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Budgetary System Reforms in Nigeria: Implications for Poverty Reduction

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Abstract: This study was conceptualized to investigate the influence (if any) of budget reforms specifically the Medium Term Expenditure Framework (MTEF) and the Fiscal Responsibility Act (FRA) on related reforms and poverty reduction in Nigeria. Budgetary reforms in particular and Public Finance Management (PFM) reforms in general are believed to bring about improvement in the budgetary outcomes which translate directly or indirectly to improvement in national wellbeing including poverty reduction. Conceptually, an indirect association exist between budget reforms and poverty reduction, an empirical nexus is however a moot. Historical time series data were collected representing 7 years before and 7 years after the adoption of MTEF and 5 years before and 5 years after the enactment of FRA. Utilizing the pre-test/post-test deign of a Paired sample t-test, the results revealed that Poverty Index (POI) in Nigeria reduced after the introduction of both MTEFand FRA. However, while the reduction after the introduction of MTEF was statistically significant, the reduction after the enactment FRA was not insignificant. The study ecommends the enforcement of stricter adherence tobudgetaryand other public finance management reforms in order to generate greater impact and on the economy.

Key words: Budget system, reforms, medium term expenditure framework, fiscal responsibility act, poverty reduction

INTRODUCTION

The need for reforms relating to Public Finance Management (PFM) in general and budgeting in Particular is motivated by the acknowledgement of the fact that budgetary systems (institutions, processes and management) influence budgetary results. Budget reforms involve making changes to the ways and manner in whichbudgets are formulated, implemented and evaluated for the purpose of facilitating effectiveness, efficiency and economy. It is about restructuring the processand/or management of a budgeting system in order to improve its feasibility as a fiscal policy vehicle.Well plan and implemented budget ensures that macro-economic objectives are achieved and public objective realized. This suggests that budget reforms are only necessary to the extent that they facilitate significant improvement in the quality of budget management and engender the expedition of the achievement of macro social and economic objectives including the reduction in the incidence and severity of poverty.

In Nigeria,beginning from 1999, a number of budget related reforms had been introduced into the budgetary system. Some of these reforms are the Medium Term Expenditure Framework (MTEF), the Public Procurement Act (PPA) and the Fiscal Responsibility Act (FRA) (Olaoye, 2010).The reforms centered on five planks, namely, administrative procedures, budget preparation, management of government spending, budget implementation and budget monitoring/evaluation. These were aimed at improving resource management by curtailing wasteful spending, ensure budget disciplineas well as increase the level of productivity and efficiency in the economy. It was also intended to promote transparency and accountabilityin budget management (Government, Integrated Financial Management Information System (GIFMIS). The extent to which these objectives have been achieved is uncertain. Recent studies had shown that reforms had not sufficiently impacted on the quality of budget management in Nigeria, leaving the empirical effect of budget reforms on poverty index in dispute (Onyiah *et al*., 2016). The objective of this study therefore is to assess the implications of budgetary reforms on poverty reduction in Nigeria. Two assumptions were made that budget related reforms proxied by the MTEF had not significantly impacted on poverty reduction in Nigeria. That budget related reforms proxied by FRA had not improved the incidence of poverty in Nigeria.

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MATERIALS AND METHODS

Although, scanty research workshave been carried out on the link between budgetary reforms and poverty reduction, yet inferences can be drawn from the avalanche of literature on budgeting and poverty generally. This section therefor commence with a brief on the nature of budget reforms and nature of poverty in Nigeria before delving into the conceptual and empiricaldeductions about the subjects from prior studies.

Nature of budget reforms in nigeria: The rate of extra budgetary/wanton spending and the blatant disregard to budget rules associated with military rule was the major apprehensions of the government at the inception of the democratic civilian administration in 1999 (Egbide *et al*., 2014). It was observed that the budget process during the military era was flawed by a lot of deficiencies, hence, the budget underperformed as effective tool for economic transformation. This situation compelled the government to welcome a number of reforms aimed at revamping the ailingprocesses, programs and policies.

Consequently, from year 2000, a number of reforms have been introduced in the Public Financial Management in general and budget management in particular. Some of these reforms include: Oil-Pricebased on fiscal rule, the Medium TermExpenditure Framework (MTEF), the Fiscal Responsibility Act (FRA) and the Public Procurement Act (PPA). Others include the Single Treasury Account (TSA), New Classification Systems and Public Accountability (NCSPA), Adoption of Internal Public Sector Accounting Standards (IPSAS), Accounting Transaction, Recording and Reporting System (ATRRS), Modernisation and internal Audit and the public sector Human Resources Development.

