transparency and engagement on the source and use of public resources. The multi-stakeholder platform facilitates peer-learning and technical assistance and produces meaningful evidence about the benefits of fiscal openness, with which GIFT fills a major gap.

GIFT's Action - Agenda is organized and implemented around four main streams of work:

1. Advancing Global Norms on Fiscal Transparency;
1 Increasing and Improving Peer - Learning and Technical Assistance;
2 Aligning Incentives Work with Greater Knowledge and Private Sector Involvement; and

3 Harnessing New Technologies/Open Data to engage the General Public.

The Lead Stewards of GIFT are the Brazil Ministry of Planning, Budget and Management, the Department of Budget and Management in Philippines, the World Bank and the International Monetary Fund as well as the International Budget Partnership (IBP) where the Initiative is currently hosted.

Variables and Indicators

Unlike other frameworks, GIFT has some general principles instead of variables and indicators. These principles are posed as statements under two blocks access to information and the governance of fiscal policy and each country practice is assessed using the accepted methodology. The principles under access to information and the governance of fiscal policy include:

Access to Fiscal Information

- *GIFT Principle One (1):* Everyone has the right to seek, receive and impart information on fiscal policies. To help guarantee this right, national legal systems should establish a clear presumption in favour of the public availability of fiscal information without discrimination. Exceptions should be limited in nature, clearly set out in the legal framework, and subject to challenge through low-cost, independent and timely review mechanisms.
- *GIFT Principle Two (2):* Governments should publish clear and measureable objectives for aggregate fiscal policy, regularly report progress against them, and explain deviations.
- *GIFT Principle Three (3):* The public should be presented with high quality financial and non-financial information on past, present, and forecast fiscal activities, performance, fiscal risks, and public assets and liabilities. The presentation of fiscal information in budgets, fiscal reports, financial statements, and National Accounts should be an obligation of government, meet internationally-recognized standards, and should be consistent across the different types of reports or include an explanation and reconciliation of differences. Assurances are required of the integrity of fiscal data and information.
- *GIFT Principle Four (4):* Governments should communicate the objectives they are pursuing and the outputs they are producing with the resources entrusted to them, and endeavour to assess and disclose the anticipated and actual social, economic and environmental

The Governance of Fiscal Policy

- *GIFT Principle Five (5):* All financial transactions of the public sector should have their basis in law. Laws, regulations and administrative procedures regulating public financial management should be available to the public, and their implementation should be subject to independent review.
- *GIFT Principle Six (6):* The Government sector should be clearly defined and identified for the purposes of reporting, transparency, and accountability, and government financial relationships with the private

sector should be disclosed, conducted in an open manner, and follow clear rules and procedures.

- *GIFT Principle Seven (7):* Roles and responsibilities for raising revenues, incurring liabilities, consuming resources, investing, and managing public resources should be clearly assigned in legislation between the three branches of government (the legislature, the executive and the judiciary), between national and each sub-national level of government, between the government sector and the rest of the public sector, and within the government sector itself.
- *GIFT Principle Eight (8):* The authority to raise taxes and incur expenditure on behalf of the public should be vested in the legislature. No government revenue should be raised or expenditure incurred or committed without the approval of the legislature through the budget or other legislation. The legislature should be provided with the authority, resources, and information required to effectively hold the executive to account for the use of public resources.
- *GIFT Principle Nine (9):* The Supreme Audit Institution should have statutory independence from the executive, and the mandate, access to information, and appropriate resources to audit and report publicly on the raising and commitment of public funds. It should operate in an independent, accountable and transparent manner.
- *GIFT Principle Ten (10):* Citizens should have the right and they, and all non-state actors, should have effective opportunities to participate directly in public debate and discussion over the design and implementation of fiscal policies.

2.6 Open Budget Index (OBI)

The OBI was the brain child of the International Budget Partnership (IBP) and it examines countries from around the world, measuring three aspects of how governments are managing public finances. The OBI is the culmination of analyses conducted by a global network of hundreds of researchers over a two-year period.

The Open Budget Initiative (Initiative) is a global research and advocacy program to promote public access to budget information and the adoption of accountable budget systems. IBP launched the Initiative with the **Open Budget Survey (OBS)**—a comprehensive analysis and survey that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level. The IBP works with civil society partners in 100 countries to collect the data for the Survey. The first Open Budget Survey was released in 2006 and has been conducted biennially with Nigeria as one of the countries measured using the index.

The Open Budget Survey is the only independent, comparative, and regular measure of budget transparency, participation, and oversight in the world. These there aspects of public finance include:

- *Budget transparency* – the amount, level of detail, and timeliness of budget information governments are making publically available. Each country is given a score between 0 and 100 that determines its ranking.

- *Budget participation* – the opportunities governments are providing to civil society and the general public to engage in decisions about how public resources are raised and spent.
- *Budget oversight* – the capacity and authority of formal institutions (such as legislatures and supreme audit institutions) to understand and influence how public resources are being raised and spent.

Under the OBI, the budget is a government's plan for how it is going to use the public's resources to meet the public's needs. Transparency means all of a country's people can access information on how much is allocated to different types of spending, what revenues are collected, and how international donor assistance and other public resources are used according to OBI. The IBP believes that open budgets are empowering; they allow people to be the judge of whether or not their government officials are good stewards of public funds.

While providing the public with comprehensive and timely information on the government's budget and financial activities and opportunities to participate in decision making can strengthen oversight and improve policy choices, keeping the process closed can have the opposite effect. Restricting access to information creates opportunities for governments to hide unpopular, wasteful, and corrupt spending, ultimately reducing the resources available to fight poverty. Since a significant amount of poverty-reducing expenditures take place at the subnational level, the Initiative also has initiated a major new effort to support work on budget transparency and accountability at this level.

The Open Budget Initiative is currently collaborating with Civil Society Organizations (CSOs) worldwide to undertake research and advocacy and raising public awareness of the connections between budget transparency and people's daily lives to mobilize public support for reform.

Variables and Indicators

The OBI assigns a score to each country based on the information it makes available to the public throughout the budget process and some of the indicators and variables look at issues such as:

Public Availability of Key Budget Documents

- Budget Call Circular, Budget Draft Estimates, Budget Appropriation Law, Citizens Budget, Implementation Reports (Executive's Quarterly Report, Mid-Year Review and Accountant-General's Report (Year-End Report), as well as the Auditor General's Report).

Public Participation in the Budget Process

- Public Engagement during Budget Formulation
- Public Engagement during Budget Discussion by the Parliament
- Public Engagement during Budget Execution
- Public Engagement during Audit

Public Availability of Information on Procurement

- Transparency in the procurement system

Legal Framework: Access to Information and Fiscal Responsibility

- Availability of freedom of information act/law and its implementation
- Availability of fiscal responsibility act/law and its implementation

2.7 The World Bank Public Reduction and Economic Management (PREM) Indicators

These indicators were developed by the Africa Regional Poverty Reduction and Economic Management (AFR-PREM) department and they supports 48 countries in Sub-Saharan Africa to devise results based strategies to reduce poverty and gender disparities, improve governance, strengthen public sector management and boost international trade. The main components of the indicator are Governance & Public Sector Management, Gender, Poverty, and Trade. These indicators came into place due to broad consensus in the area of supply-side disclosure by governments: coverage and timeliness of budget documents, timeliness of in-year reporting, and the scope, role, and timing of audited final accounts are areas of broad normative consensus. Other major issues are provisions relating to the independence of the supreme audit institution which are consistently reflected across all main instruments; degree of informal, decentralized coordination across the different norm-setting institutions, as well as some instances of explicit cooperation in developing instruments.

The World Bank PREM summarized fiscal transparency frameworks and indicators by noting there has been a proliferation of instruments that have the potential to create unnecessary transaction costs, if they are not already doing so, and confusion. This proliferation reflects some overlapping institutional mandates and insufficient coordination mechanisms. The most significant overlap according to the World Bank PREM is between PEFA reports and the Fiscal Reports, on the Observance of Standard Codes (ROSCs). While the number of Fiscal ROSCs has dwindled in the last few years, the IMF's intention to revitalize its fiscal transparency activities means that PREM may reassume some importance. However, the two instruments are currently quite different from each other, and both are currently being reviewed. PEFA reports focus on the information needs of donors and recipient governments, and therefore they include many PFM diagnostics that go well beyond transparency. Compared to the Fiscal ROSC, PEFA reports' coverage of transparency is relatively limited, although they do include provisions on legislative oversight. PEFA reports also include detailed ordinal scores that are intended to help track progress in a country over time. The Fiscal ROSC is aimed at countries at all levels of development, and does not produce explicit performance ratings. The World Bank PREM further summarized other fiscal transparency and governance instruments and reports as depicted in table 2.1 below.

