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ASSESSMENT OF PUBLIC FINANCE MANAGEMENT SYSTEM IN ANAMBRA STATE, USING PEFA – PERFORMANCE MEASUREMENT FRAMEWORK

CONSULTANT REPORT

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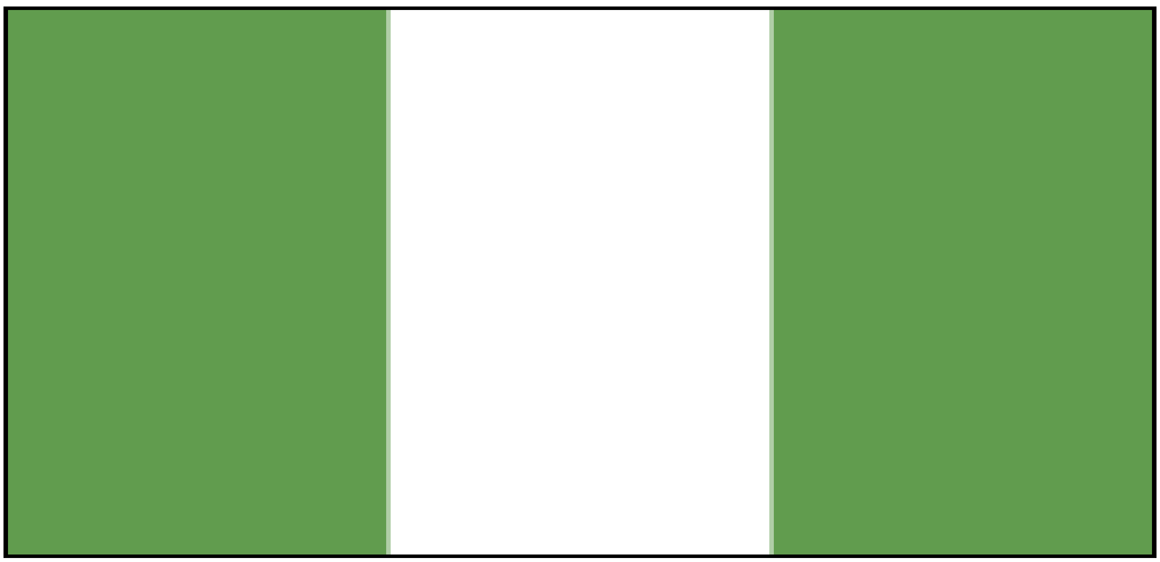
ANAMBRA STATE OF NIGERIA:
PFM Performance Measurement



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Basic Information

Currency	Naira = 100 kobo
Exchange Rate ((US $, June 2008)	117 Naira (Average)
Fiscal/Budget Year	Calendar Year, January - December
Fiscal years Covered by report	2004 – 2006
Weights and Measures	Metric System

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MAP of Nigeria[1]

[1] Taken from the website: www.mapofworld.com Copyright © 2006 Compare Infobase Limited

List of Abbreviations and Definitions

AGA(s) – Autonomous Government Agencies)
ANS – Anambra State
ASUBEB – Anambra State Universal Basic Education Board
BC – Budget Calendar
BC&COA – Budget Classification and Chart of Accounts
CAC – Corporate Affairs Commission
CBN – Central bank of Nigeria
COA – Chart of Accounts
CRF – Consolidated Revenue Fund
DMD – Debt Management Department
DMO – Debt Management Office
DSA – Debt Sustainability Analysis
EU – European Union
EU-SRIP – European Union Support for Reforming Institutions Programme
F & AC – Finance and Appropriation Committee (of the State House of Assembly – the specialized legislative committee in charge of the budget)
FA – Federation Account – the constitutional fund that accumulates all centrally and sharable revenues of the Federation, with the exception of value added tax revenue
FAAC – Federation Account Allocation Committee, a quasi-formal intergovernmental body comprising representatives of the Federal Government, each of the 36 state governments, local governments, and some key federal/national bodies; FAAC meets monthly to share centrally collected revenues among the three tiers of government.
FCT – Federal Capital Territory
FG – Federal Government
FGN – Federal Government of Nigeria
FR – Financial Regulations
FSP – Fiscal Strategy Paper
GDP – Gross Domestic Product
HC – High Court
HIV/AIDS – Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IFA – International Federation of Accountants
IFPRI – International Food Policy Research Institute, Washington, DC
IGR – Internally generated revenue
IIA – Institute of Internal Auditors
ILO – International Labour Organization
INTOSAI – International organization of Supreme Audit Institutions
IPPIS – Integrated Personnel and Payroll Information System
IPSAS – International Public Sector Accounting Standards
ISPPIA – International Standards for Public Practice in Internal Audit
JTB – Joint Tax Board
LG(s) – local government(s)
LGA(s) – Local Government Area(s)
M & E – Monitoring and Evaluation
MDA – Ministries, Departments, and Agencies
MDGs – Millennium Development Goals
MTEF – Medium Term Expenditure Framework
MTSS – Medium Term Sector Strategies
NA – National Assembly
NASB – Nigeria Accounting Standards Board
NBS – National Bureau of Statistics
NCS – National Council of State
NEC – National Economic Council
NEEDS – National Economic Empowerment and Development Strategy, Nigeria's homegrown poverty reduction strategy; NEEDS has a life span of four years, 2003 – 2007. NEEDS II is currently at an advanced stage of preparation.
NGO – Non-Government Organization
NPC – National Planning Commission
OAG – Office of the Accountant General
OPS – Organized Private Sector
OSSAP-MDGs – Office of the Senior Special Assistant to the President on the MDGs
PAC – Public Accounts Committee – the specialized legislative committee that scrutinizes audit reports
PE(s) – Public Enterprise(s)
PEFA – Public Expenditure and Financial Accountability
PEMFAR – Public Expenditure Management and Financial Accountability Review, a 2006 World Bank study in Nigeria published in 2007
PER – Public Expenditure Review
PFM – Public Financial Management
PIT – Personal Income Tax
PITA – Personal Income Tax Act (1993)
PPP – Purchasing Power Parity
PS – Permanent Secretary, usually the top civil servant in a government Ministry or quasi-ministerial department
SAI- Supreme Audit Institution (in Anambra State, the Auditor General)
SAP – Structural Adjustment Programme
SBIR – State Board of Internal Revenue
SC - Supreme Court
SEC – State Executive Council
SECO – Swiss Economic Cooperation Office
SEEDS – State Economic Empowerment and Development Strategy; state governments' version of NEEDS (see NEEDS above)

SG(s) – State Government(s)
SHA – State House of Assembly
SNG(s) – Subnational government(s)
TIAD – Treasury Internal Audit Department
UN – United Nations
UNDP – United Nations Development Programme
VAT – Value Added Tax
WB – World Bank

Acknowledgements

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Summary Assessment

This summary assessment does several things. First, it provides an integrated and strategic picture of the PFM performance of Anambra State of Nigeria between 2004 and 2006. Second, in doing this, it seeks to capture and describe the main message or big picture of Anambra State's PFM system in those years. Third, it summarizes the assessment of the PFM system along the lines of the six core dimensions of PFM performance. Fourth, it also provides an assessment of the extent to which the PFM weaknesses identified in *Chapter 3* affects achievement of outcomes of aggregate fiscal discipline, strategic allocation of resources, and effective service delivery. Finally, it examines the prospects for reform planning and implementation in Anambra State and the institutional and other factors that could support public financial management reform.

Story Line

What is the main message of this summary discussion? There are several strong highlights in the performance of the Anambra state PFM system between 2004 and 2006. These include strong performances by the respective Offices of the Accountant General and Auditor General in clearing the backlog of outstanding accounts in 2004 and producing timely financial statements and audit reports thereafter. Similarly, the State's payroll control process appeared quite strong and stable. In addition, beginning in 2006, the Anambra State Government started the planning of a series of fiscal and economic reforms, including public financial management (PFM) reforms, which could further strengthen the performance of the PFM system. Among the more important of these reform plans are multi-year budgeting, new chart of accounts and budget classification, fiscal responsibility, and procurement reforms.

The reform plans are in recognition of the weaknesses exhibited by the PFM system in several key areas between 2004 and 2006. The major weaknesses cover budget formulation and implementation, internal controls, and external scrutiny and audit. The procurement process appears to be particularly weak in the State; the PFM system did not assess well in most of the procurement related indicators: *PI-4*, *PI-10*, *PI-12*, *PI-16*, *PI-19*; *PI-20*, *PI-21*, and *PI-26*. The weaknesses of the PFM system could very easily have undermined achievement of the three budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources to development priorities, and effective service delivery.

Perhaps, the prevailing political climate in Anambra State supplies some context for the level of performance of the Anambra State PFM system. Anambra State Government experienced deep political crisis between 1999, when Nigeria returned to civil administration, and 2007. The years 1999 to 2003 were very difficult years, often euphemistically described by Anambra residents as their "years of locust". Schools closed for extended periods (at a point for up to 12 months), arrears of wages and salaries, and other emoluments accumulated. Contractor debts also built up. The State did not make much progress while political leaders engrossed in mysterious squabbles. The 2003 elections did not immediately resolve the political crisis, but rather led to deeper chasms, which the courts only managed to resolve decisively in June 2007. It would appear that this situation adversely affected the performance of the PFM system.

Integrated Assessment of PFM Performance and Their Impacts

This subsection is a summary of the indicator-led assessment in *Chapter 3*. It does not repeat the detailed assessment there; rather, it provides a convenient snapshot of the discussions. As explained above, the organization of the section follows the arrangement of the six core dimensions of PFM performance as defined by PEFA.

Credibility of the Budget

The Anambra State PFM system did not produce credible budgets between 2004 and 2006. Not only were the emerging budgets unrealistic, the SG did not implement them as planned. There are several pieces of evidence to support this assertion. First, the SG could not stick to approved budget aggregates, especially in 2004 and 2006, when actual aggregate expenditure deviated from planned expenditure by nearly 30 percent and 11 percent respectively *(Table I)*. Second, the SG did not adhere to approved budget composition and relationships. *Table I* also reveals a higher level of variation among budget heads than between actual spending and approved budget. This failure to respect the original consistency and harmony between budget components resulted in the high level of virements in 2005 and 2006. Third, although actual revenue performance exceeded predicted budget revenue in each of the three years, this was entirely due to prediction errors and the rising price of oil rather than the effectiveness of the PFM system. .