The reforms centred onfive major aspects namely; administrative procedures, budget preparation, management of government spending, budget implementation as well as budget monitoring and evaluation. They wereintended to achieve the following objective samong others; reduce the cost of governance, improve the management of resources bycurtailing extravagances, increasing the levelof productivity and efficiency as well asensure budget discipline (i.e., adherence tolimits).

The Medium Term ExpenditureFramework (MTEF) was introduced into theNigerian budgetary process in 2005;although it's legal backing came via the Fiscal Responsibility Act in 2007. According to Pascua MTEF entails annualbudgeting system in which budget decisionsrelating to new programs and projects aremade at every budget preparation sessionbased on three-year fiscal scenarios, toensure that projects financed for the nextthree years will be approved under theannual system and will be consistent with thebaseline budgeting approach. Its emphasis ison a multi-year (three years) budgetpackaging. The specific objectives for theadoption of MTEF in Nigeria were to improvethe allocation of resources to strategicpriorities among and within sectors as wellas provide MDAs with a hard budgetconstraint among others.

Similarly, the Fiscal Responsibility Act (FRA)was signed into the law by President MusaYar'Adua in 2007. It was meant to ensureprudent management of national resources, amandate consistent with section 16 of the1999 constitution, among others. Besides, them FRA was set to promote greateraccountability and transparency in fiscaloperations and processes within the mediumterm fiscal policy framework (Omolehinwa and Naiyeju, 2011). FRA also makes other very important provisions such as budgetary planning of corporations and related agencies which applies to 24 corporations and agencies including NNPC, CBN, BPE, NDIC (Omolehinwa and Naiyeju, 2011). Others are:budget executions and achievement of targets, responsibility of the preparation of monthly cash plan and disbursement schedule as well as the condition for the restriction of commitment among others. In summary, the enactmentof FRA formed the legal basis for the MTEF and gave impetus to other budget reforms as well.

Poverty incidence in nigeria: 1980-2010: Although povertyis a global phenomenon, it is more pronounced in developing countries especially Sub-Saharan African countries than elsewhere in the world (Agnes, 2011). In Nigeria, the poverty situation has for a fairly long time been a cause for concern to the government. It is pervasive with no geographical boundary. It is visible in the North, South, East and West as well as the rural and urban areas of the country, though the rural dwellers are the worst victims (Agnes, 2011). According to Osinubi poverty is the most pathetic feature of the Nigerian society because majority of her citizens are living in a state of destitution.

Table 1 clearly shows that the poverty percentage has been on a steady increase from 27.2% in 1980-77% in 2009. In 2010 the poor percentage dropped from 77% in 2009-69% and increased again to 71% in 2011. Table 1 also shows that the number and proportion of the

Tables 1: Trend in poverty level in nigeria: 1980-2010

Years	Population (m)	Poverty incidence %	Population in poverty (m)
1980	65	27.2	17.7
1985	75	46.3	34.7
1990	97	43.8	42.5
1995	110	59.0	64.9
2000	125	70.0	87.5
2005	141	77.0	108.6
2010	163	69.0	112.5
2011	168	71.0	119.3

Osinubi *et al.* (2010)

population living below the poverty line (the number of people who are poor) in Nigeria have been on a steady rise since 1980. This indicates an off-track performance from the MDG of reducing by half extreme poverty and hunger by the year 2015. It also indicates that unless something drastic is done; the realization of MDGs and Vision 20:2020 are not in view.

Furthermore, the harmonized Nigeria living standard survey (HNLSS) 2009/2010 revealed the following poverty lines as at 2010 in local currency denomination; Absolute Poverty line of N54, 401.16, Food Poverty line of N39, 759.49, Relative Poverty line of N66, 802.20 and a Dollar-per-day Poverty line of N54, 750. It should be noted that while the absolute poverty line considers both the food expenditure and non-food expenditure using the per capita expenditure approach, the food poverty line is an aspect of absolute poverty measure and considers only food expenditure for the affected households. Under the relative poverty approach, a person is considered poor if his per capita expenditure is less than N66, 802.20, otherwise he is non-poor. A dollar-per-day poverty line considers all individuals whose expenditure per day is less than a dollar per day using the exchange rate of Naira to Dollar in 2009/2010 as poor. The subjective Poverty measure is the perception of the citizenry as to who is poor and who is not. It is neither related to Per Capita Expenditure of household nor the country adult equivalent scale. From the survey result, the core poor is 46.7%, moderate poor is 47.2% while the non-poor is 6.1%. The HNLSS also revealed that GiniCoefficient (Inequality Measurement) was 0.4296 in 2004 and 0.4470 in 2010 indicating that inequality increased by 4.1% nationally. The Gini Coefficient measures the inequality in income or expenditure or better still, it explain the spread of income or expenditure but cannot explains increase or decrease of individuals or persons in poverty.