Table 2.1: Summary of Main Fiscal Transparency Instruments

Instrument Name	Scope	Content	Coverage	Graduated	Assessment	Remarks
Code of Good Practices on Fiscal Transparency (IMF 1998, revised 2007)	Budgets, forecast, and reporting al fiscal activities, focus on central government but also covers general government and the public sector	45 good practices in 4 pillars such as (i) clarity of roles; (ii) open budget processes; (iii) public availability of information, and (iv) assurances of integrity	Covers all 187 World Bank member countries	No (current review intended to introduce graduation approach)	Fiscal ROSC by IMF staff on request of government. Publication is voluntary on IMF web site Detailed staff description, diagnosis and recommendations Few ROSCs completed in recent years	The code and ROSCs are being revised in 2013
Government Finances Statistics manual 2001 (IMF)	Reporting only, general government and public sector	An accrual standard for government fiscal statistics as part of the national accounts	Applies to 187 IMF member countries	No	Some aspects assessed by IMF staff as part of ROSC and some as part of fiscal ROSC, for example, definition of sectors, revenue and expenditure classifications, and fiscal balance definitions.	Being revised in 2013 to make compatible with systems of national Accounts 2008
International Public Sector Accounting Standards (International Public Sector Accounting Standards Board)	Reporting only general purpose financial statements of public sector entities and controlled entities, does not cover business enterprises	Thirty-two accrual base IPSASs and one cash basis IPSASs as of March 2013	Intended to cover all governments at national and sub-national levels	Yes (pass/fail)	By accountants and auditors in each country Audited financial statements are published	Published medium-term work program of standards development, including a conceptual framework and convergence with GSFM as feasible.
High-Level Principles on Fiscal Transparency Participation and Accountability 2012 (GIFT)	Budgets, forecasts, and reporting, general government and public sector, public rights to fiscal information and to direct participation.	Ten high-level principles covering access to information and the governance of fiscal policy	Intended to cover all government	No	None. The GIFT work program includes promoting greater coherence in norms, filling gaps in existing norms (for example on public participation and legislative oversight) and strengthening assessment practices, including through mutual recognition.	Endorsed by United Nations General Assembly (UNGA) in December 2012 Intended to sit above existing set of normative instruments and to promote improvements in their coverage, consistency and coherence.

CHAPTER THREE

REVIEW OF FISCAL GOVERNANCE ASSESSMENTS IN NIGERIA

3.1 Business Environment Competitiveness Across Nigerian States **(BECANS)**[9]

Just like State Economic Empowerment and Development Strategies (SEEDS) Benchmarking, this study is also based on a set of measures and indicators, evaluated by independent experts using evidence collected from state authorities and private sector operators. However, unlike SEEDS Benchmarking, BECANS concentrates on how the activities of the states affect the business environments of their various states. In order to achieve the set goals of the study, several indicators are used in the benchmarking with much emphasis on how they affect the business environments. There are also four areas used for the benchmarking – infrastructure and utilities, regulatory services, business and investment promotion, and security.

BECANS focuses attention on state-level regulations, procedures and institutions as they affect the business environment, in particular, the cost of doing business. It has produced an authoritative comprehensive assessment of the strengths and weaknesses of business environments in Nigerian states. They are many success stories in the states that are seldom reported, hence there is limited inter-state mutual learning. With BECANS reports, state governments can identify service delivery agencies and institutions that need to be targeted for reforms. In addition, the reports will provide a lever for government champions of reforms to advance a specific reform agenda.

3.2 Nigeria Governance and Corruption Survey Study, 2001

Model: Cross sectional survey of opinions and perceptions of Nigerians on governance and corruption in Nigeria, sponsored by the Federal Government in November-December 2001.

Methodology: The governance and corruption diagnostic assessment was based on three integrated surveys covering the whole country: household survey; survey of public officials and survey of business enterprises. The household survey covered 2,500 households and was carried out using multi-stage area sampling design. The survey of public officials covered 1,500 individuals in federal, state and local government establishments. The survey of enterprises covered over 1000 enterprise owners and managers. Enterprises were selected through stratified random sampling.

Variables and Indicators: The survey elicited public perceptions on a wide range of governance and development issues. They include: major problems of development (unemployment, corruption, cost of living, inflation, religious conflict, ethnic conflict, quality of education, quality of health, political instability. Others include: problems hindering business operation and growth (financing, infrastructure, inflation, crime and disorder, corruption in the public sector, political uncertainty, exchange rate, taxes and regulation, insufficient/unstable demand, availability and price of skilled

[9] See Eboh and Agu (2007) for details.

manpower, cost of labour, functioning of the judiciary). Other variables and indicators relate to the integrity of public institutions (transparency, honesty, due process). Also, some variables covered the quality and availability of public services (electricity, public health, water, police, public education, courts, customs, tax, immigration, social welfare, communication, postage). There were variables focusing explicitly on the incidence of corruption and corrupt practices in public and private sectors.

Main Findings: The survey of business enterprises showed that enterprises are generally dissatisfied with public services. Enterprises find it difficult to obtain information on laws and regulations affecting businesses. Enterprises consider laws affecting them to be inconsistent and unpredictable. The primary obstacle to using courts was said to be the long litigation process. Enterprises pointed to the high prevalence of unofficial payments to access government services. Enterprises indicate that major obstacle to doing business with government include unreasonably complex processes, too much competition and the necessity of paying gratification. Enterprises expressed a very low opinion of the integrity of public institutions; the police were considered the least honest or most corrupt of all public institutions, others include public electricity company, customs and tax authorities.

Observations: It was based solely on perceptions and opinions of businesspeople, households and public officials. This approach is potentially subjective. There are no quantitative verifiable assessments based on enterprise level ground truths. Besides, the study does not capture differentiation of assessments across sectors and across firms. Though the sampling design reflects diversity of the country in terms of six geopolitical zones and states (including FCT), the analysis and results are not disaggregated in this regard. Hence, comparison of perceptions and opinions across states and across firms cannot be inferred.

3.3 Benchmarking and Assessment of the Performance of States under the State's Economic Empowerment and Development Strategies (SEEDS), 2005

Model: Assessment and Benchmarking of State Performance based on set of measures and indicators, evaluated by independent experts using evidence collected from state authorities and civil society.

Methodology: Four areas for benchmarking were used, viz; Policy; Budget and Fiscal Management; Service Delivery; Communication and Transparency. Within each of the four benchmark categories, a set of measures defined targets for states. Each measure was allocated a different number of points, depending on its importance. For each of the measures, several indicators spelt out in detail what evidence a state needed to show actions taken. The survey was designed in a manner that required the assessors to give scores based on judgement of the state's performance against each of the benchmarks and measures. Information gathering and analysis were done by a team of assessors who visited the state to collect and verify evidence on the indicators, and then allot scores based on the evidence presented by (collected from) the state and objective judgement on the performance demonstrated by the evidence.

Variables and Indicators*:* Under the policy benchmark, the measures include policy, policy documentation, participation and consultation, publication and dissemination of policy. The measures covered under the second benchmark area – budget and fiscal management, include fiscal strategy, role of budget in spending, policy-budget linkages, budget formulation, revenue mobilisation, debt management, financial reporting, accounts preparation and auditing, financial and budget monitoring, value for money. Under the service delivery benchmark area, the following measures were covered: data collection, processing and dissemination, policy on service delivery, coordination in service provisioning, elimination of payroll fraud, civil service realignment, service quality and responsiveness. Under the communication and transparency benchmark area, the measures covered include: due process, procurement, anti-corruption, accountability, accessibility of financial information.

Main findings: Twelve states and FCT met the minimum standards of 25% in all the four benchmarks. The results of scores were interpreted in terms of capacity and commitment of the states in the four benchmark areas. Other findings are given by Tables 3.1 and 3.2 as follows.

Table 3.1: Summary of Ratings of 35 states and FCT in terms of “capacity” in the four identified benchmark areas

Benchmark area	Number of States plus FCT Performing			
	Above average	Average	Below average	Total
Policy	10	11	15	36
Budget and Fiscal Management	0	7	29	36
Service delivery	7	12	17	36
Communication and transparency	14	10	12	36

Source: Derived from Published Results of SEEDS Benchmarking, National Planning Commission, Abuja, January 2006

Similarly, the states were rated in terms of “commitment” in the four benchmark areas, as shown by Table 4, as follows.

Table 3.2: Summary of Ratings of 35 states and FCT by “commitment” in the four identified benchmark areas

Benchmark area	Number of States plus FCT Performing			
	Above average	Average	Below average	Total
Policy	15	8	13	36
Budget and Fiscal Management	0	8	28	36
Service delivery	16	11	9	36
Communication and transparency	1	4	31	36

Source: Derived from Published Results of SEEDS Benchmarking, National Planning Commission, Abuja, January 2006

Observations: The survey elicited feedback from mostly public sector - state ministries, departments and agencies. Most of the measures were process indicators which did not capture downstream effects on private sector and business community. The predominant emphasis was on state governments' compliance with good governance procedures and practices, not on policy outputs and results in terms of enabling business environment. This missing dimension can be realised through a survey designed to elicit private sector feedback on reforms

3.4 Transparency and Accountability Initiatives (TAIs)

The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.

