

Realistic budgets advance Kaduna State towards MDG targets



The UK Department for International Development (DFID) has been working in the Nigerian State of Kaduna since 2006. Kaduna will not achieve many of the Millennium Development Goal targets unless the State improves health and education services for poor citizens. At present, for every 100,000 births, over 1,000 mothers die, and only 35% of girls enrol in secondary school. These problems are only partly due to inadequate financing for health and education. They are also the result of poor financial management and unrealistic budgets.

Since DFID engagement began in Kaduna, expenditure on health and education services has increased, but more needs to be done. What is also needed is reform of the machinery of government – especially in managing public finances. Better management of public finances will drive improvements in delivering better health and education services.

Kaduna State has made considerable progress towards drawing up realistic budgets. These budgets will make spending on health and education more effective and help realise health and education plans to achieve MDG targets.

This results brief (i) explains the importance of budget realism and the problems caused by unrealistic budgets; (ii) examines the actions taken to address the problem; (iii) demonstrates the results achieved in budget realism and health and education expenditure.

Unrealistic budgets: the problem

To deliver on plans, Government budgets and Government incomes need to balance. Fully realised plans and budgets for education and health bring improvements. This makes good use of public resources.

However, for many years, this has not been the case in Kaduna. Overinflated budgets have been the norm, often requiring twice the Government's income. The result is that the Government has approved large budgets, but has only released a fraction of the funds allocated. This has meant that plans were not carried out and that poor citizens still do without the education and health services that would boost literacy and reduce high mortality.

Capital budget: the culprit

The Government budget is in two parts. The recurrent budget covers running costs for the civil service (salaries and overheads) and overheads (such as security and debt repayment). The capital budget covers investments (such as building schools and hospitals and providing drugs and medical supplies).

When budgets are inflated, plans financed out of the capital budget suffer the most. This is because recurrent costs must be paid first and take priority over capital investments (Figure 1).

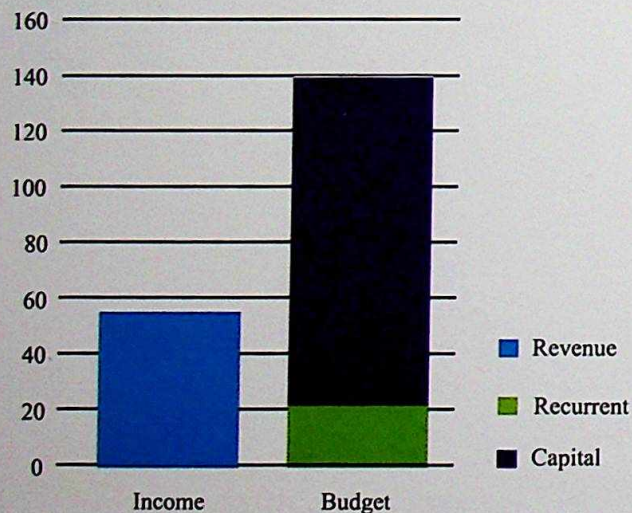


Figure 1. Kaduna State income and budget 2009

Self assessment: the first step to reform

The first step in making budgets more realistic was for the Government to embark on an honest self-assessment of their ability to effectively manage public finances. DFID has supported the Kaduna State Government in this work through its State and Local Government Programme (SLGP 2006–2008) and its State Partnership for Accountability, Responsiveness and Capability (SPARC 2008–2014).

How was the self-assessment run?

The self-assessment took the innovative Public Expenditure and Financial Accountability (PEFA)¹ approach. This is an internationally agreed method of scoring government financial management according to 28 indicators of best practice.

The Kaduna Government, supported by SPARC, scored itself from strong (A) to weak (D) on the 28 indicators. The score for the credibility of budgets was D, indicating that the Government was extremely weak in this area. Recognising this weakness through self-assessment, the Government committed to a Reform Programme to address the problems. The Reform Programme focused on (i) realistic and credible budgeting and (ii) moving from annual to multi-year budgeting.

Budget cycle: target every stage

The budget cycle in Kaduna runs from January to December (Figure 2). SPARC provided specific tools, techniques and advice to the Government at each stage of the cycle.