Relationships between budget reforms and poverty reduction: The conceptual configuration set out in Caleb *et al.* (2012), demonstrate that budgetary reforms impact directly on budget process and management and

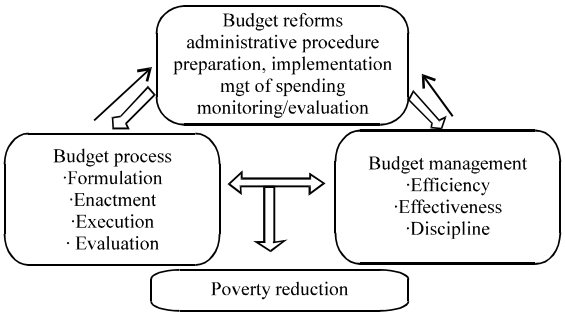

Fig. 1: Conceptual relationship between budget reforms and poverty reduction

indirectly on poverty reduction (Fig. 1). The figurereveals a direct relationship among the three budgets constructs (Reforms, process and management) but an indirect relationship between budget reforms and poverty reduction.

The implication exemplified in this model is that budget reforms instigate changes in the process as well as the management of the budget in order to improve its workability as an economic management tool. It is the improvement in the budget process and management engendered by reforms that facilitate poverty reduction. Noticeable weaknesses in the process and/or management constitute feed-backs which are used to reform the reforms.

Institutional economists opined that institutional reforms are a necessary condition for achieving durable sustainable budgetary outcomes and that the "rule of the game" does shape the nature of decisions taken. Consequently, changing the rule of the game can help in reducing the likelihood of systematic biases for poor budget/fiscal outturns. This implies that appropriate and effective reforms of the institutions of budgetary process and management mean shaping the rules of the game which invariably have far reaching implications on the budgetary outturn. And since the ultimate aim of any budget is to achieve national prosperity and or citizen welfare, it can therefore be loosely inferred that budget reform has a secondary influence on poverty reduction.

Bloj opined that management approaches that tend towards results-oriented budgeting will be directly connected with poverty reduction through the Medium Term Expenditure Framework (MTEF). According to him, the conditions that will enable this link possible included reinforcement of an appropriate distribution of expenditure competencies and functions between the central government and sub-national agencies, the implementation of expenditure assessment and control

mechanisms as well as the broadening of transparency, accountability processes. Caleb *et al.* (2012) invested the impact of budgetary reforms on the quality of budget management in Nigeria and found that no significant impact was observed as a consequence of these reforms. They however, stated that the reforms themselves are not the problems but the political will to enforce and implement the reforms. This opinion concurred with the observation by Makinde (2005) that most policies in developing nations, including Nigeria do not achieve their desired result. Impliedly, there exist a highly likelihood that the objectives of the reforms will not be achieved, hence the bases of the hypothesis of this study.

RESULTS AND DISCUSSION

This study is fixated on assessing the likely implications of budgetary reforms on selected macro-economic indices using an explanatory research design. This design was adopted since it requires the explanation and drawing of conclusion on a phenomenon of interest based on the collection and analysis of quantitative data (Otokiti, 2010). The study focused on two budget related reforms namely: Medium Term Expenditure Framework (MTEF) adopted in 2005 and Fiscal Responsibility Act (FRA) enacted in 2007. MTEF, since its adoption in 2005 has remained the bases for the preparation of annual budget in Nigeria while FRA provides the legal backing for MTEF and other reforms aimed at strengthening the budget processes and management.

Budget performance was represented by budget variance (BVAR) measured as the difference between Total Budgetary Expenditure (TBE) and Total Actual Expenditure (TAE). This is mathematically shown as: BVAR = TBE-TAE; the selected economic indices are: Poverty Index (POI), Inflation rate (INF) and Gross Domestic Product Per Capita (GDP-PC). The data for this study relating to TBE, TAE, INF and GDP-PC wereextracted from the Central Bank of Nigeria Statistical bulleting, Appropriation Acts and Annual budget speeches for several years. The data for Poverty Index (POI) were obtained from the Harmonized Nigerian Living Standard Survey (HNLSS) carried out by Nigeria Bureau of Statistics (NBS) as well as the Oxford Poverty and Human development Index (OPHI).