In other to boost transparency and accountability, some multilateral and regional codes and conventions have been entered by different countries in the world including Nigeria. Some of such conventions and regional codes include:

3.4.1 The IMF's Summary of Good Fiscal Transparency Practices for Resource Revenue Management

Some have argued that there is an association between resource riches and poor economic performance (the "paradox of plenty" or "resource curse"), and a significant body of literature has sought to explain the relationships between resource abundance and economic performance. But the resource curse is not inevitable: a range of countries with prudent and transparent management practices (including Botswana, Canada, Chile, and Norway) has benefited from resource wealth.

The *Guide on Resource Revenue Transparency* applies the principles of the *Code of Good Practices on Fiscal Transparency* (the Code) to the unique set of transparency problems faced by countries that derive a significant share of revenues from natural resources. It is intended to supplement the *Manual on Fiscal Transparency* (the Manual) by providing a more detailed set of guidelines to address the issues arising from the sheer size of such resources for many countries, combined with the technical complexity and volatility of the transaction flows. The Guide is designed to give a framework for assessing resource-specific issues that may be considered in the fiscal transparency assessments called fiscal transparency modules of Reports on the Observance of Standards and Codes (fiscal ROSCs). But, equally importantly, the Guide provides a summary overview of generally recognized good or best practices for transparency of resource revenue management that can be used by resource rich countries or by IMF staff, the World Bank, and other providers of technical support and civil societies.

The Guide focuses on actual and potential revenues from non-renewable resources, and especially on oil and gas. Oil production provides the most dramatic illustration of the problems posed by resource riches for developing countries: very large, quickly growing, but time-limited production and revenue flows, combined with a high degree of volatility because of fluctuating world prices. When administration is weak, ownership of such wealth provides ample scope for inefficient policies, discretionary behaviour, and outright corruption, all of which could contribute to poor growth performance and eventual dissipation of national oil wealth.

3.4.2 The OECD Best Practices for Budget Transparency

The Organisation of Economic Cooperation and Development (OECD) member countries are at the forefront of budget transparency practices. At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials (SBOs) asked the Secretariat to draw together a set of Best Practices in this area based on Member countries' experiences.

The Best Practices are in three parts. Part 1 lists the principal budget reports that governments should produce and their general content. Part 2 describes specific disclosures to be contained in the reports. This includes both financial and non-financial performance information. Part 3 highlights practices for ensuring the quality and integrity of the reports. The Best Practices are designed as a reference tool for Member and non-member countries to use in order to increase the degree of budget transparency in their respective countries. The Best Practices are organised around specific reports for presentational reasons only. It is recognised that different countries will have different reporting regimes and may have different areas of emphasis for transparency. The Best Practices are based on different Member countries' experiences in each area. It should be stressed that the Best Practices are not meant to constitute a formal "standard" for budget transparency.

The Best Practices define "government" in line with the System of National Accounts (SNA). This definition encompasses the non-commercial activities of government. Specifically, the activities of state-owned enterprises are excluded from this definition. Although the SNA definition focuses on general government, *i.e.* consolidating all levels of government, these Best Practices should be seen to apply to the national government.

3.4.3 The Declaration on Good Public Financial Governance in Africa

This is a product of the African ministers of finance and economy that met at the 2011 Joint Annual Meeting of the Conference of Ministers of Economy and Finance and Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development in Addis Ababa, Ethiopia, from 24 to 29 March 2011.

With the recalling of the objectives of the African Union as set out in the African Union Constitutive Act; the ministers reaffirm the commitments made to sound economic governance by African heads of state in the 2002 Memorandum of Understanding on Security, Stability, Development and Cooperation, the 2003 Declaration on Democracy, Political, Economic and Corporate Governance of the New Partnership for Africa's Development, the 2006 African Union Convention on Preventing and Combating Corruption, and the 2007 African Charter on Democracy, Elections and Governance; and acknowledged that good governance of public financial resources is an essential part of modern democratic and economic governance.

The commitments made at the meeting were grouped under the following:

- *Governance commitments:* Improving fiscal transparency and strengthening oversight institutions;
- *Technical commitments:* Strengthening a result orientation in public financial governance, strengthening tax governance, strengthening budget preparation, execution and reporting, managing aid for development, as well as strengthening the management of public debt and financial assets; and
- *Reform commitments:* Taking charge of public financial governance reforms as well as matching technical reforms with implementation capacity.

The conference as a follow-up requested that the Economic Commission for Africa (ECA) and the African Union Commission (AUC) to agree with other regional and local institutions, as required, by March 2012, on processes to monitor and report progress to the Conference of Ministers of Economy and Finance against this declaration on a bi-annual basis from 2013 onwards, including through its inclusion in existing review mechanisms. In addition, we will review this declaration from time to time at future Conferences to assess progress and revise our commitments in view of changing priorities.

3.4.4 Importance of Good Public Fiscal Governance (GPFG)

In order to promote economic growth and sustainable development an effective state should be able to mobilise revenue, borrow prudently, plan and manage the spending of public money in an effective and efficient way and to account for the use of funds and the results achieved. Sound public finance management (PFM) contributes to these outcomes through its elements of transparency, participation, responsiveness, oversight, accountability and predictability. These are elements of good public financial governance (GPFG) - a prerequisite for a state's economic and social development and a focal area of CABRI's work.

In this regard, CABRI, the African Organization of Supreme Audit Institutions (AFROSAI) and the African Tax Administration Forum (ATAF), jointly produced a research study on GPFG with the support from the African Development Bank (AfDB) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ GmbH), German Technical Cooperation.

The Status Report on GFG, which covers several important areas relating to GPFG such as tax governance, budget preparation and execution, debt management, external audit and legislative oversight of public finances was presented and discussed in a stakeholder conference in Tunis in November 2010.

A document presented by the Ministry of Finance of the Russian Federation to the meeting of Ministers of Finance of the Group of Eight, identified the following principles of good governance in public finance:

- Fiscal transparency
- Stability and long-term sustainability of budgets
- An effective and equitable system of inter-budgetary relationships
- An integrated budget and budget process
- Results-oriented budgeting
- Effective financial control, reporting and monitoring.

Fiscal transparency– which emphasizes being open to the public about the structure and functions of government, responsibilities within the government, and relations between the government and the rest of the economy, fiscal policy objectives, public sector accounts, and fiscal projections

The soundness of public finances– which emphasizes the stability and sustainability of public finances over the medium term and where appropriate the more distant future, the effectiveness of inter-budgetary relationships within each country, the management of potential risks, and the effectiveness of systems of budgetary and financial control

An effective and equitable system of inter-budgetary relationships emphasizing a stable and predictable financial relationships between central and local authorities, a balanced and interrelated allocation of authority over budget commitments and revenues between different levels of government, an objective, formalized and transparent system of budget equalization and the availability of incentives to increase the effectiveness of management of sub-national finances and, if necessary, sanctions to ensure compliance with financial discipline and legislative requirements.

An integrated budget and budget process which assumes that at each level of management of public finances, the responsibilities and powers of the executive body in charge of the development and implementation of fiscal policy, including the organization of the preparation and execution of the budget are defined clearly and unambiguously, all revenues and expenditures are set out in a single budget, in the budget system there are no off-budget funds and an effective system is in operation for making budget payments and accounting for budget commitments.

The introduction of results-oriented budgeting which requires the setting, for each spending body, a framework of goals, objectives and targeted results of activity, designed to ensure the achievement of the goals and priorities of government policy, use of competitive principles for allocation of budgetary funds, including taking account of the results achieved and planned from use of budget appropriations and the existence and application of methods of assessment of results from use of budget funds by spending bodies and organizations in the reporting period.

Effective financial control and monitoring which require an annual independent external review (audit) of budget reporting with subsequent review of its findings by the legislature, an effective management information systems to enable proper monitoring and control, regular analysis and assessment of the quality of financial management, supported by measures for improving it and development and application of internal control and audit mechanisms.

3.5 A Review of Impact and Effectiveness of Transparency and Accountability Initiatives by Institute of Development Studies

Transparency and accountability have emerged over the past two decades as key ways to address both economic, social and political developmental failures and democratic deficits. In the development context, the argument is that through greater accountability, the 'leaky pipes' of corruption and inefficiency will be repaired, and in turn development initiatives will produce greater and more visible and viable results. CSOs and other social actors across the globe currently believe that accountability is a path to empowerment, or at least to enhanced effectiveness of civil society and donor organisations, large and small, in responding to the needs and voices of those they claim to serve.