Table I: Summary Budget Performance of Anambra State, 2004 - 2006			
	2004	2005	2006
Percentage Deviation: Aggregate Outturn vs. Original Approved Budget	29.9	0.8	10.5
Percentage Variance: Excess of variance in expenditure over overall deviation	1.0	38.6	26.1
Percentage deviation in revenue prediction (excess of actual revenue over budget revenue)	39.1	20.0	16.1

How could this performance have affected overall achievement of budget outcomes? The performance could have affected budgetary outcomes in several ways. First, it could have contributed to shortfalls in funding priority spending identified during budget planning. Second, it could have contributed to policy dysfunction and inability to achieve overall objectives and goals of the budget. Third, the performance may be, at least partially, responsible for failure to attain projected service delivery levels. Fourth, the low budget credibility may have undermined the budget process leading to general lack of trust in the budget as true expression of government policy intentions, and by so doing could have promoted overall budget indiscipline.

Comprehensiveness and Transparency

Generally, the PFM system did not achieve the objectives of comprehensiveness and transparency of the budget process and during the period 2004 to 2006. First, there were major problems with the budget and accounts classification system. The classification does not conform to internal good practices. Although they have some program control features, the dual budgeting technique and dichotomization used by the state made administrative and economic tracking of costs difficult. Second, although budget documentation to the State House of Assembly was fair, it was not comprehensive enough to provide the complete overall picture of fiscal risks. Third, fiscal risk oversight over government parastatals was very poor; only five of approximately 33 parastatals audit their accounts annually. Fourth, government dealings with its local governments were not sufficiently transparent, falling short of expected standards, and violating the State's own laws in several important ways. Fifth, members of the public did not have as much access to key fiscal information as they could have had.

In what ways could these have affected budgetary outcomes in Anambra State during the period? First, lack of transparency restricts availability of information on government performance in fiscal discipline, management of fiscal risks, and the use of resources. This prevents the members of the public from providing government with valuable facts-based inputs, suggestions, ideas, and information. Second, lack of complete information affects strategic allocation of resources by limiting the ability of MDAs to compete fairly and transparently for resources during budget preparation. The unfair competition that this implies could hinder allocative efficiency by leading to suboptimal allocation of resources. Finally, lack of comprehensive and transparent information increases the chances of wastes in the use of resources. Wherever they occur, wastages hinder efficient and effective service delivery and value for money.

Policy-Based Budgeting

The planning process in Anambra State between 2004 and 2006 was weak. The SG issues an annual budget circular (BC) allowing MDAs a reasonable four weeks to prepare and submit their proposals. However, the budget process has a number of defects. First, the BC does not include a clear, detailed, and compelling budget timetable or calendar to guide the budget processor. Second, the circular does not contain hard budget constraints in the form of sectoral ceilings. Third, it does not provide MDAs with sufficient guidance on government development priorities during the period. Fourth, the lack of timetable made it difficult to regulate and control the annual budget exercise often leading to delays in sending the budget to the SHA. This contributed to significant yearly delays (of about three months after commencement f the year) in approving the budget. In addition, planning and budgeting in Anambra State do not yet follow a multi-year perspective.[2]

How could these have affected budget outcomes? This weakness in planning could have contributed to the general failure to respect fiscal estimates and budget composition as shown above. Further, the lack of multi-year perspective forced a short term planning focus on government. This could have undermined allocative decisions as witnessed in what appears to be consistent under costing of new policy initiatives (see *Chapters 2 and 3*). Obviously, this lack of multi-year perspective and sector strategies contributed to inadequate planning and discussions over efficiency in the use of recourses. This could also have reduced the impact of service delivery initiatives.

Predictability and Control in budget Execution

The PFM system did not perform exceptionally well in this core dimension. Debt management and payroll controls during the period were good. However, the unprecedented revenue flows from the centre may have affected the State's desire to develop its internal revenue generation effort. The tax system was weak. Further, the system of cash management and centralized investment commitment approvals place could not allow MDAs to predict availability of funds for commitment expenditures. Internal audit was particularly weak as were other internal controls for non-salary expenditures. Finally and very importantly, the procurement process was not transparent and open.

[2] The rolling plans do not involve costed multiyear strategies, and do not include current cost projections.

Did these affect budgetary outcomes, how? These failures may have contributed to the unplanned budget reallocation that was a major feature of budget implementation during the period. They could also have contributed to some of the unauthorized expenditures and fraud cases reported in the external audit reports. Further, unpredictability in resource flow possibly denied service delivery units of the ability to plan and use resources in a timely and efficient manner. In addition, the uncompetitive tendering process may have very likely reduced the efficiency of existing programs and increased the cost of procuring services. They also raise questions on the extent of value for money in procurement and service delivery generally.

Accounting, Recording, and Reporting

The quality and timeliness of annual financial statements, although needing improvement, was fair. However, the performance of the State in other aspects was not so encouraging. Accounts reconciliation practices were poor. There were no in-year budget reports. It was not possible to obtain information on resources received by primary service delivery units. .

How could these have affected budgetary outcomes? Lack of information constrains the ability of government to decide and control key budget details, including spending totals. This lack also undermines ability to allocate resources effectively. It further affects ability to plan and manage services. Finally, it affects availability of evidence for effective audit and oversight of the use of funds.

External Scrutiny and Audit

Anambra State posted mixed results in this area. While the State House of Assembly's scrutiny of the budget before approval is fair, its scrutiny of budget implementation reports was not. In fact, the SHA did not scrutinize annual audit reports. It also did not receive or demand for in-year budget reports.

What possible impact could this have made on budgetary outcomes? Poor legislative oversight could have made it difficult to hold government properly accountable to manage resources in an efficient and rules-based manner. The Auditor General's report contained cases of misuse or public assets that government did not address. This not only led to waste, but also could encourage others to further waste resources since there was no penalty for such practices.

Prospects for Reform Planning and Implementation

Judging from available evidence, the Anambra State Government appears keen to reform its public financial management system. The number of measures and initiatives recently undertaken or currently ongoing testifies to this. The SG has concluded a number of important studies and reviews, which are necessary pre-requites for reform. These include a statewide public expenditure review, participatory budgeting processes, design of new chart of accounts, citizen's scorecard, etc. There are several other reviews holding simultaneously with this, including PERs in education and health, and poverty assessment studies. Further, the SG has organized numerous workshops and training sessions for its staff on several different aspects of fiscal and economic reform. High-level government officials, political and administrative, attended these activities. Finally, the designation of a reform-championing unit in the Ministry of Economic Planning is another testimony.

In proceeding with these efforts, the SG needs to address a number of issues that can facilitate the process. The most critical of these is the perceived capacity shortages in government. Most of the persons trained or sensitized thus far on the reforms are from the rank of very senior civil servants and political office holders. There is need to involve at an early stage, the middle level human resource that will deepen and sustain the reforms. Available information is that this category of officers is currently in short supply in the State service. However, this matter needs urgent attention in order that it may facilitate the reform process.

It is also important to address the continued truncation of planning and budgeting functions in the State. A situation where different units of government control different aspects of the budget decision-making process such as, investment and current decisions, does not facilitate integration of planning and budgeting. It is necessary to avoid the potential dysfunctional behaviour that could undermine the reform process.

Finally, there is need for more effective collaboration between the executive and legislative arms of government to facilitate the reform process. It will be useful to involve both arms at an early stage of the reform process. Perhaps, the enactment of a comprehensive law on the reform process will help address the issue. If this is not possible, it will be useful, at the very least, to articulate all the reform efforts and processes in a comprehensive and integrated document that could provide a holistic view of the process. This will help avoid the current piecemeal and fragmentary appearance of current efforts.

Chapter 1: Introduction

This introduction does four things. First, it explains the purpose of this PFM-PR, reasons for undertaking it at this time and its contribution to on-going country reform activities. Second, it outlines the process of preparing the report, explaining the role of donor sponsors and government partners. Third, it describes the methodology for preparation of the report, the sources of information and reliance placed on them. Finally, it explains the scope of the assessment.

The context of this PFM assessment is the fiscal and economic reforms initiated at the federal level in Fiscal 2004. The reforms include fiscal and budget management, procurement, fiscal responsibility, accounting, integration of HR and payroll management, etc. The nature of Nigeria's federalism, which grants State Governments autonomy over their fiscal decisions, did not allow the FG immediately extend the reforms to SGs to The autonomy of states also meant that they set their respective reform agendas. Anambra State is beginning to define such agenda. This PFM assessment is one of several studies intended to raise critical issues that will inform the design of the reform program.

The Anambra State Ministry of Economic Planning, which anchors the SG's economic reforms, took the lead in this PFM assessment. It received assistance from the European Union Support for Reforming Institutions Program (EU-SRIP) and the World Bank. The two donor agencies co-sponsored preparation of this report, with the EU-SRIP financing the lead consultant, the workshops, and technical sessions, while the WB funded the second consultant. The Anambra State Government contributed hundreds of hours of staff time by raising an inter-ministerial technical team of about 12 directors to work with the consultants for the two weeks of data collection and assessment.

This assessment used a combination of methods and approaches. First, there was a half-day inception and sensitization workshop for political and administrative heads of relevant MDAs and their top advisers. The purpose was to confirm buy-in of government, and secure basic understanding of the principles of PEFA PFM assessment. Second, there was a series of training sessions for the State technical team (raised at the inception workshop to work with the consultants, as indicated above). These sessions conducted detailed review of the assessment process, the indicators, sources of information, and the scoring process. Third, there was a joint review of official documentation from the Offices of the Accountant General, Auditor General, the Revenue, and several others. These documents provided much of the information for the assessment. Fourth, the assessment used additional information obtained from interviews with some key actors of the PFM system such as Legislators, the Auditor General, Chairman of the State Board of Internal Revenue (SBIR), the Board of Anambra State Universal Basic Education Board, etc. The assessment team also debriefed the Permanent Secretary of the State Ministry of Economic Planning at the close and shared with her key observations and findings. Finally, the team presented the findings at a dissemination workshop for Anambra State Government officials on June 30, 2008.

This assessment covered all areas of the Anambra State PFM system, including its primary MDAs. There are two caveats though. First, it does not include activities of local governments under the state because, as a separate tier of government, each LG has its own independent PFM system. Second, it largely excludes parastatals because it was not possible to obtain information about them. For reason of this lack of information, this introduction cannot provide an analysis of percentage (by share of expenditure) of these parastatals.