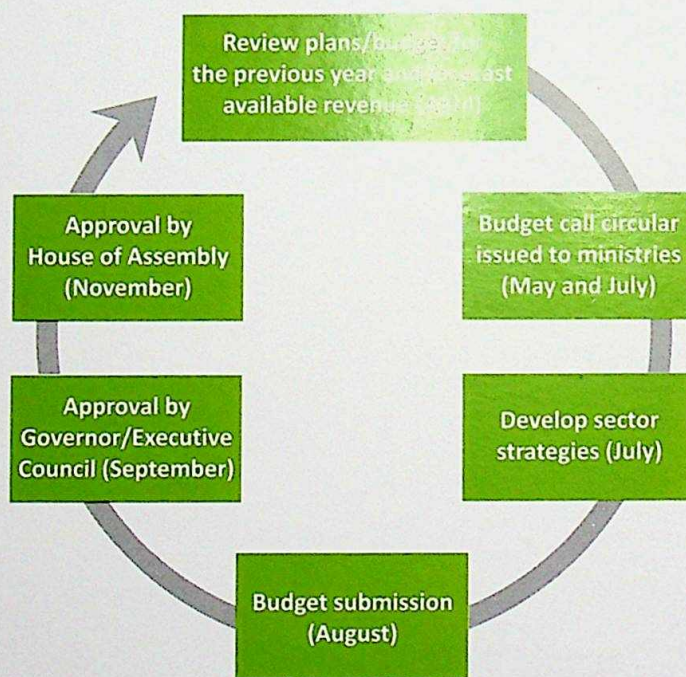


Figure 2. Kaduna State annual budget cycle

Introducing forecasting models

SPARC introduced simple computer forecasting models in the central financial and planning ministries. The models proved sufficiently accurate to forecast revenues under different scenarios (such as fluctuating oil prices).

Setting up computer databases

SPARC also helped the Government to set up new computer databases for capturing all capital and contractual commitments and projects. This means commitments can be

¹ For more information please visit www.pefa.org.

more realistically deducted from revenues before deciding what new initiatives can be financed. Using the new forecasting system and databases, the Government calculated expenditure ceilings for all sectors and issued circulars to ministries stating how much money would be available to them. SPARC then helped the ministries prepare MDG-focused sector plans² and budgets indicating the cost of the plans. Based on anticipated revenues (around Naira 100 billion annually 2010-2012), the ministries submitted sector plans and budgets, and these were compiled into the first multi-year Kaduna State Government Budget (2010-2012).

A robust accounting system

Although Kaduna State has a poor record on credible budgets, the accounting system is robust and makes up-to-date data available. This is important because the accounting system (i) supports the analyses required to engage with administrators and politicians, and (ii) provides the evidence for deciding whether or not a budget is credible.

What happened? The politics of budgeting

In late 2009, the 2010 budget was put to the Kaduna State Governor and Executive Council, who inflated the budget by adding politically important large infrastructure projects.

In December 2009, the Governor presented a budget of Naira 196 billion³ (£784 million⁴) for 2010 to the State House of Assembly. The 2010 budget exceeded the budget for 2009 by 28%. However, only 44% of the 2009 budget had been implemented because the revenue estimates had been over-optimistic. The information on the performance of the 2009 budget provided evidence that the 2010 budget of Naira 196 billion was certainly not credible.

Accountability: a force for change

The State Accountability and Voice Initiative (SAVI, also financed by DFID) complemented work on the State machinery of governance by supporting work between civil society, the media and the legislature on budgeting issues.

Internal and external pressure

In early 2010 DFID, SAVI and SPARC worked with their partners to bring pressure on the State to revise the 2010 budget and hold the State Government to account for its actions.

DFID met several times with the Governor. SPARC intervened by supporting ministries in eliminating loans and grants which were unlikely to materialise from the budget. SAVI partners arranged radio phone-ins and public forums to discuss the budget, and the media published newspaper articles on the topic.

² DFID complementary programmes PATHS2 and ESSPIN directly support the health and education sectors.

³ All figures quoted in this flier are officially published KDSG figures from budget, accountant general and auditor general reports, unless otherwise stated.

⁴ All conversions at Naira 250 to £1.

The combination of internal and external pressure was highly successful. As a result, during the budget review by the House of Assembly, the budget was reduced from Naira 196 billion to Naira 168 billion, a drop of 14%.

The lesson

The important lesson learned from this is that technical assistance to Government to reform financial management should be accompanied by support for civil society and legislators in demanding greater accountability from Government.

A tool for politicians: multi-year budgeting

The 2010-2012 budget was the first multi-year budget in the history of Kaduna State. However, although there was a new approach, it was not possible this first time to spread capital commitments over three years. The 2010 budget, although more realistic than the budget originally put to the Assembly, was still inflated.

One of the shortcomings of single-year budgeting is that large capital projects, which may take several years to complete, are squeezed into a single year and inflate the budget.

Governors set out manifestos at the beginning of their terms and these include long-term capital projects. The State (capital) budget includes the priorities set in Governors' manifestos. Although the priorities are often long-term, they are budgeted for in annual budgets. Moving to a multi-year budget allows the costs to be spread over several years (Figure 3).