Development, democracy and empowerment are obstructed; the argument goes, by a series of accountability failures. Traditional forms of accountability such as internal audits or bureaucratic intra-governmental controls, are increasingly found to be limiting, or even as having become corrupt. In response, multi-stakeholder and citizen-led approaches have come to the fore, to supplement or supplant them. Based on the foregoing argument, the Institute of Development Studies carried out a study to ascertain the accountability and transparency of government decision-making and the delivery of public services across the countries of the world. Five sectors were prioritized by McGee and Gaventa (2010) and they include: public service delivery (especially health and education); budget processes; freedom of information; natural resource governance; and aid transparency. The summary of findings and evidences of the study are depicted as table 3.3 below:

Table 3.3: Evidence of effectiveness and impact in transparency and accountability initiatives

Overall Finding by Sector and Initiative	**Setting**	**Score**
Service Delivery Initiatives		
Public Expenditure Tracking surveys, when made public and linked to public information campaigns, can contribute to reducing leakages in delivery of service sector budgets locally	Uganda	Reinikka and Svennson 2004
Citizen report cards can have considerable impact on local service delivery in some settings	India	Ravindra 2004
Community scorecards can contribute to greater user satisfaction	India	Misra 2007
Community monitoring, when combined with other factors, can contribute to more responsive delivery of services, such as increased teacher attendance in schools	Uganda and India	Björkman and Svennsson 2009; Duflo et al 2008.
Social audits can contribute to exposure of corruption and effectiveness in programme implementation	India	Singh and Vutukuru 2010
Complaint mechanisms can contribute to reduction of corruption, by linking citizens directly to managers who can then hold managers to account	India	Caseley 2003
Information provision has been found to have little impact by itself on the level of engagement by citizens in engaging for accountability with school systems in one study. In another study, when tied to a community –based information campaign, positive impacts were found.	India	Bannerjee et al 2010 Pandey et al
Budget Process Initiatives		
Participatory budgeting initiatives can contribute to multiple outcomes, including improved public services, re-direction of resources to poor communities, new civic associations, etc., strengthened democratic processes, etc., but there are also contradictory findings in some settings	Multiple, but largely Brazil or Latin America	Goldfrank 2006 and others
Public Expenditure Tracking Surveys (see also service delivery section), when combined with public information campaigns, can contribute to reduced leakages, though other studies also point to other factors. While the main source is a study in Uganda, other studies, such as in Tanzania, show less impact	Uganda and Tanzania	Reinikka and Svennson 2004 Sundet 2008
Budget monitoring initiatives can contribute to improved budget	Multi-	Robinson 2006

Overall Finding by Sector and Initiative	Setting	Score
transparency and awareness, as well as enhanced resources and efficiency in expenditure utilization.	country case studies	
Budget advocacy initiatives can contribute to better management of earthquake reconstruction funds (Pakistan) or changes in budget priorities (South Africa).	Pakistan South Africa	IBP studies 2010
Freedom of Information Initiatives		
Freedom of information can contribute to improved government decision-making, public understanding; enhance public participation, and increased trust.	UK	Hazell and Worthy 2009
Freedom of information requests can contribute to responsiveness of public officials, though not always, and highly dependent on status of person submitting request and civil society pressure.	14 country study	OSJI 2006
The Right to information campaign in India led to new legislation and widely mobilised constituencies to use information for developmental purposes.	India	Jenkins 2007
The Right to information legislation in India has been found through 'Peoples' Assessments' to contribute to perceptions of satisfaction in a range of areas, including decline in corruption and curtailing wasteful public expenditure, exposing misuse of power and influence, and redressing grievances.	India	RaaG 2009
Community-based FOI strategies, which go beyond simple information and disclosure, can be instrumental in leveraging other rights, such as those related to housing and water.	South Africa	ODAC 2010
Natural Resource Governance Initiatives		
The *Extractive Industry Transparency Initiative (EITI)* can contribute to the public's capacity to analyse fiscal policy in countries which previously lacked transparency	Multi-country	Rainbow Insight 2009
EITI has also been credited with contributing to reducing corruption, improving financial management, building a platform for public engagement (but this is largely based on internal, anecdotal evidence).	African EITI countries	EITI 2010
EITI has also been found to have no visible effect in relation to broader perceptions of corruption. This is consistent with other broad studies pointing to broader range of policy and institutional contexts, in addition to transparency, necessary for positive impacts to occur.	EITI countries	Ölcer 2009 Kolstad and Wiig 2009
EITI has the risk of simply empowering elite groups, technocrats and policymakers with new information, rather than broader public stakeholders.	Nigeria	Shaxson 2009
Aid Transparency Initiatives		
Aid transparency initiatives are credited with contributing to a decrease in corruption in aid-recipient countries, though this is based on a number of assumptions and estimates not yet tested.	Multi-country	Christensen et al 2010
The International Aid Transparency Initiative (IATI) and related initiatives such as public data bases, 'infomediary' ventures and civil society campaigning can contribute to stronger aid tracking and provide relatively comprehensive coverage of aid delivery processes, but are weaker on assessments of aid effectiveness and broader outcomes.	Multi-country	Martin 2010
The World Bank Inspection Panel led to a variety of impacts such as policy reforms, withdrawals of Bank funding for certain projects, and changes in perceptions of voice and responsiveness. The Panel also contributed to some negative or more perverse effects, such as backlash against claimants and risk aversion in Bank lending.	Multi-country	Clark et al 2003
Downward accountability mechanisms by NGOs can lead to an internalisation of principles of the NGO, sharing of power with partner	Multiple countries	David et al 2006; Jacobs & Milford

Overall Finding by Sector and Initiative	Setting	Score
organisations, and creation of mechanisms for learning from others on improvements on NGO work.	linked to ActionAid and Concern	2010

Source: McGee and Gaventa (2010)

The review also revealed that experimental approaches, specifically Randomised Controlled Trials (RCTs), are gaining currency in the fields of service delivery TAIs and budget-related TAIs. This is a reflection of the broader field of development and aid evaluation, wherein there is currently considerable investment in developing and spreading such approaches as part of a general quest for rigour and scientific precision.

CHAPTER FOUR

FISCAL RASCALITY (IRRESPONSIBILITY) INDEX FRAMEWORK: OUTLINE OF THE METHODOLOGY

4.1 Conceptual Framework

Fiscal responsibility according to wiseGEEK.com is an economic concept that can have a couple of different definitions depending on the circumstances, though it almost always involves strategies for managing debt and adopting practices of so-called "smart" spending. A lot of how the term is interpreted depends on the economic theory held by the person or organization offering the definition. To some authors, it is just a matter of cutting debt, while others say it's about completely eliminating debt *while also* planning for the future. Still others might argue that it's a matter of controlling the level of debt without completely reducing it. Perhaps the most basic definition of fiscal responsibility is the act of creating, optimizing and maintaining a balanced budget. People can do this independently, certainly, as can organizations or government of any size or format; in most cases, though, this particular term is used in the context of corporate spending and governmental finance.

One of the ways of ascertaining if a government is fiscally responsible is through the level of fiscal transparency or budget transparency. The rising importance of fiscal transparency, as part of budgetary institutions, is directly linked to solve a problem of governance in public finance: "The insight that institutions matter for choices and outcomes is the basis for the increased focus during the past two decades on principles of good governance, of which transparency of government is a prominent part" (Alt, Lassen & Rose, 2006). To this effect, fiscal transparency is considered as part of institutional arrangements that "can play a role in helping contain the widely observed penchant of policymakers for excessive deficits" (Debrun & Kumar, 2007, p. 479). Fiscal transparency, minimizing fiscal illusions (Puviani, 1973), is deemed a fundamental tool for obtaining governments' fiscal sustainability: "transparency in government operations are widely regarded as an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude [and] are a necessary condition for sound economic policy" (Kopits & Craig, 1998, p. 1-2).

Fiscal governance, similarly, "connotes a broad perspective on the institutions, that is, the system of procedures (or fiscal institutions) in place to make budget" (Hallerberg et.al., 2009, p.4): like transparency, fiscal governance has become a "buzz-word" in public policy as ," there is a fast expanding strand in the economic literature, reaching well beyond the realm of fiscal policy, highlighting the importance played by the quality of rules and institutions for economic outcomes" (Larch, 2009, p. 8).

Both fiscal governance and fiscal transparency interplay with the contemporary politics and macroeconomic conditions in determining the fiscal outcome in each country. "The actual choice of instruments for financing the government activity, and more in general its size and the balance of fiscal policy, are shaped by political actors**"** (Ricciuti, 2002, p. 2). Government partisanship, as well as features of the political party system and of government institutions are deemed responsible of fiscal profligacy as many theories “identify the characteristics of governments and institutions that vary across national systems and that might affect the supply of fiscal responsibility and determine the actual design of the fiscal budgeting process” (Leachman *et.al.* 2007). When fiscal transparency and fiscal governance are lacking in other words **fiscal irresponsibility** in governance, this can be referred to **fiscal anarchy** or **fiscal rascality**.

