

Budget Discipline in Government: A Key to Building and Sustaining Buoyant External Reserves

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Abstract: Government budgeting among other objectives suppose to be a guide to government spending as a tool of financial resource allocation for a particular time referred as the budget period. Consistent adherence to approved estimates over a period of time depicts the seriousness a government and its official attach to the polices itemize in the policy document called budget. This will engender growth and development within an economy. In developing economies as Nigeria, supplementary budgets, budget-deficits and budget abuse are common occurrences. The study therefore, examines what government budget objectives should be the practice of budget discipline, the connection between government budget and external reserve and why budget indiscipline is becoming a culture in Nigeria. The study concludes by putting in place useful suggestions on how to safeguard the fledging buoyant external reserves of Nigeria.

Key words: Budget, financial resources, economy, budget-deficit, reserves, Nigeria

INTRODUCTION

The financial sector of the economy has undergone sweeping reforms since the inception of the Obasanjo's administration in 1999 and more fundamentally during the second phase of his eight years tenure.

Notable amongst those reforms are the introduction of universal banking, the privatization of government parastatals, banks re-capitalisation and its attendant consolidation, the re-capitalization of insurance companies' capital base and the pension reform programme. These were geared towards repositioning the Nigerian economy as the leader in Africa and one the first twenty leading economies of the world by the year 2020.

Inspite of whatever the political opponents might have to say or write about the outgone democratic regime (1999-2007) the building of the external reserves from an all time low of around \$4.9 billion in May 1999 (for Gen Abusalam Abubakar met about \$7 billion and depleted it by almost 50%) to \$9.4 billion in December 2000, \$10.3 billion in December 2001 down to \$7.69 and \$7.47 billion in December of 2002 and 2003, respectively \$16.96 billion for December 2004, \$23.82, \$41.7, \$48.9 and about \$50 billion in October of 2005, 2006, 2007 and January, 2008 respectively, the effort deserves an unalloyed commendation (Osisioma, 1998; CBN, 2004; People's Daily Online, 2005; My Africa, 2006; Chijama, 2007). Traditionally, external reserves holdings at anytime should be sufficient to finance at least 4 months import

bills (Olashore, 1998). A lot of factors would have accounted for this record breaking level of external reserves.

Among such could be the employment of experts/expertise in the management of the economy, the frugality of government and the focus of government to make the nations economy one of the 20 leading economies of the world by 2020, the up-surging crude oil prices, before the current downward trend import restrictions (cements, textiles, used vehicle, used air conditions and refrigerators) and a host of other factors.

Considering the importance of adequate foreign reserves which include amongst others; the measure of a nation's economic political and social might, facilitation of international trade, foreign investment, deficit financing and depleting debt stock (Chijama, 2007). The management of foreign reserves should be an issue of concern to any serious government. This study therefore, examines the role of fiscal/budget discipline as a key to building and sustaining buoyant foreign reserves.

Objectives of budgeting in government: In my opinion, a good definition of budget in government should itemize the objectives of budget/budgeting in that sector. Literature is full of variety of definitions for budget but those given by the following learned professors would be most appropriate for the purpose of the discussion on hand. Omolehinwa (2001) defines government budgets:

“The statement of expenditure preferences of government expressed in monetary terms and subject to the constraints imposed by the environment indicating how the available resources may be utilized to achieve whatever the dominant individuals within the political leadership agree to be the government priorities”

Following the tenor of the above definition, budget in government is:

- A document containing the financial implications of government preferred items of expenditure preference
- It is used to allocate finite resources available at a particular time to attend to infinite ends
- There are environmental factors human and non-human affecting the allocation process

It is clear from the foregoing that a budget constitutes an important financial management and control tool in government. It outlines the focus of government as to what government intends to do or achieve with available resources in any economy. A more vivid definition was given by Adubi (2002) which captures budgetary objectives in government. He posits that:

“The public sector budget which is a crucial instrument of policy has remained an important tool for such fiscal adjustments and general economic management. In particular, in periods of economic crisis and severe resources constraint and uncertainty as currently being witnessed in Nigeria, the public sector plans and budgets assume much roles in national economic management. Equally noteworthy is the fact that the budget is no technical document, limited to revenue and expenditure projections but rather an overall instrument for achieving societal goals”

Government budget as described before as being more than a document stating the Projected Revenue and Expenditure for a particular time, as it started in Britain in 1860 (Burkhead, 1956) but rather has become a potent instrument of policy direction for the economy, the instrument of economic management, a tool for addressing resource allocation problem and a tool for achieving societal goals. Budget remains in government, the tool for setting plans and for allocating resources to achieve the planned objectives. A budget is not worth it if it fails achieve the macroeconomic goal for which it is put in place. Olofin (2003) described budget in government as:

“A form of plan which sets out the programme of projected government expenditure geared towards achieving some policy targets. Such targets would be within the confines of some available policy instruments and assumptions regarding the projected revenue”

Public sector budget, as it plans the projected revenue and expenditure is expected to be a policy document for the following purpose in general and specifics:

- Allocation of resources to achieving societal goals
- An instrument for managing economic crisis and uncertainty
- An instrument of policy direction for the economy
- A tool for defining government economic and social focus
- An instrument for economic management

From the foregoing summary, budget has assumed a dimension too far from what is used to be when it started as 1860 in Britain. It now dictates the seriousness of a government to its economy, citizenry and management available resources.