Chapter 2: Country Background Information

This chapter provides general contextual information on Nigeria and Anambra State. The purpose is to allow sufficient understanding of the wider context of public financial management reforms and describe the core characteristics of the PFM system of Anambra State. It consists of three subsections: description of country (including Anambra State) economic situation, description of budgetary outcomes of Anambra State, and description of the budgetary and institutional framework for public financial management in Anambra State.

2.1 Description of Country Economic Situation

This subsection presents brief reviews of key social and economic indicators on population, the poverty, literacy, unemployment, growth rate, inflation, economic structure, and main development challenges. Whenever available, the discussion presents specific information on Anambra State, contrasting this with the Nigerian bigger picture, for proper insight. Sometimes, available data is not state specific, but defined and arranged in terms of Nigeria's geopolitical zones. In such situations, the discussion contrasts performance of the Southeast zone to Anambra State belongs with performance of the rest of Nigeria. When available data is only country (being neither state nor zone) specific, the discussion presents the big Nigerian picture, allowing the reader draw their own inferences.

Political Structure and Population

Nigeria is a federation of 36 politically and fiscally decentralized (especially on the spending side) and autonomous states. Both the Federal and state governments run democratically elected governments modeled after the US example.[3] Each government has an elected president and an elected legislature, with the FG having a bicameral legislature. Each SG consists of a number of constitutionally recognized elected local governments. However, SGs have more control of local government affairs than the federal has over state government affairs.

Nigeria semi officially groups states into six geopolitical zones, each consisting of contagious and culturally affiliated states. With seven states, the northwest zone consists of the largest number of states. Four other zones, northeast, northcentral, southwest, and southsouth consist of six states each. The Southeast is the only one with five states. Although the geopolitical zones have no constitutional life and are therefore not administrative platforms, the country freely uses them in official discourses and appropriate settings, such as planning and distribution of amenities and political offices.

Nigeria occupies a total area of 923,768 km^2, 909,890 km^2 of which is land mass and 13,878 km^2 is the area under water. The 2006 national population census puts Nigeria population at 140 million persons, i.e., an average population density of 154/km^2 of land area. Anambra State (ANS) is located in the high-density southeast zone of the country, occupying an area of only 4,865 km^2. With a 2006 population of 4,182,032, the state has the highest population density in the country (860 persons per km^2.) outside cosmopolitan Lagos, which has a density of 2,455/km^2.[4]

[3] In some respects, the Nigerian system is closer to the Brazilian, than the American, model. For example, the American model does not have a three-tier arrangement.
[4] Nigeria National Bureau of Statistics, *Facts 2007*

Oil and the Nigerian Economy[5]

Crude petroleum is the livewire of Nigeria's economy, contributing the bulk of its public revenues. As stated in the official FG website, "Since 1908, when German engineers first drilled the first oil well in Nigeria, a buoyant, viable industry has sprung up. Oil is today the bedrock of Nigeria's economic development, accounting for more than 80 per cent of its foreign exchange earnings"[6]. Nigeria's oil reserves are the ninth largest in the world. Current efforts are to raise the level of crude oil reserves to above 40 billion barrels. Nigeria also has vast largely unexplored natural gas reserves, the world's fifth largest.

Oil is the country's major export and foreign exchange earner. Estimated total oil exports in 2005 are 823.66 billion barrels valued at 6,157.86 trillion naira[7] or US $46.9 billion. This means an average of $57 per barrel. Since the 1970s (during the Middle East Oil crisis), oil has been the largest contributor to public revenues. In 2005, oil revenues accounted for 85.8 percent of total Federation revenues, up from 85.6 in the preceding year.

However, crude oil has proved to be a paradox for Nigeria.[8] Despite its potentials and huge earnings (rough estimates put the amount of revenues Nigeria has earned from oil in excess of US $400 billon) Nigeria has not been able to leverage its oil resources for sustainable economic development. Nigeria lags behind its peers and neighbors, both oil and non-oil producing, in several key social and economic development indicators. The commonest example often cited is Indonesia, a country that shared similar characteristics and status with Nigeria at independence. Today, Indonesia surpasses Nigeria by far on almost all indicators.[9]

In the past, Nigeria was a worst example of the notorious "boom and burst" phenomenon. The practice prior to 2003 was to earn and immediately spend all revenues accruing from oil. During periods of an upward swing in world oil prices, the country spent the huge resources earned on ill-appraised projects of doubtful developmental value.[10] It became difficult to complete such projects once oil prices dipped (which they often did, at least, until recently), taking revenue earnings along. In addition to leading to a litany of abandoned and uncompleted projects, the extra budgetary spending, which this habit entailed, proved to be highly inflationary and destabilizing to the economy. It also forced Nigeria into borrowing to complete those projects. This was the genesis of the very high debt profile, which remained until 2005/2006, when deals with both the Paris and London clubs enabled Nigeria to pay off its debts and exit the clubs.

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[5] This subsection is a modified and updated version of a section of ***Federal Government (of Nigeria) Agriculture Public Expenditure Review***, authored for IFPRI by one of the assessors in January 2008

[6] Article in the Official website of the Nigerian Federal Ministry of Information and Communication, www.nigeria.gov.ng

[7] CBN Annual Report and Statement of Accounts

[8] Indeed, some refer to the experience of poverty amidst abundant natural resources as "natural resource curse". Several African countries face similar problems including Congo Democratic Republic (Zaire), Sierra Leone, Liberia, etc.

[9] For a detailed and proper analysis of this problem, see Paul Coullier, ….

[10] A good case in point was the $12.4 billion naira extra earnings during the first Gulf War at the beginning of the 90s. The earnings, which were put in a special dedicated escrow account in the Central Bank, was eventually spent on extra-budgetary items, most of which, it was not possible to identify. This issue, which was the subject of a probe panel in the mid 1990s, is still very controversial because the Government did not implement the panel's recommendation on recovery of the money.

Nigeria's Federal Government introduced reforms in 2003 to limit exposure of the economy to problems arising from fluctuations in international oil prices and the volatility and unpredictability they introduced into budget revenues. The oil-based fiscal rule pegged oil revenues for budget purposes, at a level far below prevailing oil prices. Earnings above this reference price became excess earnings, which the country held in a special account, and would not spend in that year. The measure has helped to restore stability in the domestic economy, and helped immensely to control spiraling inflation and exchange rate.

Oil has also proved to be a paradox in another way. Prior to oil becoming the country's major foreign exchange earner, the constituent four regions[11] were fiscally strong and did not depend on revenue flows from the centre for their developmental activities. They had strong independent revenue bases, which generated revenues for their services. For instance, even after the creation of 12 states out of the four regions, the old East Central State[12] generated enough taxes from the Onitsha market to pay public servants' wages. However, with the eventual importance of oil revenues, all the governments, Federal, state, and local, now depend on unconditional flows from the centre for survival. Most state governments, including Anambra, [13] are not viable otherwise and will not even be able to pay their civil servants. With the recent strong performance of oil in the international market, the prospects of reversing the trend in the short to medium term are not encouraging.

Poverty Level[14][15]

Some estimates put Nigeria's per capita GDP at about US$ 1,000 in 2005.[16] However, calculations from CBN data (***Table 2.1)*** estimate GDP per capita, at current basic prices, to average about $624 between 2001 and 2005. Per capita income increased by 58 percent between 2001 and 2005 from $518 to $819. However, this relatively strong performance of the economy had a shallow depth and did not benefit every one. Poverty is still a major problem in Nigeria.

Poverty statistics is controversial in Nigeria. The generally cited anecdote is that more than 70 percent of Nigerians live in extreme poverty on less than one United States dollar per day.[17] Nigeria, under the then Presidency of Olusegun Obasanjo,[18] strongly disputed this figure, which dates back to a 1996 survey.[19] He argued that it is wrong to measure poverty in Nigeria and Africa as whole, based purchasing power parity (PPP) of the US dollar. His argument is that most rural based Nigerians generate much of their foodstuff from their subsistent farms and do not depend on calculable incomes.

[11] Northern, Western, Midwestern, and Eastern
[12] Now comprising of five state governments, including Anambra
[13] That is, in terms of current or recent revenue performance, not in terms of potential
[14] Data on Anambra State specific poverty indices is not immediately available. However, the reader is able to draw some inferences about the State from the general discussions here.
[15] This subsection is also a modified and updated version of a section of *Federal Government (of Nigeria) Agriculture Public Expenditure Review*, authored for IFPRI by one of the assessors in January 2008
[16] For example, see www.infoplease.com
[17] As at 2000; see CBN Annual Report and Statement of Accounts, 2005, page 76
[18] Who vacated office on May 29, 2007 after eight years in power
[19] Obasanjo's grouse with this statistic is that it is wrong to measure poverty in Nigeria and Africa as a whole, based on the availability of the dollar or its equivalent. He saw this as unnecessary imposition. He argued that many Nigerians, especially in the rural areas, engage in some kind of farming from which they get vegetables, and some staples for food, which they do not therefore pay for. He argued further that most Nigerians can afford at least, two meals per day in this way.