When a government is fiscally irresponsible, its ability to function effectively is severely limited. Emergent situations and disasters typically arise unexpectedly, even with the best planning, and a government needs to have quick access to reserve funds in order to mediate damages and send help when needed. A fiscally irresponsible government may not be able to sustain programmes designed to provide fast relief to her citizens, and depending on the extent of the budgetary problem, may not even be able to fund its own programmes in *ordinary* times. Not only does this cause problems internally, but it can also cause a lack of confidence on a global scale that can negatively impact everything from currency exchange rates to general economic stability.

Based on the foregoing framework, the Fiscal Rascality Index (FRI) as being developed comprises of sets of indicators for a sound and effective fiscal governance and public finance management (PFM) regime as have been established in law and practice at the *national, regional and international levels*. These include indicators for the pre-budget, approval, implementation, monitoring and evaluation and audit stages selected from the multiple tested and trusted indicators that have been used by various research agents including the multilateral and other international organisations. A good number of the indicators are somehow embedded in the Nigeria’s Fiscal Responsibility Act, Public Procurement Act, and NEITI Acts. They are also found in the Federal Government of Nigeria (FGN) Financial Instructions, Treasury Circulars, Civil Service Rules, Code of Conduct for Public Officers, etc. At the international level, the IMF has a Code of Good Fiscal Practices.

This study intends to use these standards and indictors found in other fiscal governance studies and indexes to construct a FRI which shows the level and extent of violations by key stakeholders of acceptable conduct enshrined in the extant laws and policies at the federal government and across the Ministries, Departments and Agencies (MDAs) of government. The FRI will be used to assess federal MDAs and the result will be published after the end of the financial year. It will be widely disseminated and made the subject of media debates as an instrument to name and shame agencies and individuals who delight in fiscal impunity.

This has become necessary because public finance in Nigeria has been characterized by the “common pool problem” where revenue drawn from every part of the economy and from the larger population fund expenditure programs targeting narrow interest groups thereby creating differences in benefits between the larger group of taxpayers and the smaller group of program recipients, with abundant possibilities for huge free riders. With such situation, representatives of interest groups receiving targeted spending have an incentive to overspend compared to the socially optimal levels and abuse the system.

The budget system at the federal level of governance in Nigeria just like most other budget systems go through a number of generic stages, which may be categorized as follows:

- Policy Review and Strategic Planning;
- Budget Preparation;
- Budget Approval;
- Budget Execution (including accounting, reporting, audit and scrutiny); and
- Monitoring and Evaluation.

While budget implementation (execution) is mainly about the fourth stage from the above list, its proper evaluation must be in the context of the total framework of action. Thus, the success of the budget depends critically on the soundness of the overall policy framework, the relevance and focus of the strategy, and the seriousness, professionalism and realism of the budget preparation. The objectivity and thoroughness of the budget approval process, which authorizes the budget for implementation, are critical to its effectiveness while proper accounting, monitoring and reporting make it possible to know and keep track of what has happened and is happening, and to be able to take appropriate measures, review past performance, control current performance and improve future plans and activities.

Budget implementation is a critical component of the Public Financial Management (PFM) system because it is the phase that determines the actual volume of government expenditure and ensures that there is a close match between cost and quality of public services. Budget execution is a critical issue in governance as the quality of budget execution largely determines the quantity and quality of government output of goods and services, as well as its impact on the welfare of the people and indeed on the performance of the economy as a whole.

Proper budget implementation enables the budget to perform its role as an effective planning and management tool for the realisation of government policies and programmes. It ensures that resources flow to programmes and projects that reflect policy choices. It requires and promotes fiscal discipline and reduces opportunities for corruption. Good budget execution also ensures that there is transparency, accountability, timeliness and credibility in government financial management.

The basic elements of a typical budget implementation process at the Nigeria federal level which is in line with the OECD practices are in the following sequence of actions, namely:

1. Budget appropriation;
2. Release of appropriation to spending MDAs;
3. Line ministries/spending agencies enter into contracts and orders (commitments), and pay wages, pensions etc.;
4. Good and services are delivered and verified;
5. Bills or invoices are received and payment orders prepared;
6. Payments are made via cash, cheques or electronic transfers;
7. Transaction is recorded in accounts; and
8. Accounts are audited.

This sequence of actions can be briefly discussed under the following six broad stages of the spending process after legislative appropriation of the expenditure budget.

***The Authorisation Stage*:** At the federal stage in Nigeria, once the budget is approved by the National Assembly, ministries, departments and agencies of government (MDAs) are authorized to spend money but consistent with the legal appropriations for each line item. Where the National Assembly has not yet approved the budget before the budget year starts, it is normal to allow governments to start spending on a 'Vote on Account' basis; i.e. a temporary authorization, often restricted each month to one-twelfth of the previous year's expenditure. In Nigeria just like most countries, once the budget is approved, parliamentary authorization of budgets is for one year. In some Commonwealth countries, however, the authorization may be administratively set monthly or quarterly by the use of warrants. In most countries, unspent funds in one year cannot be carried forward to be spent in the next year. In some OECD countries, however, unspent funds can be carried forward, usually up to a specified small percentage of the total funds (e.g. Australia, Canada, most Scandinavian countries and the United Kingdom); and in some countries cash to pay for obligations incurred in one fiscal year but falling due in the next can be carried over (e.g. Italy, Japan, New Zealand and the United States). In some OECD countries where emphasis is on giving agencies more freedom to manage their resources within an overall agency-specific budget to improve efficiency, and where multi-year expenditure planning is well established, the trend has been toward a greater use of carryover of unspent funds. Of course, in these countries aggregate expenditure control is much less of a problem and the prime objective is ensuring the most efficient and effective use of government resources. These circumstances do not however typically apply in non-OECD countries where the use of carryovers is generally discouraged in the interest of financial discipline.

***The Commitment Stage*:** This is the stage where a future obligation (liability) to pay is incurred. Broadly, a commitment arises when a purchase order is made or a contract is signed, which implies that goods will be delivered or services rendered, and that a bill will have to be paid later on. Good budget systems maintain data on commitments that can be monitored, because these will (for the most part) ultimately be reflected in actual expenditure and because their profile, in terms of cash payments to be made, may have important financial programming implications. In francophone and some other countries, there is a dual control over commitments: administrative control via the line ministry or spending agency and financial control by the ministry of finance. The ministry of finance's financial control represents a kind of "pre-audit" confirmation that a commitment can be entered into, consistent with the appropriation.

In many systems, commitments are often not recorded. Where they are, the records may be kept internally by the line ministries or spending agencies, without any centralised accounting of commitments. Thus there is a potential danger of accumulation of payment arrears because no one ensures, when commitments are incurred, that they are consistent with planned future cash availability.

***The Verification Stage*:** This signifies that goods have been delivered fully or partially according to the contract, or the service has been rendered and the bill has been received. Physical delivery can precede verification by some period of time. The line ministry or spending agency making the purchase usually has the financial and the administrative responsibility to check the bill; that is, to verify that the supply has been received in full compliance with any terms or conditions. *The bill at this stage is recognized as a liability of the public sector,* in an accrual accounting sense, and is therefore an important stage of the expenditure process. Even though it represents an accrued liability, it may not yet represent a cash liability, however, for example, when a grace period of 30 or 60 days was included under the terms of the purchase order. Information on verifications within the central government sector, however, is not usually available on a centralized basis in many developing countries, including Nigeria.

Payment Authorisation Stage**:** In the *francophone system* a useful checks and balances system operates, based on the guiding principle that the person who orders the supply or makes the commitment has to be different from the one who authorizes the payment. The payment officer is normally a public accountant who belongs to the *Comptabilité Publique* and has specific responsibilities in terms of the expenditure process for authorizing the payment of verified bills. After verification of the bill, the spending unit must then hand it on to this public accountant, and request that the bills be paid; payment orders are normally centralized at the ministry of finance. For expenditure management purposes, this procedural distinction is not of major significance, although it does imply a different institutional source of data on payment orders than under many commonwealth systems.

In contrast, in some *Latin American countries* the function of post-audit and payment is undertaken by the same institution, a *Contraloría General,* which also exerts a pre-audit function on commitments. In this case the source of data on different stages of spending is the same institution. In *Commonwealth systems* the issue of payment orders is typically the responsibility of the financial officer with delegated responsibility for this function. Systems vary: the issue of payment orders and checks may be decentralized with spending ministries carrying out these tasks and reporting back to the centre or centralized in a treasury department, typically called the accountant general's department within the ministry of finance, which acts both as paymaster and prepares the final accounts of the government.

Payment Stage**:** At this stage, the bill is paid by cash, cheque, or electronic transfer. In some systems, the payment is made through a single ministry of finance account in the central bank or in a designated bank. In others, the payment is undertaken through the commercial banking system via bank accounts held in the names of individual line ministries. This latter approach can make it more difficult for the ministry of finance to reconcile its accounts with those of the banking sector.