Government budget and foreign reserves any ling?:

Government of nations uses various economic strategies to accomplish macroeconomic goals which are the societal objectives. Examples of such societal goals include: attainment of adequate and rapid rate of economic growth, full employment, equitable distribution of income and wealth and equilibrium in the balance of payments or external balance (Familoni, 2001). Economic strategies or policies that can be pursued to achieve the before mentioned macro-economic goals include fiscal and monetary instruments. The word fisc, state treasury (Dwivedi, 2001) and fiscal policy is defined by Arthur (1949) as:

“A policy under which government uses its expenditure and revenue programmes to produce desirable effect and avoid undesirable effect on the national income production and employment”

Policy instrument under the fiscal segment that a government can employ include: budget balance (i.e., balanced-budget deficit-budget or surplus-budget policies), government expenditure, taxation and government borrowings (Dwivedi, 2001). From the foregoing, the main instrument of fiscal policy is the government budget. All the fiscal tools or handle shave direct or indirect impact on the status of foreign reserves.

For instances, the budget balance policy in a fiscal year imparts on the foreign reserves. Surplus balance indicates that government has enough to spend and spare. Its implication is that part of the positive balance can be used to swell the foreign reserves; knowing fully well that reserves refer to a government's stockpile of foreign currency and previous metals e.g., gold (Chijama, 2007).

A deficit balance on the other hand leaves a government spending more than it earns in a particular fiscal year. The deficit will have to be financed through one or more of borrowing (internal or external), drawing down the foreign reserves and printing new notes. Whichever way budget balance has implication on reserves status.

The structure of financing government expenditure may include the use of part of foreign reserves. As pinpointed earlier, the government of Gen. Abdulsalam Abubakar, depleted the foreign reserves balance by almost half the size within the period of a year.

Government borrowing whether from the international or local individuals and establishments will have to be paid back.

One of the sources of paying government debt stock is through the depletion of foreign reserves. A whopping N12 billion dollar was drawn by government in 2005 to settle the Paris Club of Creditors (People's Daily Online, 2005; Chijama, 2007).

From whatever parlance, fiscal policy instruments impact on the status of reserves, especially the issue of budget balance. Therefore, the business of advising government on the appropriate strategies for managing external reserves can not be complete without the issue budget discipline.

Is there budget discipline in the central government?:

From whatever angle one looks at the subject of budget

discipline, the Nigeria nation still have a long way to go. The topic of budget discipline is wide and may cover areas such as:

- Adherence to stated budgeting policies without wavering
- Adherence to budget calendar in development, approval implementation and monitoring
- Adherence to approved estimates in the appropriation act (Oshisami, 1992; Omolehinwa, 2001)

For the sake of objectivity and time, the study is been constrained to budget discipline as it affects adherence to approved figures. Approved figures in budgets (under balanced, surplus or deficit policies) should be a guide to action in terms of spending. But the issue of supplementary appropriation, extra-budget spending and avoidable deficit are common occurrence in the public life.

Throughout the 8 years Obasanjo, budgets had deficits <6 months into the administration of Yar Adua administration, supplementary appropriation was presented.

It should be called to mind that the payment Paris and London Clubs debts nearly led to a friction between the executive and the legislature. It was alleged that those payments were taken from the Federation Account without appropriation.

Still fresh in our memory is the ₦628 million house renovation scam in the Federal House of Representatives. The bottom line of the scandal was that the amount was never budgeted for and that the contract did not pass through the due process.

A 10 years statistical outlay (1995-2004) of Nigeria budget balances reveals that only in 1995 and 1996 ever occur surplus balances of ₦1 and ₦32.04 billion, respectively. From the Table 1, it is shown that:

Table 1: A 10 years statistical Outlay (1995-2004) of Nigeria budget

Years	Budget balance ₦ million	Total estimates n million			Budget balance of total estimate (%)	Balance as a of GDP (%)
		Capital	Recurrent	Total		
1995	1000.00	108,936.6	44,559.0	153,495.6	0.65	0.1
1996	32,049.4	141,000.0	48,000.0	189,000.0	16.96	1.6
1997	(5000)	160,733.2	11,590.0	276,917.1	(1.81)	-0.2
1998	(133,389.3)	182,542.1	185,375.0	367,917.1	(36.26)	-4.7
1999	(285,104.7)	136,984.2	136,984.2	358,113.5	(79.62)	-8.4
2000	(10,380)	311,608.8	311,608.8	664,475.3	(0.02)	-2.9
2001	(221.0)	438,696.5	438,696.5	1,018,025.6	(0.02)	4.7
2002	(301.0)	321,398.1	321,398.1	1,190,734.6	(0.30)	5.6
2003	(202.7)	241,688.6	241,655.6	1,225,956.6	(0.17)	2.9
2004	(142.0)	314,649.6	314,649.6	1,377,341.0	(0.10)	1.7