On the mandate of the President, the National Bureau of Statistics (NBS) carried out a "homegrown" poverty assessment based on a definition of poverty "acceptable to Nigerians". The result of this 2004 exercise is the basis of the discussion on poverty here.[20]

Table 2.1: Sectoral Distribution of GDP, 2001 – 2005 (Nominal Basic Naira Billion)

Sectoral Contribution to GDP, 2001 - 2005 at Current Basic Prices Naira Billion (unless otherwise stated)						
	2001	2002	2003	2004	2005	Average
Agriculture	2410.05	2847.11	3231.44	3903.76	4752.98	3429.07
Industry	3044.91	3212.38	4589.70	4610.08	6090.55	4309.52
Building & Construction	78.60	94.40	118.56	166.08	215.34	134.60
Wholesale & Retail Trade	762.74	916.83	1094.64	1484.42	1930.78	1237.88
Services	598.90	725.03	879.18	1246.72	1621.23	1014.21
Total	6895.20	7795.75	9913.52	11411.06	14610.88	10125.28
MEMO ITEMS: SHARE IN TOTAL (%)						
	2001	2002	2003	2004	2005	Average
Agriculture	34.95%	36.52%	32.60%	34.21%	32.53%	34.16%
Industry	44.16%	41.21%	46.30%	40.40%	41.69%	42.75%
Building & Construction	1.14%	1.21%	1.20%	1.46%	1.47%	1.30%
Wholesale & Retail Trade	11.06%	11.76%	11.04%	13.01%	13.21%	12.02%
Services	8.69%	9.30%	8.87%	10.93%	11.10%	9.78%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
GDP PER CAPITA (Current Basic Naira, unless otherwise stated)						
Population (Millions)	118.99	122.93	126.99	131.19	135.52	127.12
Agriculture	20,254.22	23,160.42	25,446.41	29,756.54	35,072.17	26,975.05
Industry	25,589.63	26,131.78	36,142.22	35,140.48	44,942.07	33,901.23
Building & Construction	660.56	767.92	933.62	1,265.95	1,588.99	1,058.81
Wholesale & Retail Trade	6,410.12	7,458.15	8,619.89	11,315.04	14,247.20	9,737.90
Services	5,033.20	5,897.91	6,923.22	9,503.16	11,963.03	7,978.38
Total	NGN 57,947.73	NGN 63,416.17	NGN 78,065.36	NGN 86,981.17	NGN 107,813.46	NGN 79,651.37
Total (US $)	$517.85	$526.28	$603.75	$651.54	$818.88	$623.66
Source: Prepared from Data from CBN Annual Report and Statement of Accounts, 2005						

Tables 2.2a and *2.2b* present the national poverty index and incidence respectively. Despite Nigeria's huge oil resources,[21] poverty has been on the increase since the 1980s, rising from only 27 percent in 1980 to 65.60 percent in 1996, before falling back to 54.40 percent in 2004. By Government's own statistics therefore, more than half of the Nigerian population live below the poverty line. However, the poverty rate fell by nine points between 1996 and 2004. This period roughly coincides with the period of Nigeria's return to stable civil governance. It is also noteworthy that between 1980 and 1999, the military was in power (except for four years). Consequently, the period of extreme and rising poverty in Nigeria coincided with the period of military rule.

Table 2.2b shows that poverty distribution is not uniform in Nigeria, rural dwellers being generally poorer than urban dwellers. While urban poverty indexed at only 43 percent in 2004 (using the relative measure of poverty), rural poverty incidence was as high as 63 percent. In terms of the one dollar a day benchmark, official statistics indicate that less than 52 percent of Nigerians were poor to that level in 2004.

Further, there is also high regional variability of the poverty incidence. Generally, the northern zones record poverty incidences of about 70 percent on average. By contrast, the Southern states show a poverty incidence of below 46 percent. Southeast zone (where Anambra State belongs) records the lowest poverty rate of less than 27 percent, whereas the Northeast zone post the highest poverty incidence of above 72 percent. However, when asked to rate themselves, more than 71 percent of Anambra resident rated themselves as poor in 2004.[22]

[20] It should not be a surprise that the outcome of this assessment is controversial, and as such its validity not certain. However, they are the official statistical figures; that is the reason they form the basis of this analysis.
[21] Anecdotal evidence suggests that Nigeria has earned between 250 and 400 billion US dollars from oil resources.
[22] NBS, *Facts 2007, Table 10*

Regional Poverty Levels and English Language Literacy Rates

Table 2.2a: Poverty Index

POVERTY INDEX	
Year	Level (%)
1980	27.20
1985	46.30
1992	42.70
1996	65.60
2004	54.40

Source: NBS

Table 2.2b: Nigeria Poverty Incidence, 2004, by Sector and Geopolitical Zone

POVERY INCIDENCE						
	Relative Measure		Objective Measure		$/day	
	Poor	Non Poor	Poor	Non Poor	Poor	Non Poor
SECTOR						
Nigeria	54.40	45.60	53.8	46.20	51.60	48.40
Urban	43.20	56.80	42.20	57.80	40.10	59.90
Rural	63.30	36.70	63.00	37.00	60.60	39.40
ZONE						
Southeast	26.70	73.30	34.00	66.00	31.20	68.80
Southsouth	35.10	64.90	50.50	49.50	47.60	52.40
Southwest	43.00	57.00	42.70	57.30	40.20	57.80
Northcentral	67.00	33.00	62.30	37.70	58.60	41.10
Northwest	71.20	28.80	62.40	37.60	61.20	38.80
Northeast	72.20	27.80	66.10	33.90	64.80	35.20

Source: National Bureau of Statistics (NBS)

Statistics shows a relationship between ability to read and write in English Language and poverty. English literacy rates are higher in the south than in the north. In 2004, Anambra State had an English literacy rate of 66 percent and 59 percent among men and women respectively in 2004. In contrast, English Language literacy rate was as low as 11 percent and 8 percent in the northern state of Sokoto State.[23] To be sure, many Nigerians are literate (able to communicate effectively) in one local language or the other. This is especially so among some Moslem communities in the Northern part of the country where Islamic (rather than Western) education has been the norm. Pupils learn to communicate fluently and effectively in Arabic and Hausa but not in English. For instance, in Kebbi State, 73 percent of men and 79 percent of women can read and write properly in Hausa Language.[24] Further, many Nigerians are able to communicate in *Pidgin English*. However, there is more to English Language literacy than just the ability to read and write in the language.

English Language education takes place in formal schools where pupils learn other subjects and acquire other useful life skills. Besides, since the conduct of public administration and private industrial and commercial business life is in English, most poverty lifting opportunities in the economy naturally go to those with the necessary formal training. This explains, at least, partially, the high negative correlation between the spatial and zonal spread of poverty and literacy. In other words, the higher the literacy level among Nigeria's geopolitical zones, the lower the incidence of poverty and the narrower poverty gap[25]. Conversely, poverty is more prevalent and the poverty gap is wider in those regions of the country with low English Language literacy levels.[26]

Unemployment Statistics[27][28][29]

[23] NBS: *The Nigeria Statistical Fact Sheets on Economic and Social Development, June 2005*, page 98
[24] NBS: *The Nigeria Statistical Fact Sheets on Economic and Social Development, June 2005*, page 99
[25] Poverty gap measures the depth of poverty or difference between the average poor and the poverty line. It measures the extent to which the income of the poor is below the (national) poverty line.
[26] NBS: Nigerian Statistical Fact Sheets
[27] This subsection is also a modified and updated version of a section of *Federal Government (of Nigeria) Agriculture Public Expenditure Review*, authored for IFPRI by one of the assessors in January 2008
[28] The estimation procedure for unemployment used by the NBS again adopts a Nigerian (rather than the ILO) definition. The basis of the Nigerian definition is at least 39 hours of work in a week, while that of ILO is at least one hour of work per week, NBS: *The Nigerian Statistical Fact Sheets on Economic & Social Development, 2005*, page 108
[29] Unemployment statistics for Anambra State is not available

Table 2.3 presents the national unemployment rate between 2000 and 2004.[30] Unemployment averaged 14.12 percent between 2000 an 2004. However, the trend showed a total decline of 6.3 percent between 2000 and 2004 from 18.1 percent to 11.8 percent. Unemployment was more severe in rural than in urban areas, with rural averaging 14.82, while urban unemployment was 12.42 percent. In 2003 however, urban unemployment was higher (at 17.1 percent) than rural unemployment, which was only 13.8.

Table 2.3: Unemployment Rates, 2000 – 2004 (December)

	2000	**2001**	**2002**	**2003**	**2004**	**Average**
National (Composite)	18.1	13.7	12.2	14.8	11.8	14.12
Urban	14.2	10.3	9.5	17.1	11.0	12.42
Rural	19.8	15.1	13.3	13.8	12.1	14.82

Source of Data: National Bureau of Statistics (NBS)

Details of the employment statistics show that unemployment was higher among the female population than among the male population. Further, there was higher unemployment among those without formal (Western-type) education than those with education.[31] Those with above secondary school education were also more likely to find jobs than those with secondary education and less. In terms of age distribution, unemployment was highest in the bracket, 15 – 24 years.[32]

The CBN, citing NBS sources, reports that in 2005, the number of unemployed persons registered with employment Exchange Offices increased by 1.3 percent over the 2004 figure to 319,769. The number of registered unemployed in the professional and executive cadre rose significantly by 443.5 percent to 22,533 in the same period. However, the number of registered unemployed lower grade workers was 295,235, representing a decrease of 4.6 percent from the previous year's figure.[33]

Progress towards the MDGs[34]

The UN MDG Report 2006 [35] shows that although some progress is visible in the match towards the 2015 targets, progress is slow in Sub-Saharan Africa (SSA) on most of the targets.[36] Asia, not SSA leads the decline in world poverty. Whereas the percentage of the population living below one dollar a day declined from 39.4 to 31.2 in South Asia and from 33.0 to 14.1 in East Asia between 1990 and 2002, it declined from 44.6 percent to 44 percent in SSA.[37] (Nigeria's performance here is above 51 percent, i.e., worse than the SSA average). The proportion of people living with insufficient food in SSA dropped marginally from, 33 percent to 31 percent between 1990 and 2003. The corresponding proportions were for South Asia, from 25 percent to 21 percent, Southeast Asia, from 18 percent to 14 percent, and East Asia, from 16 to 12 percent.

[30] *NBS: The Nigerian Statistical Fact Sheets on Economic & Social Development, 2005*
[31] This point corroborates the finding on the relationship between English Language literacy and poverty above.
[32] NBS: The Nigerian Statistical Fact Sheets on Economic & Social Development, page 108
[33] CBN Annual Report and Statement of Accounts, 2005, page 75.
[34] This subsection is also a modified and updated version of a section of *Federal Government (of Nigeria) Agriculture Public Expenditure Review*, authored for IFPRI by one of the assessors in January 2008
[35] See the United Nations: The Millennium Development Goals Repot, 2006, New York
[36] This observation is important because with a population of 140 million people, Nigeria is the most dominant population in SSA, accounting for more that one-third of the regions population. Nigeria's performance therefore is sure to influence the regions performance one way or the other.
[37] UN MDG Report, 2006

Supported by the UNDP, Nigeria has since 2004, published an annual assessment of progress towards the MDGs. The Office of the Senior Special Assistant to the President on the MDGs (OSSAP – MDGs) published the second (2005) edition of the assessment report in 2006. *Box 2.1*[38] contains the highlights of the report, as obtained form the website of the UNDP Nigeria Office. Although Nigeria has been making progress on several of the targets,[39] it needs to deepen and sustain the efforts to not only to catch up with the SSA averages, but to stand the chance of making a meaningful impact of the targets by 2015.