Accounting Stage**:** The cash transactions are recorded as complete in the books, which allows a reconciliation from the cash based "above-the-line" fiscal accounts with the financing of any deficit "below the line." Some countries are currently moving toward accrual accounting, which is different from cash accounting. In contrast to cash-based accounting, which only recognizes expenditure when it is paid and income when it is received, accrual-based accounting requires that:

- Expenditure and liabilities are accounted for when goods and services are delivered, even if payments have not been made; and

- Revenue and receivables are recorded when goods are sold, even if proceeds have not been received.

The accounts may be held centrally, as under the French and Latin American systems and those Commonwealth countries with Accountant-General's offices, e.g. Nigeria. The accounts are usually audited at a later stage. For the full transparency and accountability required for and demanded from sound budget implementation, there must be timely production and dissemination of adequate budget management information. This is also required by all stakeholders in the budget process.

4.2 Fiscal Rascality Index Benchmark

Going through the above processes, it is believed that a good PFM system is an essential tool of government in the implementation of policy and achievement of developmental objectives. It should also be remembered that this index is for benchmarking different MDAs at a level of government which is different from what most of the reviewed fiscal indexes have done. Other fiscal indexes have benchmarked country/state against other countries/states. This reasons limits the current index to internal and MDAs level conformity to the overall fiscal discipline hence excludes the general macroeconomic benchmarking variables and indicators that looks at the overall financial health of the country or state such as fiscal deficit as a percentage of GDP, tax revenue as percentage of GDP and total outstanding liabilities as percentage of GDP. Also other provisions such as the Economic Community of West African States (ECOWAS) Convergence criteria, the recommendations of the IMF Article 4 and other international (multilateral and bilateral) fiscal obligations may be difficult to measure at the MDAs level. Such indicators can only have a single value for a country or state and not for an MDA.

The goal of this index therefore is to support the achievement of aggregate fiscal discipline, strategic allocation of funds, value for money, and probity in the use of public funds. This is justifiable because the need to impose financial discipline is at the core of Vision 20:2020 and the current administration Transformation Agenda. This FRI therefore benchmark focuses on the operational performance of the PFM systems, and assesses it against critical objectives, which reflect the requirements of an open and orderly PFM system:

The benchmarking units are divided into five sections as shown below:

1) Policy based budgeting – *15 points*
2) Budget comprehensiveness and transparency - *20 points*
3) Budget credibility – *15 points*
4) Budget implementation, predictability and control – *30 points*
5) Accounting, recording, reporting and external auditing *20 points*

The benchmarks will be based on budget credibility; budget comprehensiveness and transparency; policy based budgeting; budget implementation, predictability and control; Accounting, recording, and reporting, as well as external auditing at every stage of the budget process. This will help to ascertain if MDAs have good system in terms of public financial management (PFM) and a comprehensive and transparent budget process. Greater attention and value is placed on the benchmarking unit of execution which is given 30 points – higher than the points allocated to the other four benchmarks. It is also noteworthy that the budget execution stage determines the actual volume of government expenditure and ensures that there is a close match between cost and quality of public services as well as consisting of several sub-stages such as authorisation, commitment, verification, payment authorisation, payment and accounting. Such greater attention is justified on the ground that this is the area that has posed serious challenge to Nigeria's polity just as most other developing countries all over the world over the years – implementation.

Using the assigned aggregate score for each of the benchmarks, every MDA will be visited with the instrument (see draft as contained in the annex) in addition to the information sourced from the MDAs will be used in scoring every MDA with average computed in relation to 100 per cent. The scores will range from 0 – 100 points, where 0 is the highest level of fiscal rascality and 100 points denote the absence of fiscal rascality (otherwise highest level of fiscal discipline).

4.3 Fiscal Rascality Index (FRI) Variables and Indicators

The FRI encompasses the public fiscal processes including planning; budgeting conception and formulation; budget execution and implementation; public financial accounting and reporting; internal controls; external scrutiny and oversight as well as monitoring and evaluation; and Follow-up in line with other fiscal performances indexes especially the PEFA PFM cycle. The coverage of these basic allows the FRI to adapt to the PEFA PFM and other standard fiscal codes and indexes. FRI proposed variables and indicators will be looked at through the budget process under the following:

1) Policy review and strategic planning;
2) Budget preparation;
3) Budget approval;
4) Budget execution (including accounting, reporting, audit and scrutiny); and
5) Monitoring and evaluation

Variables and indicators that will be analysed in addition to the issues highlighted in the questionnaire are presented in table 4.1 below.

Table 4.1: List of Variables and Indicators issues

Variables theme	**Indicators**	**Remarks**
Budget credibility	• Policy dysfunction and inability to achieve overall objective of the budget • Undermining of the budget process leading to general lack of trust in the budget as true expression of government policy intentions • Deviation of actual aggregate expenditure from planned expenditure • Level of virement (as % of total expenditure) • budget composition (consistency and harmony among budget components) • Shortfalls in funding priority spending as identified during budget planning	**15 points**

Variables theme	Indicators	Remarks
Budget comprehensiveness and transparency	• Consistency in the budget classification system • Budget documentation including details of revenue and expenditure forecasts (comprehensive enough to provide complete overall picture of fiscal risks) • Violation of laws and policies in several ways • Effort to give accessibility of key fiscal information to members of the public • Evidence of effective participation by critical stakeholders •	**15 points**
Policy based budgeting	• Availability of a framework of goals, objectives and targeted results of activity designed to ensure the achievement of the goals and priorities of government policy • Availability of MTSS where budget priorities are well defined and analysed • Evidence showing alignment of the MTSS with the overall national development plan • Integrated planning, budgeting and measuring performance, aligned with priorities, results, etc. • Evidence of regular reviews to align with current economic and social realities.	**15 points**
Budget implementation predictability and control	• Presence of MDA budget calendar • Multi-year perspective in budget • MDAs ability to predict availability of funds for commitment expenditures • Evidence of internal audit and other internal controls and usage of their findings and outputs • Number of announcements for open public procurement tenders *vis a vis* number of projects carried out in a year • Evidence of MDA Tenders Board publishing contracts guidance documentation • Evidence that are tenders are opened publicly after closing date for bid submission • Evidence that justification for awarding the contract to the selected contractor is published • Publication of procurement decisions • Availability of procurement complaints review body • Availability of Alternative Dispute Resolution (ADR) mechanism related to procurement bid • Publication of information on awarded contracts for community projects on a regular basis • Availability of list of beneficiaries of projects, subsidies, social plans and other targeted spending from MDA • Availability of mechanisms to identify the public's perspective on budget execution • Evidence of feedback to the public on how their inputs have been used to improve budget execution	**30 points**

Variables theme	Indicators	Remarks
Accounting, recording, reporting and external auditing	• Availability of in-year budget implementation reports (monthly, quarterly and half yearly) • Annual independent external review (audit) of budget reporting and evidence of addressing issues raised • Availability of monitoring and evaluation report of the MDA • Availability and number of independent monitoring and evaluation reports received by the MDA • regular analysis and assessment of the quality of financial management,	**20 points**

4.4 FRI Approach

The study will be in two parts. The first part will solicit information from the MDAs themselves that are to be rated, while the second part of the study will elicit information from reports and other desk sources. The study will also solicit published documents on fiscal procedures for the entire country and to see how observed procedures across MDAs differ from the regulations.

The public, representatives of the various MDAs will be notified in advance of the need to carry out this rating. The notification will also include the issues to be rated. The instrument for the study will try to be very specific, especially as it pertains to the various stages of budget making process and implementation. The advance notice will be in the form of letters issued to the Ministers, Executive Secretaries, Chairmen, Managing Directors, etc of the various MDAs. The public will be notified through print and electronic media.

This benchmark is to ascertain how well the system for public financial management (PFM) towards a comprehensive and transparent budget process.

4.5 Critical Considerations in Methodology Design

Hard versus Soft Data

Studies of fiscal transparency and responsibility face the choice of the relative strengths of hard (publicly available) data and soft (interviews and survey) data. Both data types are essential to reaching conclusions about the state of fiscal responsibility across MDAs in Nigeria. While hard data are important to identify and map the policies, regulations, laws and administrative procedures governing fiscal responsibility, soft data provide perspectives of how policies and regulations are impacting on the clientele – citizens through service delivery.

Subjectivity versus Objectivity

Neither subjective nor objective data is problem-free. For some dimensions or indicators of fiscal responsibility, objective measures may be available but they are not without weaknesses. But, for other dimensions, objective data are virtually impossible to obtain, hence the need for subjective data. Perceptions-based questions about fiscal responsibility can be vague and open to interpretation.