Computed from Annual statistical Bulletin (CBN, 2004)

- 1999 was the worst year with 79.625% of deficit (8.4 of GDP) that depicts the gross inefficiency of the military budget inherited by the democratic government. It could also be a picture of high spending profile of presidential system of government
- 1995, 2000 and 2004 deficits stood under 10% of the total estimate
- In all total deficit stood at ₦1,314, 155.5 which is almost the size of 2004 estimates. If fiscal discipline has been entrenched in public spending this would have gone far a long way to impact positively on the status of foreign reserves instrument and the economy

Deficit balance or budgeting as a fiscal policy is not instrument evil on its own but the level and the reasons for it that are the problems. Olashore (1998) said;

“True, there is nothing wrong with deficit financing -provided that efforts are made to correct the underlying shortfall and funds are channelled into productive sectors that will engender growth but in Nigeria, this had not been the case. A good proportion of the deficits were used to finance non-income generating capital projects as well as on consumption, with adverse inflationary implications”

Lipsey and Chrystal (2004) added that:

“At one time it was thought that budget deficits might be good for the economy because government spending created jobs. Nowadays there is more concern about the potential burden of the debt, in the form of interest...”

The reasons for deficit finance in Nigeria are more of budget indiscipline than to improve societal well-being. Osisoma (1998) buttressed the issue of imprudence in government:

“It is generally believed that all capital projects executed in Nigeria, suffer a minimum of 60% development leak. In other words, only 30-40% of public money is represented by tangible development on the ground”

He got his assertion from a report on Poverty and Welfare in Nigeria, jointly sponsored by the Bureau of statistics, National Planning Commission and the World Bank. Other factors responsible for fiscal indiscipline in the Public sector in Nigeria include the following:

- Unstable and unpredictable political and economic environment which makes it difficult to plan with certainty and leading to lack of consistency and continuity in government economic and political pursuits (Omolehinwa, 2001)

- Lack of adequate data base for economic planning and control. Accurate data about past government finances are difficult to get how much more that relating to the future (Olofin, 2003)
- Bad value system engendered by the political leadership of the nation. Many of them live in affluence more than what they earned through fair means. This also has led the public service to follow suit in endemic corruption (Ejiofor, 1987)
- Wrong impression and attitude as to what budget is all about by the political leadership and the public service. Some see the whole budget process as a means collation of figures while others sees it as a sharing of the national cake (Omopariola, 2001; Osisoma, 1997)
- The monocultural nature of the economy where >90% of the foreign exchange comes from export of crude oil is unacceptable. The oil wealth is diminutive, the price is unstable and the social unrest in the Niger Delta is a direct attack of the strength of national revenue (Olashore, 1998; Omolehinwa 2001)
- Poor oversight by the National Assembly. This is glaring that the parliament, as the watch-dog over the executive is lacking in its responsibility. Cases abound between 2000 and 2007 that the process of vetting the appropriation bill is fraught with leakages. It is time for the Public Account Committee (PAC) to wake-up to its responsibility
- Poor quality, quantity and remuneration of the public service. The public service in Nigeria has the lowest labour turnover. This is partly due to the fact that the experience gained over the years by the civil servants may not be applicable somewhere else. The training is poor and level of education too low to cope with the demand of a good and modern budgeting process. The remuneration is a far cry from what can sustain a valued human resource, this gives rise to poor commitment to work and corruption (Omopariola, 2001; Johnson, 1995)

CONCLUSION

This study is an aspect of the subject of budget discipline that is adherence to approved figures as a means of sustaining good external reserves, other areas of fiscal discipline also deserves right attention.

RECOMMENDATIONS

After all said and done on the relevance of fiscal discipline as a way of managing external reserves, it is appropriate to conclude this presentation by listing a set of recommendations aimed at assisting in fiscal discipline:

- There is the need for total overhauling of the budgeting process in the public sector. Process inform of re-orientation of the political leadership, the civil service on what budgeting is all about and the timing of budget preparation, presentation, approval and implementation (Kpakol, 2002)
- There is the need for proper staffing, training and remuneration for ministry officials in charge of government affairs. They should be exposed to what public sector budget is all about in other countries and their remuneration comparable to blue-chip private sector remuneration
- Political leadership should endeavour to diffuse politics from governance. This will assist in objective budgeting rather than politically motivated projects
- There should be true fiscal and political federalism. More resources should be disengaged from the central government to the other tiers of government. There are too much of money and power at the centre
- The relevance of rolling plans too can not be underrated. It is the long term fiscal plan. It should be properly put together and adhered to and be subject to through review and up-dating
- The National Assembly would take a queue from the Judiciary's recent performance record. The oversight function should be performed with utmost commitment in conjunction with the office of the Auditor General of the Federation

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