2.2 Description of Budgetary Outcomes

This section briefly discusses the fiscal performance of Anambra State by examining the main trends in aggregate fiscal discipline for the last three years. It also examines information on trends in sectoral and economic allocation of resources and comments on the priorities embodied in Anambra State SEEDS.

Fiscal Performance of Anambra State, 2004 – 2006

Table 2.4a expresses actual revenue and expenditure performance of Anambra State from 2004 to 2006 as a percentage of total revenue. It is not possible to express this as a percentage of GDP (which would have been ideal) because, ANS GDP figures are not available since Nigerian state governments have not yet started estimating their GDPs. The *Table* shows that Anambra State had no serious need of financing, internal or external, because actual total revenue outstripped expenditures, except for a negligible 1.62 percent aggregate deficit in 2006. As the *Table* further shows, the State Government should have accumulated huge surpluses in 2004 and 2005, in any case.

Table 2.4a also illustrates what a small proportion of total revenue Anambra State IGR constitutes. The state, like all other subnational governments, is highly dependent on unconditional revenue flows from the centre. On average, central revenues constituted 81 percent of the SG revenues during the period. This level of performance left the State's IGR able to cover only 21.5 percent of total expenditure on average, during the period. Following from this, the *Table* should be showing a huge primary deficit. However, the Nigeria situation is a bit complex as explained below.

[38] At the end of this chapter
[39] Especially in school enrolment and provision of potable water

Table 2.4a: Trends in Anambra State Government Budget Performance

Anambra State Government Budget (in Percentage of Total Revenue)

	2004	2005	2006	Average
Total Revenue	100.00	100.00	100.00	100.00
Own Revenues (Anambra State IGR)	16.64	25.40	15.05	19.03
Grant Revenues (Federation Account and VAT Flows)	83.36	74.60	84.95	80.97
Total Expenditure	68.99	93.93	101.62	88.18
Non Interest Expenditure	62.90	89.62	99.32	83.95
Interest Expenditure	6.10	4.31	2.30	4.23
Aggregate Surplus/Deficit (including Grants)	31.01	6.07	-1.62	11.82
Primary Surplus/Deficit	[illegible]	[illegible]	[illegible]	[illegible]
Net financing	0.00	0.00	-1.62	-0.54
External	0.00	0.00	0.00	0.00
Domestic	0.00	0.00	0.00	0.00

Source: Compiled from Reports of the Accountant General,, 2004 - 2006 Budget Performance

Table 2.4b: ANS IGR Performance

ANS IGR vs Pers. Expenditure (Nominal Naira Millions

	2004	2005	2006	Average
IGR	3664.37	7464.74	4610.82	5246.64
Personnel Expenditure	6851.67	7729.59	8877.11	7819.46
Difference	-3187.30	-264.86	-4266.29	-2572.81
IGR as % of Pers. Exp	53.48	96.57	51.94	67.33

Source of Data: Accountant Generals' Reports, '04 –'06

Nigeria concentrates the better performing revenue sources in the FG, which administers, collects, and holds them in trust for the entire Federation until shared. Thus, the FG collects the proceeds of crude oil sales, petroleum profits taxes, oil mining royalties and related taxes, companies' incomes tax, custom and excise duties, value added tax, and registration duties on corporate instruments. Two funds, the Federation Account (FA) and the Value Added Tax (VAT) Pool account, accumulate these.[40] An intergovernmental committee, the Federation Account Allocation Committee (FAAC), meets monthly to share these revenues in accordance with applicable statutory formulae. The revenues then flow to subnational governments as unconditional grants.

Two related reasons account for the underperformance of SGs[41] with regard to IGR. First, as stated above, the FG controls the major performing taxes. The most important state tax currently is personal income tax (PIT), which the FG legislates on, but states administer, collect, and use the proceeds. Second, and perhaps more important, the tax administration system of Anambra State Government is very weak, as it is in most other states. A good illustration of this fact is that the old East Central State Government[42] and the old Anambra State[43] were able to generate sufficient tax revenues from Onitsha to pay staff salaries. However, the current Anambra State Government, to which Onitsha still belongs, is not able to do the same, and this notwithstanding that the commercial importance of the city has grown exponentially since. Indeed, the total IGR performance of the entire State, taxes and all other sources, was not able to offset the state's wage bill between 2004 and 2006. IGR averaged only 67 percent of personal expenditure during the period (*Table 2.4b*).

What factors explain the weakness of the tax administration base of the SG? The main culprit must be overdependence on unconditional oil revenue transfers. Dependence of SNGs on central revenues

[40] Since return to civil rule, the VAT Pool Account has become a theoretical fund because the 1999 constitution requires the payment of all funds accruing to the Federation into the Federation Account. However, the relevance of the VAT Pool Account remains because the formula for sharing VAT revenues is different from the formula for sharing the other revenues.

[41] There is a notable exception in Lagos State.

[42] That comprised five states including the current Anambra

[43] Now Enugu, Anambra, and half of Ebonyi State

began gradually from the 1970s when the then military regime began introducing fiscal reforms that centralized the major revenue sources (including oil revenues), and vertical and horizontal revenue sharing formulae for their unconditional distribution. Continual truncation of the first tier SNG from three fiscally strong and autonomous regions at independence to the current 36 states also created a dearth of experienced administrative capacities through splitting of available pool of experienced administrators among newly created states. Further, given the big brother role of the FG, the new states found no incentive to move quickly to replenish the stock of administrators depleting in this manner and through normal attrition. Consequently, IGR generation, as other administrative responsibilities of states, suffered. With oil now doing so well in the international market and unprecedented levels of revenue flowing to SNGs from the centre, it has perhaps, become even more difficult for SGs to find the motivation to improve IGR performance.

Allocation of Resources

At an average of 46 percent (*Table 2.5a*), Works and Transport accounts for a major share of spending between 2004 and 2006. This was due to the heavy investment in road construction by the SG. General administration took a distant second place with an average spending of less than 18 percent of total. At 17.11 percent, 4.56 percent, and 1.10 percent respectively, the critical MDG sectors of education, health, and women affairs did not receive nearly as much emphasis as did road construction. Another key MDG sector, agriculture (including livestock, fishery, and forestry) fared far worse attracting an average allocation of only 0.86 percent during the period.

Table 2.5a: Sectoral Classification of Budgetary Allocations

Actual Budgetary Allocation by Sectors (as % of Total Expenditures)				
	2004	2005	2006	Average
Works & Trans	37.87	51.07	48.48	45.81
Gen Admin	12.53	18.36	22.82	17.90
Education	23.52	14.73	13.06	17.11
Health (incl Environ Health)	3.89	4.61	5.17	4.56
Fin & Budg	4.56	2.96	2.73	3.42
Inform. and Culture	0.65	0.27	1.47	0.80
Women Affairs (incl. Soc Dev)	1.19	1.01	1.10	1.10
Lands, Survey, & Urban Plan	0.23	0.10	1.10	0.48
Environ, & Min Res. (incl. Sc. Tech)	2.39	0.44	1.05	1.29
Agric & Forestry	1.30	0.70	0.58	0.86
Public Utilities	0.92	1.50	0.57	1.00
Housing & Urban Dev	6.85	2.60	0.53	3.33
Board of Intern Rev	0.55	0.27	0.43	0.42
Commerce	0.64	0.11	0.30	0.35
Industry, Sc & Tech	0.00	0.00	0.14	0.05
Youths & Sports	0.15	0.75	0.13	0.34
Transfers to LGs	1.24	0.35	0.13	0.57
Government Press	1.16	0.06	0.10	0.44
Exam Dev Centre	0.05	0.04	0.06	0.05
Accountant Gen	0.09	0.04	0.04	0.05
Others	0.20	0.04	0.01	0.08
Total	100.00	100.00	100.00	100.00

Source: Accountant Generals' Reports

Table 2.5: Economic Classification of Budgetary Allocations

Actual Budgetary Alloc By Econ. Class. (as % of Tot Expenditure)				
	2004	2005	2006	Average
Current Expenditures	65.01	51.99	49.78	55.59
Personal (Wages and Salaries)	45.08	28.00	28.51	33.86
Overheads (Goods and Services)	7.78	15.08	16.44	13.10
Interest Payments	8.83	4.58	2.26	5.23
Transfers	1.07	0.32	0.16	0.52
Others (Miscellaneous Expenses)	2.23	4.02	2.40	2.88
Capital Expenditures	34.99	48.01	50.22	44.41
Total	100.00	100.00	100.00	100.00

Source: Accountant Generals' Reports

What explanation is there for this lopsided spending arrangement? A close reading of the State Economic Empowerment and Development Strategy (SEEDS) does not reveal sufficient emphasis of spending on key MDG sectors. For example, although the document identifies health as "the most important component of the State's socio-economic development"[44] it only suggests an allocation of a total of 440 million and 435 million naira to "special projects" in the sector in 2005 and 2006 respectively. Further, although the "educational system in the State … experienced deep crises for

[44] Anambra State of Nigeria, **State Empowerment & Development Strategy (SEEDS)**, 2/e, page 29

many years" resulting in only 50 percent of school age children being in school in 2001-2002.[45], the SEEDS suggested only 564 million and 335 million naira respectively for "key programmes/projects" in the sector for 2005 and 2006 respectively. The same goes for agriculture. Possible factors accounting for this include improper costing of projects and insufficient strategic emphasis or misunderstanding of constitutional spending obligations among the three tiers of government.

A statement on page 28 of the SEEDS document illustrates the last point. The document wrongly identifies primary health care delivery as 'the exclusive preserve of Local Governments".[46] With this kind of belief, the State may not have felt obliged to spend much in the sub sector. However, the Supreme Court interpretation of the constitutional provision in *Schedule 4, paragraph 2,* is to the effect the (primary) education and health care delivery are state government responsibilities in which local governments can participate in accordance with the provisions of a state law to that effect.[47] This interpretation of the SC ruling on the matter may also have affected the SG's spending on primary education, which amounted to only 147,529.38 in 2006 and zero in 2004 and 2005.[48]

The economic classification of spending shows that current expenditures accounted for 56 percent of total expenditures between 2004 and 2006 (*Table 2.5b*). Personnel spending, including wages and salaries, pensions and gratuities, and salaries of political office holders, averaged nearly 34 percent of total expenditures or 61 percent of current expenditures. At 5.23 percent, interest payment was relatively small.[49] Transfers to local governments amounted to an average of only 0.52 percent of the State's total revenue.