The data covered a period of 14 years (1998-2012) for MTEF excluding the year ofintervention (2005) and 10 year (2002-2012) for FRA also excluding the year ofintervention (2007). The pre-test/post-test design of a Paired Sample T-test(PST) was utilised for the analyses of data with the aid of theStatistical Package for Social Sciences (SPSS).

Table 2: Descriptive statistics of poverty index, gross domestic product per capita and budget variance

Variable	N	Mean	SD	Minimum	Maximum
POI (%)	15	64.35	12.405	43	88
GDP-PC (N)	15	270335.593	66893.2674	187546.1	360615.2
BVAR (Nb)	15	-189.1813	415.77545	-965.53	549.02

Source: Field Work (2016)

Table 3: Test for normality of variables (one-sample kolmogorov-smirnov Test)

Variable	POI (%)	GDP-PC (N)	BVAR (Nbillion)
N	15.000	15.000	15.000
Kolmogorov-Smirnov Z	0.731	0.784	0.755
Asymp. Sig. (2-tailed)	0.660	0.571	0.619

Data presentation, analysis and discussion of findings: The data used in this study are as presented in the appendix section of this study. This section therefore commences with a descriptive statistics of the variables under consideration before delving into the inferential statistics and then to the testing of the hypotheses.

Descriptive statistics: Table 2 shows the descriptive statistics of the variables in this study; Poverty Index (POI), Gross Domestic Product Per Capita (GDPPC) and Budget Variance (BVAR). The statistics reveal that between 1998 and 2012 the average poverty rate in Nigeria was about 64% with a standard of 12% and a minimum and maximum poverty rates of 43% and 88% respectively. From the table, an average Gross Domestic Product Per Capita (GDP-PC)of N270335.593 with a standard deviation of N66893.2674 was generated during the 15 year period. Table 3 also revealsthat on the average, the country recorded an adverse or negative budget variances (BVAR) of about one hundred and eighty nine billion N189b) naira during the period under consideration.

On budget variance, Fig. 2 and 3 further amplified the magnitude of budget variance. Figure 2 show that the budget variance in majority of the years faces south or were negative/adverse variances. The proportion of adverse variance to favorable variance was 80-20%, respectively (Fig. 3).

Testing for normality of variables: The Kolmogorov-Smirnov test was used for normality of the variables as a precursor for the inferential analysis. The test result in Table 3 indicate that the threevariables used in this study namely; BVAR, GDP-PC and POI did not violate the normality assumptions, since their K-S coefficients have significance value >0.05 benchmark.

Paired sample t-test: The paired sample t-test was utilized to assess the impact of the medium term

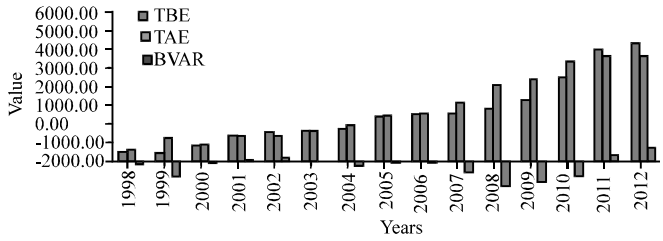

Fig. 2: Chart showing total budgeted expenditure, total actual expenditure and budget variance (1998-2012)

Table 4: Poverty Index (POI), Gross Domestic Product Per Capita (GDPPC) and BudgetVariance (BVAR) before and after the enactment of Medium Term Expenditure Framework (MTEF)

Pair	Variable	N	Mean	t-Statistics	Sig (2- tailed)
1	POI-B-MTEF	7	73.1429	5.348	0.002
	POI-A-MTEF	7	56.8571		
2	GDPPC-B-MTEF	7	208261.0143	-14.004	0.000
	GDPPC-A-MTEF	7	330964.2429		
3	BVAR-B-MTEF	7	-104.8871	0.774	0.468
	BVAR-A-MTEF	7	-294.6786		

Table 5: Poverty Index (POI), Gross Domestic Product Per Capita (GDPPC) and Budget Variance (BVAR) before and after the enactment of Fiscal Responsibility Act (FRA)

Pair	Variable	N	Mean	t-Statistics	Sig (2- tailed)
1	POI-B-FRA	5	64.4000	0.905	0.416
	POI-A-FRA	5	58.1200		
2	GDPPC-B-FRA	5	253251.1400	-7.377	0.002
	GDPPC-A-FRA	5	342704.0000		
3	BVAR-B-FRA	5	-14.4754	0.938	0.401
	BVAR-A-FRA	5	-322.4208		