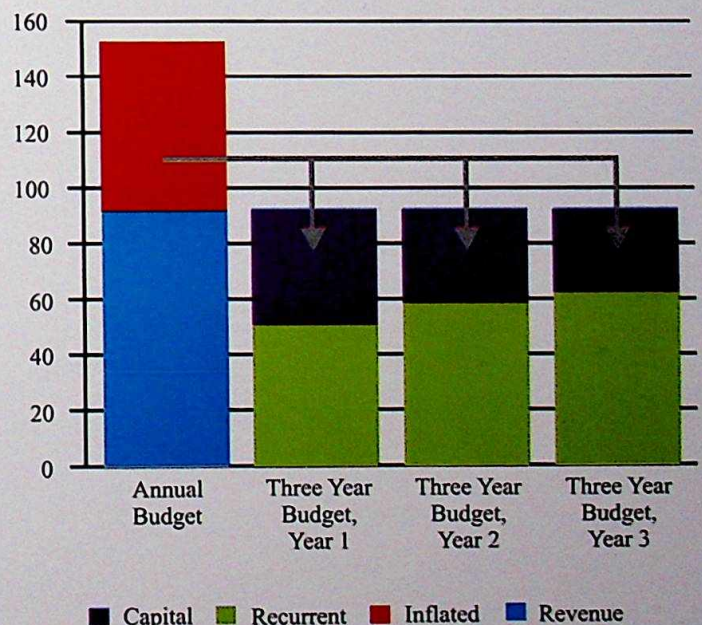


Figure 3. Reallocating the capital budget over three years

Spreading the costs

Spreading costs over several years is important politically. None of the priorities in the political agenda are lost,

commitments which have been publically announced can be retained, costs can be redistributed over several years and provision can be made for new priorities and commitments.

In mid-2010, a new Governor came to power in Kaduna. Again, SPARC engaged at each step in the budget cycle. This time round, the Governor exploited the advantages of multi-year budgeting more fully to ensure that the commitments of the previous Governor could be upheld, while making new commitments to fulfil his own manifesto.

Budget credibility: the 2011 budget

All the tools for realistic and multi-year planning and budgeting were brought to bear in preparing the 2011 budget. The State Government finalised a budget of Naira 126 billion (£504 million) and presented it to the State House of Assembly. The Assembly passed a budget for Naira 136 billion (£544 million) in February 2011.

Clearly, there is still budget inflation in Kaduna State but, for the first time in the last eight years, the annual budget is lower than it was in the previous year (see table).

Kaduna State budget and revenue 2004-2011

Year	Budget (billion naira)	Percentage increase/decrease	Revenue (billion naira and % of budget)
2004	39.6	-	35.4 (89%)
2005	48.3	22	38.2 (79%)
2006	62.2	29	46.7 (75%)
2007	80.8	30	61.2 (76%)
2008	94.1	16	68.6 (73%)
2009	153.7	63	67.0 (44%)
2010	165.7	8	94.3 (57%)
2011	136.5	-18	Result next year

The direct result of DFID support has been a reversal in increasingly inflated budgets. Although the problem of budget inflation persists, the trend has reversed in the last two years.

More spending on health and education

Reforms in public financial management can take as long as 20 years. But the journey is fundamental to better planning and budgeting, to better execution of budgets and to better performance. The Kaduna State budget for 2011 allocates 15% (Naira 19.5 billion) to education and 8% (Naira 10.5 billion) to health. As the 2011 budget is more realistic than previous budgets, execution in 2011 is likely to be better.

Since DFID engaged in Kaduna State, public spending on health and education has increased (Figure 4).

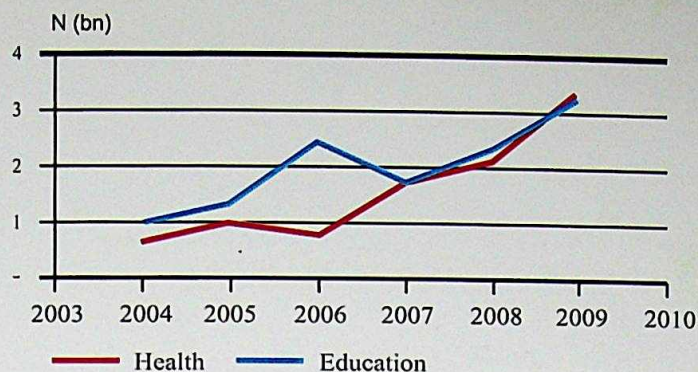


Figure 4. Increase in Kaduna State public spending on health and education (Naira billion) 2003-2010

Because the trend in budget inflation has been reversed, the Government's performance in education and health will improve, meaning that the delivery of services to achieve MDG targets will also improve. Reforming the way budgets are prepared and moving towards more realistic budgets are big steps forward in realising MDG targets. There are clear lessons to be learned from this experience.

Lessons learned

- Realistic budgeting leads to realistic planning and realistic service delivery. To reform budgeting, support every stage in the budget cycle and plan work around the budget calendar.
- Multi-year budgeting works and is a powerful and politically useful tool.
- High quality analyses of data in published budgets and accounts allow stronger technical and political engagement.
- Civil society can use information to hold government to account.
- Supply-side governance reform initiatives need to be matched by demand-side pressure for change.
- Direct DFID political engagement is required to support pressure from DFID-financed programmes.

For more information on making budgets more realistic in Kaduna State:

Email: kaduna.info@sparc.nigeria.com

Visit our website: www.sparc-nigeria.com



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