There is a controversy on transfers to local governments. The 1999 Constitution provides in ***s. 162(7)*** that state governments should transfer to local governments within their jurisdiction a percentage of their ***total*** revenue as determined by the National Assembly. The current NA law on the subject is 10 percent. However, Anambra State Government (as indeed most, if not all other SGs in the country) refuses to transfer 10 percent of their total revenue. The State prefers to interpret the provision as "10 percent of its internally generated revenue".[50] Besides, *s. 15(3)* of the Law further empowers the State to withhold 50 percent of the amount so due for "common services". Even then, actual transfers to LGs during the period amounted only to 2 percent, 1 percent, and 0.05 percent of the SG's internally generated revenue in 2004, 2005, and 2006 respectively. In other words, transfers to LGs halved each year.

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[45] Anambra State of Nigeria, **SEEDS**, 2/e, page 47

[46] To be sure, Anambra State is not alone in this belief. This is the general belief among all states, the Federal Government and even donors. This misconception traces back to the military era when the military categorized every "primary service" as the responsibility of local governments. However, that is not the correct interpretation of the 1999 constitution.

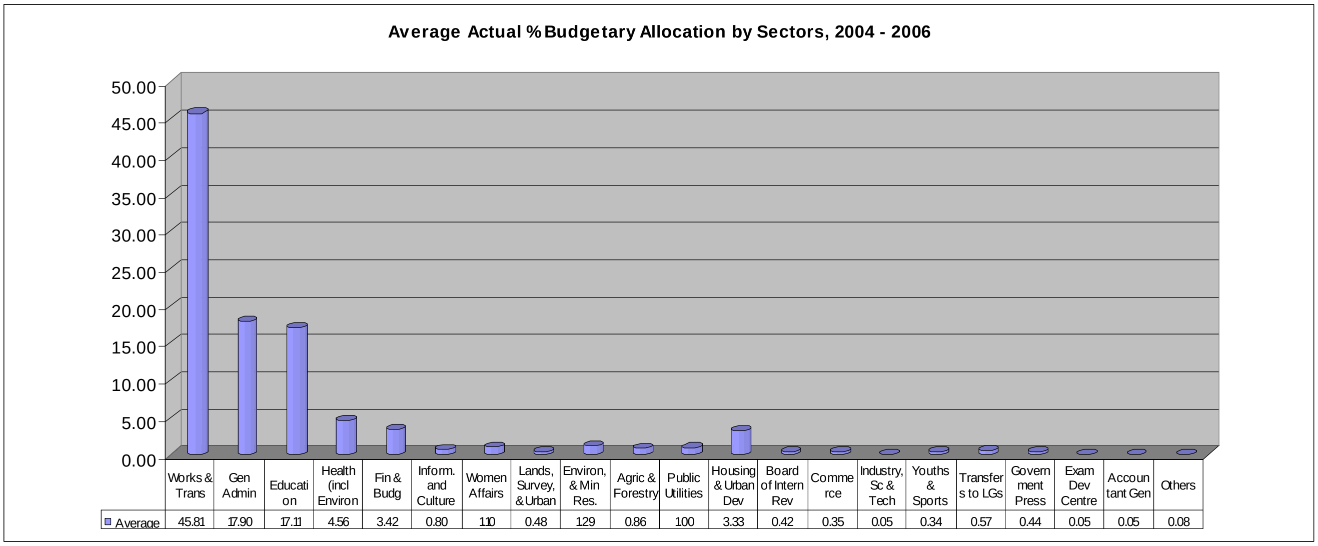
[47] See Attorney General of Ogun State and 35 others vs. Attorney General of the Federation, 2002

[48] See respective Notes 36 in Accountant General's reports for 2004, 2005, and 2006

[49] There is no record of the state government contracting any new loans, foreign and domestic, during the period. Much of the foreign debt service obligations were on the Paris and London club debts, managed on behalf of state governments by the Federal Government.

[50] See *s. 12(1)(a)(i)* of Anambra State Local Government Law, No. 5 of 1999

Average Actual Sectoral Allocation, 2004 – 2006 (Percentages)



2.3 Description of the Legal and Institution Framework for PFM

This section does three brief things. First, it discusses the context of economic and social reforms in Nigeria, including incentives for Nigerian states (Anambra State inclusive) to embark on PFM reforms. Then it appraises first, the legal and next, the institutional framework designed to support PFM and fiscal reforms in Anambra State, drawing parallels with the wider Nigerian context as appropriate.

The Context of Economic and Fiscal Reforms in States

The National Economic Empowerment and Development Strategy (NEEDS), launched by the Federal Government in March 2004, unarguably supplied the context, and set the pace for the ongoing widespread PFM reforms in Nigeria, at the Federal, State, and local government levels.[51] This is correct only in so far as NEEDS is the first successful attempt to articulate the government's vision for national development and poverty reduction in a coherent manner, give it focus, and outline the role of the key institutions of state in the process. Following the launching of NEEDS, the pace of reforms at the federal level, which was sluggish at first, somewhat quickened[52].

Fiscal reforms have been slower in states notwithstanding their autonomy and the fact that they could proceed with their reform programs independent of the Federal Government. The Federal Government requested state governments to prepare their own development strategies, SEEDS, anchored on similar reform principles enunciated in the NEEDS. Incentives for state governments to comply came from two related initiatives, namely the FG/donors partnership to provide technical support to states willing to prepare their SEEDS, and the extension of this partnership to benchmarking and publishing state governments' reform progress in two exercises dubbed, *SEEDS Benchmarking* in 2005 and 2006.

[51] NEEDS is a homegrown poverty reduction strategy. It has three main pillars, empowering people to take care of their development, growing the private sector to lead the development effort, and changing the way government does its business. The PFM reforms anchor on the last pillar.
[52] NEEDS, which spans of 2003 – 2007, has expired. NEEDS II has been in the works for more than 18 months, but is not yet published, although its principles have continued to guide FG reforms.

Legal and Institutional Framework for PFM and PFM Reform in Anambra States

Notwithstanding the role of NEEDS and SEEDS outlined in the preceding section, there is no common legal and institutional platform for PFM reforms in Nigeria because the Constitution grants the Federal Government very limited and indirect influence over the fiscal and financial affairs of SNGs. SNGs' plans, budgets, accounts, procurements, etc., are not subject to federal scrutiny or control. This arrangement creates difficulties in the coordination and management of macroeconomic and fiscal policies and outcomes. The FG also lacks the authority to set/enforce minimum standards of fiscal conduct for constituent governments. On the positive side, however, the arrangement affords reform-minded SNGs the space required to proceed independently with PFM reforms without waiting for the centre. In other words, the Constitution provides the necessary space for individual governments, federal and state, to proceed as they wish, alone with their reform efforts.

Despite this independence and lack of common statutory and institutional impetus for PFM reforms, the legal and institutional arrangements for reform in states are similar to each other and to the federal arrangements. In any case, state governments have a tendency to model changes in their PFM systems on the FG's. This is probably understandable since the FG has more resources and can attract donor technical assistance to experiment and pioneer reforms. It is in this context that the general discussion below of the legal framework and institutional arrangements makes sense.

Legal Framework for PFM in Anambra State

The legal instruments and enactments governing PFM in Anambra State include the 1999 Constitution of the Federal Republic of Nigeria, the Personal Income Tax Act (PITA), 1993, the Finance Law of Eastern Nigeria, 1958, the Anambra State Financial Regulations, 2000, the State Public Service Rules, 2000, and the occasional service circulars issued by the Accountant General. As the grundnorm of the country, the 1999 Constitution is the overriding law governing public financial management in Anambra State. Its provisions supersede and override the contents of any other law or provision in the State (and country) to the extent that that other law is inconsistent with the Constitution. The other PFM-related laws and provisions elaborate and expand on the provisions of the Constitution; however, they cannot contradict its letters or intent.

Fiscal Relations under the 1999 Constitution

The 1999 Constitution contains provisions on Anambra State[53] revenue, taxing powers of the State, intergovernmental fiscal relations (vertical and horizontal), the annual budget process, and accounts and audit. Nigeria runs a largely centralized revenue collection system, with the FG collecting the major revenue (petroleum revenues – profit taxes, royalties, crude sales, etc. – company income taxes, value added tax, and customs and excise duties, etc.[54]) on behalf of the constituent governments. *Section 162* deals with the vertical sharing of these revenues among the three tiers of government. It also deals with the horizontal distribution of shares accruing to the two levels of SNGs, states and local. The section is perhaps, the most important and most jealously guarded provision (by SNGs) in the Constitution.

[53] And other Governments'; (and so with all the constitutional discussion in this section; nothing in the Constitution is specific to Anambra State)
[54] Personal income taxes, property taxes, etc., are essentially SNG taxes, administered, collected, and kept by them.

Section 162 requires the accumulation of revenues accruing to the entire Federation in a distributable joint account of the Federation (the Federation Account) and their distribution among the three tiers of government according to a formula devised by the National Assembly. From the point of view of SNGs, this provision is the livewire of their PFM systems, since it supplies the major source of their revenues. The section also provides for the *complete* distribution of FA balances among governments, without withholding of any amount, not even for *common intergovernmental services*. This provision became the subject of litigation in 2002, when the FG continued the habit of the erstwhile military government to withhold a percentage of the FA revenues for common services. The Supreme Court declared the practice illegal. Horizontally, the section authorizes the NA to make laws for the distribution of revenues accruing to States among them, taking into account the principles of population, equality of states, internal revenue generation, land mass, terrain, and population density *(s. 162(2))*.

Similarly, *s. 162* seeks to regulate fiscal relations of SGs and their LGs. First, it requires that FA revenues accruing to LGs pass through their parent states. Second, each SG must maintain a "State Joint Local Government Revenue Account" to receive LGs' share of FA revenue proceeds *(s. 162(6))*. Third, it provides in *s. 162(7)* for each SG (including Anambra) to "pay to local government councils in their area of jurisdiction a proportion of their *total* revenues. Fourth, it empowers State Houses of Assembly to make laws for the sharing of any revenues accruing to local government councils.

Sections 162 and *163*, read in conjunction with *Parts I* and *II* of the *Second Schedule*, contain the taxing powers of SGs, including Anambra. In summary, the FG makes laws on personal income taxes (PIT). However, SGs, including Anambra, administer, collect, and keep the proceeds of PITs of their residents.[55] States are free to make laws on other (residual) taxes not covered by the FG, including property taxes, registration of business premises[56]etc. Some of these laws, for example, property taxes, are collectible by LGs, but SGs make laws to regulate their administration.