Asking individuals to rank public services on some ordinal scale often produces misleading results. This is because respondents may have information about the quality of services from one MDA, but limited or no information about the quality of services provided by another MDA. There is likelihood that respondents with different backgrounds, experiences and expectations will not use the same benchmarks to give their responses. Besides, perceptions may not always reflect the true conditions, probably due to imperfect information, not necessarily because of deliberate false assessment.

Comparability versus Context-specificity of MDAs: Each MDA has unique history and culture as well as own fiscal starting points. Their economic circumstances and fiscal engagement also differ. Hence, caution needs to be exercised in benchmarking and comparing MDAs. Comparability across MDAs needs to be systematically developed, not imposed.

The Attribution Question
While some federal MDAs responsibilities are exclusive domain of federal, others are subject of overlapping or concurrent jurisdictions between both tiers of government. This raises the question of attribution to federal or state institutions. Though FRI focuses primarily on federal level MDAs, it does not ignore areas of fiscal responsibility that renders services to the states. The uppermost consideration is to accurately portray fiscal responsibility across federal MDAs and identify areas for improvement, not to apportion blames to the MDAs.

CHAPTER FIVE

CONCLUSIONS

As the first-ever benchmarking and comparative assessment of fiscal responsibility across federal MDAs, FRI is poised to impact significantly on the structure and efficacy of fiscal responsibility research and advocacy in Nigeria. FRI would stimulate MDAs at the federal level into peer review, experience sharing and healthy competition for better PFM. The competition is essential to nurture fiscal responsibility that can help the country achieve her set out goals. The buy-in already elicited from different CSOs and International partners assures ownership and sustainability. FRI is underpinned by sound methodology, strong government-private sector partnership and guaranteed use of its results by key stakeholders at the federal level. Hence, FRI is well-positioned to foster evidence-based PFM reforms across the federal MDAs in Nigeria that can be extend to other tiers of governance.

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ANNEXES

Table 1.1: Recurrent Expenditure 2011 and 2012 (N' billion)

Expenditure Type	2011			2012			
	Budget	Actual	Variance	Budget (Jan-Dec)	Budget (Jan-Sept)	Actual (Jan-Sept)	Variance
MDAs Personnel Costs	1,500.81	1,179.26	-321.55	1,652.9	1,239.67	1,269.86	30.19
MDAs Overhead Costs	229.76	246.89	17.13	271.63	203.73	205.5	1.77
Statutory Transfers	417.82	387.49	-30.33	372.59	279.44	315.8	36.36
Pension & Public Service Reform	154.75	269.98	115.23	146.696	110.02	110.02	0.0
Debt Service Payments	495.10	447.92	-47.18	559.58	419.685	496.257	76.57
Service-Wide Votes	476.16	406.98	-69.18	353.82	265.36	265.36	0.0
Total	**3,337.99**	**3,336.27**	**-1.72**	**3,357.22**	**2,517.91**	**2,662.797**	**144.89**

*Source: Documents Accompanying the 2012 Budget to the National Assembly; Federal Ministry of Finance; Budget Office (BOF)*Revised, Office of the Accountant General of the Federation.*

Table 1.2 Federal Government Budget Expenditure: Budget vs. Actual from 2010-2013

	2010				**2011**				
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**	
Non debt Recurrent	2,669.01	2,546.16	-122.85	-4.6	2,425.07	2,527.26	102.19	4.21	
Debt	542.38	415.62	-126.76	-23.37	495.1	527.09	31.99	6.46	
Statutory Transfers	183.58	201.33	17.75	9.67	417.83	329.18	-88.65	-21.22	
Capital Expenditure	1,764.69	883.87	-880.82	-49.91	1,146.75	713.3	-433.45	-37.8	
Aggregate Expenditure	**5,159.66**	**4,046.98**	**-1,112.68**	**-21.56**	**4,484.75**	**4,302.08**	**-182.67**	**-4.07**	
Fiscal Items	**Budget N'bn (Annual)**	**Actual N'bn**	**Variance (diff) N'bn**	**% of Variance**	**Budget N'bn (Annual)**	**Quarterly Budget**	**First Quarter Actual N'bn**	**Variance (diff) N'bn**	**% of Varia nce**
	2012				**2013**				
Non debt Recurrent	2,425.05	2,400.30	-24.75	-1.02	2386.03	596.51	537.67	-58.84	-9.86
Debt	559.58	679.28	119.7	21.39	591.76	147.94	135.99	-11.95	-8.08
Statutory Transfers	272.59	307.23	34.64	12.71	387.98	96.99	79.21	-17.78	-18.33
Capital Expenditure	1,339.99	744.42	-595.57	-44.45	1,621.48	405.37	210.88	-194.49	-47.98
Aggregate Expenditure	**4,697.21**	**4,131.23**	**-565.98**	**-12.05**	**4987.24**	**1246.81**	**963.76**	**-283.05**	**-22.7**

Source: Consolidated Budget Implementation Report 2010-2012, and First Quarter Budget Implementation Report 2013

Table 1.3 Capital Expenditure Performances of MDAs as at September, 2012 (in N Billion)

MDAs	2012 budget (Appropriated) (Jan-Dec)	2012 budget (Appropriated) (Jan-Sept)	2012 Actual Releases (Jan-Sept)	% Released	Amount Cashed-Back	CBN Balance@ Sept,2012	Amount Utilized	% Utilized
Presidency	15.66	11.75	11.13	94.72	11.13	4.83	6.30	56.60
SGF	36.79	27.59	16.30	59.08	16.30	1.85	14.45	88.65
Youth Devt	7.14	5.36	2.82	52.6	2.82	0.26	2.55	90.42
Agriculture	48.19	36.14	23.35	64.61	23.35	5.20	18.14	77.67
Water Resources	78.14	58.61	31.82	54.29	31.82	18.24	13.58	42.68
Defence	45.44	34.08	29.19	85.65	29.19	17.14	12.05	41.28
Education	66.83	50.12	30.44	60.73	30.44	14.32	16.11	52.92
Health	60.95	45.71	33.20	72.63	33.20	16.45	16.76	50.48
Power	75.49	56.62	35.09	61.97	32.75	17.18	15.57	44.37
Works	159.46	119.59	80.87	67.62	80.87	35.02	45.85	56.69
Transport	46.86	35.15	24.66	70.16	24.66	8.18	16.48	66.83
Mines & Steel	3.17	2.22	1.27	57.21	1.27	0.24	1.03	81.10
Aviation	43.16	32.37	29.97	92.59	29.97	10.57	19.04	63.65
Environment	14.40	10.80	6.17	57.13	6.17	1.30	4.87	78.93
Niger Delta	59.22	44.42	41.15	92.63	41.15	23.35	17.81	41.28
NSA Office	63.85	47.89	36.96	77.17	36.96	6.35	30.61	82.81
Petroleum	8.13	6.09	3.32	54.52	3.32	1.53	1.78	53.61
Science & Tech	27.31	20.48	10.48	51.17	10.45	3.53	6.93	66.13
Others	642.71	482.03	262.71	54.50	115,92	28.09	81.81	31.14
Grand Total	**1,343.99**	**1007.99**	**710.9**	**70.53**	**561.74**	**219.98**	**341.72**	**48.07**

Source: Office of the Accountant General of the Federation.
*Percentage of total capital budget released as at September, 2012 is 710.9 /1343.99 = **52.89%***
*Percentage of total capital budget released and utilized as at Sept, 2012 is 341.72/1343.99 = **25.43%***
*The ability of MDAs to utilize funds release to them as at September, 2012 in percentage term is 314.72/710.9 **= 48.07***

INDICES OF FISCAL RASCALITY AMONG NIGERIA'S FEDERAL MINISTRIES, DEPARTMENTS AND AGENCIES (MDAs)

(SCORES: 0 – 100)

(100 denotes total absence of fiscal rascality, and 0 denotes the highest level of rascality)

Questionnaires

Centre for Social Justice (CSJ)
Abuja, Nigeria

September 2014

Name of MDA: ____

____

SECTION A: POLICY BASED BUDGETING – *15 Points*

1) Does the MDA have a Medium-Term Sector Strategy (MTSS)? (*Collect relevant document to supports positive response*) Yes [ ] No [ ]
2) If yes, when did the MDA come up with the MTSS? (*the year*) ____________________
3) Is the MTSS based on Vision 20:2020 and the current Transformation Agenda?
   Yes [ ] No [ ]
4) Is there evidence of public involvement in the drafting of the MTSS?
   Yes [ ] No [ ]
5) In a concise manner, what is the focus and the goal of the MTSS (if any) ___
   ____
   ____
   ____
   ____
6) What is the overall goal of the Federal Government of Nigeria in the Transformation Agenda that concerns the MDA? (*Look for relevant document to support this claim*)
   ____
   ____
   ____
   ____
7) Is the overall goal noted in Q5 above part of the MTSS? Yes [ ] No [ ]
8) If NO in Q6 above, what is the basis of the MTSS? ______________________________
   ____
   ____
9) Is there an available log frame that translates the goals in the MTSS into actionable activities that will generate results? (*Collect evidence if answer is YES*) Yes [ ] No [ ]
10) If NO in Q9 above, describe below how the MDA came up with capital projects in their annual budgets ____
    ____
    ____
    ____
11) Does the MDA have an automated biometric data of all the staff members? (*Collect evidence if answer is YES*) Yes [ ] No [ ]
12) If yes, is it used in payment of salaries and other remunerations? Yes [ ] No [ ]
13) If no, how does the MDA check for impersonation and ghost workers? _________
    ____
    ____
14) Has the MTSS document of the MDA changed since the change of government in 2011? Yes [ ] No [ ]
15) Was the change prompted by change in overall development plan (from Yar' Adua's 7-Point Agenda to Jonathan's Transformation Agenda)? Yes [ ] No [ ]

SECTION B: BUDGET COMPREHENSIVENESS AND TRANSPARENCY – *20 Points*

1) Does the MDA adhere to the general budget calendar? Yes [ ] No [ ]
2) Does the budget classification provide the following?