Expenditure Framework (MTEF) and Fiscal Responsibility Act (FRA) on Budget variance (BVAR), Poverty Index (POI) and Gross Domestic Product Per Capita (GDP-PC) in Nigeria. The test results are displayed in Table 4 and 5 With respect to MTEF, 7 years pre-adoption (1998-2004) and 7 years post-adoption (2006-2012) were used in the analyses. The result (Table 4) revealed a t-value of 5.348 (Sig = 0.002) for pair 1 (POI-B-MTEF/POI-A-MTEF), a t-value of -14.004 (Sig = 0.000) for pair 2 (GDPPC-B MTEF/GDPPC-A-MTEF) and a t-value of 0.774 (Sig = 0.468) for pair 3 (BVAR-B-MTEF/BVAR-A-MTEF). The result indicate a statistically significant difference in Poverty Index (POI) and Gross Domestic Product Per Capita (GDP-PC) seven years before and seven years after the adoption of MTEF (Pair 1 and 2). However, for pair 3 which is Budget variance (BVAR), the result shows that there was no significant differencepre and post adoption of MTEF. Assessing the result further from the mean differences of the variable, they was a reduction in the average poverty rate in Nigeria from about 73% (pre-MTEF) to about 57% (post-MTEF). The mean of GDP-PC increase from about N208, 261 to about N330, 964

Fig. 3: Chart showing adverse variance and favourable variance (1998-2012)

before and after the adoption of MTEF respectively. However, in pair 3, the mean further buttress the fact that BVAR worsened after the adoption of MTEF as the mean adverse variance increased from about N105b Pre-MTEF to N295b (Post-MTEF). The revelation from this study does not support the primary assumption of this study that MTEF had not significantly impacted on poverty reduction in Nigeria. Although, further probing may negate this claim, since MTEF does not improve the performance of budget within the same period (Table 4, pair 3).

Similarly, the result in Table 5 reveals that Fiscal Responsibility Act (FRA) enacted in 2007 did not induce significant differences in Poverty Index (POI) and Budget variance (BVAR) before and after its enactment, judging from the t-value of 0.905 (sig = 0.416) and t-value of 0.938 (sig = 0.401) for POI and BVAR respectively (see table5, pair 1 and 3). The difference in GDP-PC within the same period was however significant (t-value = -7.377 and a sig-value of 0.002). It is also noticed in table 5 pair 1 that the mean difference in poverty index (POI) reduce from about 64% (pre-FRA) to about 58% (post-FRA) indicating a reduction in the average rate of poverty in Nigeria after the enactment of FRA. The mean difference in GDP-PC and BVAR pre/post FRA follows similar trend as that of MTEF. Whereas GDP-PC improved from about N253252 before FRA to about N342704 after FRA (table5, pair 2), the mean of BVAR worsened after FRA from an adverse of about N14b to about N322b (Table 5, pair 3).

Although, the mean POI was lower post FRA than pre FRA, yet the reduction was not enough to induce a statistical significance, hence, the result supports the second hypothesis of this study that the enactment of Fiscal Responsibility Act had not had significant

influence on poverty reduction in Nigeria. The results in Table 4 and 5 do not support our conceptual model which suggests that poverty reduction is an indirect consequence of budgetary reforms. Impliedly, it is expected that any budget related reforms should first impact on the budget performance before impacting on budget outcomes including poverty reduction. From the result of this study, the quality of budget management measured by BVAR did not improve as a conconsequence of the Introduction of both MTEF and FRA, rather it worsened. Similar studies also found that budgetary reforms in Nigeria had not been able to tame the rate of indiscipline in budgetary process and management (Caleb *et al*., 2012).

CONCLUSION

The focusof this study was to assess the implications of budget related reforms, specifically, the Medium Term Expenditure Framework (MTEF) adopted in 2005 and the Fiscal Responsibility Act (FRA) enacted in 2007, on the incidence of poverty in Nigeria. After subjecting the data to both descriptive statistics and paired sample T-test, the following conclusions were reached: that the Medium Term Expenditure Framework (MTEF) has had significant impact on the incidence of poverty in Nigeria, although the impact was not supported by improvement in the quality of budget management. That Fiscal Responsibility Act (FRA)also induced some reduction in poverty index but the reduction was not statistically significant.The study therefore recommendsthat both leadership and political will be provided to enforce stricter adherence to the provisions of MTEF, FRA and all other restrictive and procedural reforms relating the budget. It also recommends sanctions for budgetary rules breakers in order to assure that budget reforms will not only improve budget performance but generate greater impact on the economy and the people via the reduction of poverty in Nigeria.

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