Constitutional Provisions on Accounts, Budget, and Audit of States (including Anambra)

Sections 120 – 129 of the Constitution contain provisions on SG accounts, audit, and investigations. The provisions require each state to maintain a Consolidated Revenue Fund (CRF) to receive all revenues accruing to the state. The state cannot create another public fund except as authorized by the State House of Assembly, and that for a specific purpose. The essence of the provisions is to make for easier legislative control and audit of public funds. The SHA must authorize withdrawals from the CRF or any other public fund of the State in advance.

The manner for withdrawing funds from the CRF is through the annual budget or appropriation process. The Governor prepares and lays expenditure proposals for the coming financial year before the SHA. This is the Appropriation Bill. Approval by the SHA is by way of enacting the Bill into an Appropriation or Budget Law. This law authorizes the Executive to withdraw and expend the amount so provided from the CRF. The spending must be on the approved items contained in the Law.

[55] Excluding those of members of the armed forces, police, Ministry of foreign Affairs, and residents of the Federal Capital Territory (FCT), which the FG collects as part of its independent revenue, *s. 162(1)*
[56] Not registration of business names, which the FG, through the Corporate Affairs Commission (CAC) covers

Several vital points are noteworthy about these provisions.[57] First, they do not require the Governor to lay before the Legislature, details of revenue sources or predictions for the coming year. Thus, constitutional legislative control is only over expenditure, not revenue sources. Second, the Constitution enjoins the Governor to present the Appropriation Bill "at any time" during the outgoing year. Thus, a Bill presented in the middle of December for next year's spending (commencing January), would still be within the law, even though it affords little time for thorough legislative scrutiny. Further, they do provide for multi-year budgeting since they clearly refer to budgeting one year at a time (see *s. 121*).[58]

Sections 125 – 127 relate to audit of SGs' accounts. The provisions require Anambra State to appoint an independent Auditor General. The Constitution seeks to secure the independence of the office by making his/her appointment and removal subject to legislative control. Appointment is up to retirement age. Once appointed, it is not possible to remove him/her from office except for the specific reasons of infirmity of mind or body, misconduct, and inability to discharge functions of the office. In addition, the Constitution provides that in the exercise of his/her functions under the Constitution, the Auditor General "shall not be subject to direction or control of any authority or person". Further, the Constitution guarantees his/her salary. Thus, the Auditor General's salary and emoluments come directly from the CRF, and is not subject to either executive or legislative control. However, the budget of the Office of the Auditor General does not receive similar guarantee. It is subject to the annual budget approval and control process. Besides, the audit staff are usual civil servants recruited and posted by the State Civil Service Commission. These have the capacity to weaken independence of the Office.[59]

The Auditor General audits all public accounts, offices, and courts of Anambra State, and submits the report to the SHA within 90 days of receipt of the Accountant General's financial statement and annual accounts. However, he/she does not directly audit the accounts of government statutory corporations, commissions, authorities, agencies, etc., established by Law. The role of the Auditor General regarding them is limited to (i) providing them with a list of qualified external auditors from which to choose, (ii) providing them with guidelines on fees to pay, (iii) commenting on their annual accounts and auditor's report thereon, and (iv) conducting periodic checks of them.

Sections 128 – 129 relate to the power of a State House of Assembly (including Anambra SHA) to conduct investigations into the public accounts of the State. These provisions empower the Public Accounts Committee (PAC) to preside over the audit reports, hold hearings on them, and direct restitution and recovery of lost public funds.

Other PFM Laws

Anambra State has a complete, if outdated, set of finance regulatory instruments. These include an organic *Finance Act,*[60] and a set of detailed operational rules and guidelines for the day-to-day

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[57] These are potential reform subjects or issues for Anambra State.

[58] These need not provide "alibi" as it is possible to cure all these ills by specific legislation as the Fiscal Responsibility Act has sought to do at the Federal. At the very least, it is possible for the Executive and Legislature to reach political accommodation on both issues, even without passing formal laws on the subjects.

[59] These "defects" are also curable by specific reform legislation.

[60] Finance (Miscellaneous) Acts of Eastern Nigeria, 1958

management of financial activities, called ***Financial Instructions,***[61] derived from them. The regulations cover accounting, internal auditing and stores procedures and routines. The State revised these instructions in 2000/2001. The State Public Service rules, also revised in 2000, further define the roles of public officers in the PFM system. Specifically, the rules detail HRM processes and tools including, job descriptions, roles and responsibilities, recruitment, career, discipline and boarding procedures. Still these legal and quasi-legal instruments require further modernization to bring them in line with current political developments and evolutionary trends in public financial management. There is also a need for the Finance Act to reflect more adequately the fact that the State has moved from the Westminster Parliamentary mode of government to the presidential republic.

Institutional Framework for PFM in Anambra State

The institutions for PFM in Anambra State are as follows. The Ministries of Finance and Budget, and Economic Planning and Development are at the apex of the budgeting and planning process. The former controls the current budget, while the later is in charge of investments. At the federal level, a Ministry of Finance has the responsibility for budget (capital and recurrent) and treasury functions. However, this is a recent development, as the planning (including capital budgeting) function was the responsibility of the National Planning Commission (NPC) until 2004 when the planning and budgeting functions were consolidated in the Budget Office of the Federation (BOF) in the Federal Ministry of Finance (FMoF). This was aimed not only at achieving improved coordination of the budget process but also at eventually moving towards consolidating the capital and recurrent budgets into a unified, single budget. However, most state governments still separate the planning/capital budgeting and recurrent budgeting functions between two ministries.

There is an Office of the Accountant-General (OAG) that performs actual treasury functions of government, including accounting and internal audit. The OAGs is the creations of the Finance Act. However, the design was for the Office to be a powerful, semi-autonomous, and professional institution under the general supervision (not necessarily directive) of respective Ministries of Finance.[62] OAGs post accounts officers to all Ministries, Departments, and Agencies (MDAs) with self-accounting status to carry out government treasury and accounting functions. In addition, they have sub-treasuries across the entire state (four in the capital, Awka and one in each local government) to facilitate government transactions. The design is for accountants at the MDAs and sub-treasuries should make monthly, quarterly, half-yearly and annual returns to the respective accountants-general. The OAG also posts internal auditors to each MDA with a self-accounting status and to all sub-treasuries.

The Office of the Auditor-General also plays a key role in Anambra State's PFM process (see discussion above).

The Anambra State House of Assembly completes the list of formal institutions for PFM in the State. The SHA exercises approval and oversight functions over the budget process. It also has oversight responsibility over budget implementation, accounting, and audit processes. However, it is not currently exercising those functions.

[61] Financial Regulations at the Federal level and Financial Memoranda at the local level
[62] A lot of the professionalism and independence of the Office has eroded over the years.

June 30, 2008

Chapter 3: Assessment of the PFM Systems, Processes, and Institutions

This chapter presents the result of the detailed assessment of Anambra State PFM system. The structure of the presentation follows the order of the **six critical dimensions** the PEFA Performance Measurement Framework, namely (i) budget credibility, (ii) comprehensiveness and transparency, (iii) policy-based budgeting, (iv) predictability and control in budget execution, (v) accounting, recording, and reporting, and (vi) external scrutiny and audit. Thus, the report individually treats the set of indicators comprising each critical dimension in turn.

To enhance appreciation of the issues and the basis of the assessment, the assessment of each indicator begins with a brief summary of recommended good practices around that indicator. The intention is to give an idea of what the report measures. Following this, the report presents the evidence that informed the rating on each dimension. A systematically numbered table then summarizes the ratings of the dimensions and arrives at the score for the indicator. Where there is evidence of ongoing or planned reform around issues covered by that indicator, the report next presents it.

It is important to note the PEFA requirement that only evidence of a verifiable nature, i.e., supported by routine official documentation, is admissible for ratings and scoring of the indicators. Consequently, the assessment excluded anecdotal or oral evidence, or other claims for which there was no documentary support. The report also excluded documents not routinely generated by the PFM system, but were specifically prepared for this assessment. In appropriate places, the reports notes in footnotes, the claims that the report excluded on that basis. Whenever necessary, the report cites the sources of the information.

3.1 Budget Credibility

This critical dimension measures two things, first, the realism of the budget and, second, the extent to which authorities implement the budget as intended. The philosophy underlying this dimension is that unless the budget is realistic and the government implements it as passed, it cannot be a useful tool for policy implementation and achievement of goals. Four indicators, ***PI-1 to PI-4,*** measure the credibility of the budget.

PI-1: Aggregate Expenditure Out-turn Compared to the Original Approved Budget

This indicator recognizes that, assuming the budget properly represents government's intentions as expressed in policy statements, output commitments, and work plans, adherence to approved budget expenditures would be an important factor supporting government's ability to deliver public services for the year. The indicator therefore measures the difference between actual primary expenditure and the originally budgeted primary expenditure.[63]. *Table 3.1* below summarizes the performance of Anambra State on this indicator between 2004 and 2006. Since actual expenditure deviated from budgeted primary expenditure by more than 15 percent in only one year (2004), the applicable score is C.

[63] PEFA defines primary expenditure to exclude debt service obligations and donor commitments, over both of which government would have only little control during the year.

Table 3.1: Primary Budget Performance of Anambra State, 2004 – 2006 (Nominal Naira Millions)[64]			
	2004	**2005**	**2006**
Budget Primary Expenditure	18693.02	25057.10	28038.08
Actual Primary Expenditure	13108.52	24856.72	25107.91
Absolute Deviation	5584.50	200.38	293.17
Percentage Deviation	29.9	0.8	10.5
Score (Method M1)	C		
Source of Data: Published Reports of the Accountant General for Anambra State, 2004 - 2006			

Although there was oral submission to the effect that the SHA approved the deviations, there was no documentary that the SHA actually did so whether *ex-ante* or *ex-post*. Indeed the Auditor General's report for each of 2004 and 2006, advised the Executive to take necessary steps to obtain legislative ratification for the deviations, as required by the rules...[65]

Anambra State has been a very difficult political terrain since Nigeria returned to civil governance in 1999. Between 2003 and 2007, there was an unusually high level (even by Nigerian standards) of political intrigues, impeachments, court cases, and jostling for power. This created serious instability in the political leadership of the state during the period. For instance, the unusual developments in the state lead to change of executive governors four times in those four years. Not surprisingly, each governor tinkered with the budget made by the exiting governor. These developments no doubt affected the performance of the PFM system and could have contributed to the high variability of budget performance.