		Yes	No
a	Budgeted revenue classified according to individual administrative departments		
b	Budgeted expenditure classified according to individual administrative departments		
c	Each expenditure item classified according to expected source of financing		

3) Are receipts from the various sources separately identified in the annual budget?

		Yes	No
a	All major inland revenue sources separately identified		
b	Receipts from resource-related activities only identified		
c	Receipts from foreign assistance identified		
d	Other receipts also identified		

Please specify other receipts ____

____

4) What information on previous years is presented in the annual budget estimates of the MDA?

		Yes	No
a	There is no information on previous years		
b	Budget estimates, and not actual, for the previous year(s) provided		
c	Only aggregate information presented on the actual of preceding fiscal year		
d	Only aggregate information presented on the actual of two preceding years		
e	Detailed information on budget and actual expenditure of preceding fiscal year(s)		
f	Detailed information on budget and actual revenue of preceding fiscal year(s)		

5) Is there a formal analysis of overall macroeconomic implication of the expenditure items included in the budget by the MDA? Yes [ ] No [ ]
6) Does the analysis include the following:

		Yes	No
a	Variation in key forecasting assumptions		
b	Uncertainty about the size of specific expenditure commitments		
c	Guarantees or indemnities (descriptive data)		
d	Analysis of exposure to guarantees		

7) Are efforts usually made to inform the public about proposed policy/regulatory changes? Yes [ ] No [ ]
8) What is the time period provided for public consultation? __________________________
9) Are there any exceptions to the time period provided for public consultation? Yes [ ] No [ ]
10) Is there a medium-term macroeconomic framework on which your MDA's annual budgets are based? Yes [ ] No [ ]

SECTION C: BUDGET CREDIBILITY – *15 Points*

1) Has the budget proposal of the MDA ever been contested/rejected by the Budget Office of the Federal Ministry of Finance or the National Assembly in the last 3 years? Yes [ ] No [ ]
2) If yes, was it reviewed upwards or downwards in order to reach a consensus point in the budget? Upwards [ ] downwards [ ] both [ ]
3) If upward, which of these best explains the reason for the review? Figures too low [ ] Need to add other important items [ ] Proposal did not meet the given limit [ ]
4) If downward, which of the following best explains the reason for the review? Figures too high [ ] Removal of unclear line items [ ] Proposal exceeded the given limit [ ]
5) Did the National Assembly request that the MDA resubmits the revised proposal before approval? Yes [ ] No [ ]
6) Has your budget proposal ever been approved without comments from the Budget Office of the Federal Ministry of Finance or the National Assembly in the last 3 years? Yes [ ] No [ ]
7) If YES, why was it so?
   Ensured we stick to the given limit while preparing the budget [ ] Adopted best practices in preparing the budget [ ] Do not know why [ ]

8) If NO in Q6 above, why do you think it has been so? Have always overshot the given limit [ ] Have always included unclear line items [ ] Figures for some line items have either been too low or too high [ ]
9) Which of these comments on the MDA's submitted proposals most? The Budget Office of the Federal Ministry of Finance [ ] The National Assembly [ ]
10) Have the MDA ever ignored the comments and get approval without revision in the last 3 years? Yes [ ] No [ ]

SECTION D:
(ACCOUNTING, RECORDING, REPORTING AND EXTERNAL AUDITING)
– 20 Points

1) Are extra-budgetary activities subject to the same budget procedures and regulation as the general budget? Yes [ ] No [ ]
2) Are extra-budgetary activities open to scrutiny by the legislature and the public? Yes [ ] No [ ]
3) How would you describe the management of externally financed expenditure by the MDA?

		Yes	No
a	Managed separately from domestically financed expenditure – and reported partially or not at all in the budget		
b	Covered in the budget but not subject to general budget rules		
c	Fully integrated into budget decision making and reporting		

4) Does the MDA generate revenue for the Government? Yes [ ] No [ ]
5) If yes, how is revenue collected? (a) By the MDA officials [ ] (b) With the use of Contractors [ ] (c) Through Banks, e-transact and other online channels [ ]
6) How would you describe the management of fees and charges of the MDA?

		Yes	No
a	Directly managed by the government agency without any intervention of the central agency – and not reported in the budget		
b	Subject to review and priority setting but managed outside of the budget process		
c	Fully integrated into budget decision making and reporting – and shown in gross terms in the budget		

7) Please provide data showing the MDA's <u>original</u> budget appropriation and <u>actual</u> outturn data for the past three years where actual data are available.

Budget Element	**2009**		**2010**		**2011**		**2012**		**2013**	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Recurrent expenditure – Personnel										
Recurrent expenditure – Overhead										
Capital expenditure										
Revenue (by major revenue items)										

8) How frequently does the MDA request for a supplementary allocation? (a) Rarely [ ] (b) Only once a year [ ] (c) Between 2 to 3 times during the year [ ] (d) More than 3 times during the year [ ]
9) Does the MDA have and maintain an updated website? Yes [ ] No [ ]
10) If yes, does the MDA publish and update fiscal data on websites? Yes [ ] No [ ]

11) How regularly do they publish reports of actual releases and budget execution?

Budget execution report	Issued			
	Monthly	Quarterly	Mid-year	Annual
a) Internal only				
b) Issued to Accountant-General, Federal Ministry of Finance, and other regulators				
c) As above and disseminated to public				

12) Do the MDA include extra-budgetary funds in your end-year reports? Yes [ ] No [ ]
13) Does the MDA report its fixed and non-fixed assets? Yes [ ] No [ ]
14) How does the MDA mainly record its budget transactions?

		Yes	No
a	On a cash basis only		
b	On cash and commitments basis (noting all due bills)		
c	Cash with some accrual information (such as financial assets statements)		
d	On accrual basis		

15) In practice, how does the MDA apply procurement and tendering laws?

		Yes	No
a	Legally required tendering mechanisms apply for large contracts only		
b	Legally required tendering mechanisms apply for all forms of contracts		
c	Procurement committee of the MDA takes the decision on specific contract-basis		
d	There is a mechanism by which bidders' complaints can be heard and settled		

16) Does the MDA's year-end report show discrepancies between the ledger records and bank accounts?
17) How often do they reconcile accounts with these:

	Monthly	Quarterly	Bi-annually	Annually
Office of the Accountant-General of the Federation				
Federal Ministry of Finance				

18) Is there an internal audit system in the revenue collection process to ensure financial accountability in tax collection? Yes [ ] No [ ]
19) Is the MDA's financial reports subjected to external audit? Yes [ ] No [ ]
20) Is the audited accounts made available to the public? Yes [ ] No [ ]

SECTION E: BUDGET IMPLEMENTATION, MONITORING AND EVALUATION – *30 Points*

Please answer the following questions:

		Yes	No
1)	Does the MDA publish on-going/completed projects on prints media for the Civil-Society Organisations to access?		
2)	Does the MDA invite the CSOs to discuss the expected impacts of the on-going/completed projects?		
3)	In event that CSOs on their own monitor the projects and submit their reports to the MDA, do they act on the basis of the reports?		

4) How regularly does the MDA publish projects whose contracts have been awarded? Never [ ] Rarely [ ] Often [ ] Very often [ ]
5) How regularly do they invite the CSOs to discuss? Never [ ] Rarely [ ] Often [ ] Very often [ ]
6) How regularly do they act on the basis of CSOs reports? Never [ ] Rarely [ ] Often [ ] Very often [ ]

Please answer the following questions:

		Yes	No
7)	Does the MDA have an independent monitoring unit that monitors and evaluates your projects?		
8)	If yes, does the unit monitor, evaluate and submit reports on every single project of the MDA		
9)	Does the MDA act on the recommendations of the M&E Unit?		
10)	Has any project ever been cancelled or withdrawn based on the recommendations of the independent monitoring unit or that of the CSOs		