Since the Supreme Court settled questions on the leadership of the state in mid 2007, some semblance of stability has returned, the state to begin the process of introducing budget reforms. Among the reforms ideas currently in the works in the area is the introduction of work planning to aid and complement the budget, and very early beginnings of a multiyear budgeting framework.

PI-2: Composition of Expenditure Out-turn Compared to Original Approved Budget

This indicator measures the extent to which the composition of *actual* expenditure varies from the composition of *budgeted* expenditure. In local Nigerian parlance, it measures the degree of virement between expenditure heads during budget implementation. The rationale for this indicator is that a high degree of virement could distort the inherent consistency in the planned expenditure pattern and relationships. In that case, the budget will cease to be a useful statement of policy intent. The indicator assesses the degree to which variance in primary expenditure[66] composition exceeded overall deviation in primary expenditure during the three years of assessment, 2004 - 2006.

The assessment method is as follows. First, the measure determines the *total expenditure* ***deviation*** of budget out-turn (actual results) from the original approved budget (already done under PI-1). Next, using the 20 largest MDAs, it calculates the weighted average of the *total expenditure* ***variance*** defined as the weighted average deviation[67] between actual and originally budgeted expenditure expressed as a percentage of the original budget. The technique uses the 20 largest MDAs for this

[64] See Annex 4 for detailed calculations
[65] See **Report of the State Auditor General on the Accounts of the Accounts of Anambra State of Nigeria**, for the years ended December 2006 (page 42) and 2004 (page 18)
[66] As defined under PI-1 above
[67] The measure uses absolute values of deviations

analysis. The indicator measures the difference between the ***variance*** and the ***deviation***. PEFA provided a formatted spreadsheet on its website[68] to ease the process of calculating this measure (see detailed calculation in Annex 4). *Table 3.2* presents the result. Since the variance in expenditure composition exceeded overall deviation in primary expenditure by more than 10 percent in 2005 (38.6%), and 2006 (36.1%), the applicable score is D.

Table 3.2: Composition of Expenditure Out-turn Vs. Composition of Original Approved Budget			
	Total Expenditure Deviation	**Total Expenditure Variance**	**Variance in Excess of Total Deviation**
2004	29.9%	30.9%	1.0%
2005	0.8%	39.4%	38.6%
2006	10.5%	48.6%	36.1%
Score (Method M1)	D		

This result indicates that there was a high level of virement between budget heads in 2005 and 2006, to an extent capable of distorting the achievement of policy intents. This assessment is consistent with reports of both the Accountant General and Auditor General as *Table 3.2a* below shows.

Table 3.2a :Some Cases of In-year Overspending of Budget Heads (Nominal Naira Millions)						
	2004		***2005***		***2006***	
	Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
Bureau for Special Duties (capital)	1.76	24.89				
State Ind Electoral Comm (capital)	2.76	46.61	10.80	23.85		
Abuja Liaison Office (capital)	10.17	35.04				
Lagos Liaison Office (capital)	6.93	37.69	14.32	15.86		
Office of the Acc Gen (capital)	5.50	11.53				
Ministry of Health (capital)	90.52	182.86	112.71	309.36		
Min. of Inf & Culture (capital)	43.01	52.21				
Min of Women Affairs (capital)	90.61	136.40	51.90	92.32		
Min. of Justice (capital)	20.1	30.31				
Judiciary (capital)			250.45	345.13		
Min of Finance (capital)			111.29	215.07	484.00	509.70
Secretary to the State Govt (capital)					260.00	330.66
Min. of Land Transport					7140.00	12101.74
Source: Compiled from respective Accountant General and Auditor General's Reports for 2004, 2005, 2006						

To check future excessive virement, the State House of Assembly introduced a clause in the 2008 budget that makes it illegal to vire between budget heads express legislative approval. Before now, the Financial Regulations[69] allow permitted the Commissioner for Finance to approve virement between budget heads without prior recourse to Parliament, so long as approved expenditure totals remains sacrosanct.

PI-3: Aggregate Revenue Out-turn Compared to Original Approved Budget

This indicator compares budgeted revenue to actual revenue. The purpose is to provide overall indication of the quality of revenue forecasting. Accurate forecasting of domestic revenue is a critical factor in determining budget performance since budgeted revenue allocations depend on that forecast.

[68] www.pefa.org
[69] The detailed set of financial, procurement, and stores management rules and procedure derived from the *Finance Act of Eastern Nigeria*, 1958, the operative finance legislation.

The only dimension of measurement is "actual revenue collection compared to domestic revenue estimates in the original, approved budget".

It is not easy to define what constitutes domestic revenue of an SNG in Nigeria due to factors already discussed in *Chapter 2* above. Although SNGs have their IGR sources, which in other countries would constitute their domestic revenues, Nigerian states depend substantially (in the case of Anambra, up to 80 percent,[70] in some states, by more) on constitutionally guaranteed (monthly) unconditional flows from the centre. Besides, as already explained, independent revenue sources of SNGs are very shallow, and their respective administrative capacities to harness those sources, very weak (with the possible exception of Lagos State)[71]. However, SGs do have a basis for reasonable projection of expected revenues since the FG advises them on time, of its revenue projections for the coming year and the basis for that.[72][73]

Table 3.3: Domestic Revenue Performance

Anambra State: Revenue Profile, 2004 - 2006 (Nominal Naira Millions)	2004				2005				2006			
	Budget	Actual	Variance	% Variance	Budget	Actual	Variance	% Variance	Budget	Actual	Variance	% Variance
Total Federal Transfers	12240.00	18363.43	-6123.43	-50.03	19440.00	21928.37	-2488.37	-12.80	22800.00	26025.83	-3225.83	-14.15
Federation Account	10440.00	16338.57	-5898.57	-56.50	17400	19707.922	-2307.92	-13.26	20400.00	23324.51	-2924.51	-14.34
Value Added Tax	1800.00	2024.86	-224.86	-12.49	2040	2220.45	-180.45	-8.85	2400.00	2701.32	-301.32	-12.55
Internally Generated Revenue	3601.11	3664.37	-63.26	-1.76	5054.511	7464.735	-2410.22	-47.68	3599.99	4610.82	-1010.83	-28.08
Total Revenue	15841.11	22027.80	-6186.69	-39.05	24494.51	29393.11	-4898.60	-20.00	26399.99	30636.66	-4236.67	-16.05

Source of Data: Compiled for Annual Reports of the Accountant General, 2004 - 2006

Score (Method M1)	**Uncertain**

Actual revenue collection exceeded projected revenue in all the years, notwithstanding the measure used, whether total revenue or internally generated revenue. The inaccuracy in predicting Federation flows stems partly, from "excess crude oil earnings" that most states, including Anambra State do not normally budget for, but which they pressure the Federal government to release to them. "Excess crude oil earnings" refer to the difference between the international price of oil and the reference price, which the FG used for budget projections. The budget reference is the amount the FG earmarks for sharing in the fiscal year. Existing informal rules[74] permit the FG to save extra revenue earned above the benchmark price until, at least, the following year. Usually, SGs bring pressure on the FG to share part of the savings for the previous year. When the FG yields to this pressure (usually midterm), it

[70] See *Table 2.4a* above
[71] See *Chapter 2* above
[72] This started in 2004 when the FG introduced the oil price based fiscal rule that benchmarks a reference price for oil for budget purposes. It uses this reference price for estimating the revenue due to each constituent government using the existing revenue sharing formula.
[73] In fact, the FG publishes an annual fiscal strategy paper containing medium term fiscal projections, including key macroeconomic targets and projections
[74] There is no statute authorizing this. In fact, *s. 162* of the 1999 Constitution requires immediate distribution of all accruing revenues among the three tiers of government. There is therefore, no power in the FG to sequester, save, or otherwise sterilize any part of it. Indeed, the Supreme Court in April 2002 ruled unconstitutional, unilateral attempts by the FG to save excess earnings above the market/budget reference price. This forced the FG to share the saved amount. However, following the destabilization effects of pumping such unplanned excess crude earnings into the system in 2002 and 2003, the FG and SNGs reached political accommodation on the issue. Extant arrangements are therefore, with the sufferance of SGs. Consequently, the FG cannot resist for long, persistent demands from SGs to share or distribute excess crude earnings.

releases part of the previous year's savings for distribution. This is what largely accounts for underestimation of Federation flows.

The apparent "over performance" of IGR is thus deceptive. It actually results from deliberate underestimation of certain categories IGR potentials, especially personal income taxes. This gives the impression that IGR effort is doing well. However, a reading of the Auditor General's reports for 2004 – 2006 suggests otherwise. Each year, the reports indicate and list "major shortfalls in revenue collection". These are usually user fees. For instance, in 2006, the report lists 95 items of under collection of budgeted revenues[75], the 2005 report list 111 items[76], and the 2004 report lists 137 items.

The justification for not scoring this indicator is the interplay of conflicting facts around the indicator. Although actual revenue always exceeded projections, it will be misleading to credit the SG with the benefits of this. First, there is perennial deliberate underestimation of internal revenue potentials to create a sense of a high level of performance, (see *Chapter 2* above as well), next, there is the underperformance of certain user fees as explained above, and there is failure to project federation flows accurately.

PI-4: Stock and Monitoring of Expenditure Payment Areas

The purpose of this indicator is to measure the extent to which there is a stock of expenditure payment arrears, and the extent to which the Government is controlling and addressing the systemic problems giving rise to them. Expenditure payment arrears arise when government payment obligations relating to employee, supplier, contractor, and loan creditor are overdue. Arrears constitute a form of indirect and non-transparent financing. Internationally accepted business practice is to recognize an arrear if the debtor does not settle a claim 30 days after receiving the supplier's invoice. In the case of staff payroll or interest payment however, the practice is to recognize an arrear immediately the deadline for payment is due. Payment arrears indicate a number of possible problems (some bordering on procurement): inadequate commitment controls, cash rationing, award of contracts without adequate budgets, under-budgeting of specific items, and sheer lack of information. *Table 3.4* rates the two dimensions of this indicator.

Table 3.4a: Stock and Monitoring of Expenditure Payment Arrears

	Dimensions	Score	Comments
(i)	Stock of Expenditure Payment Arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the	Can't rate	Although the SG appears to have stock of information on different of arrears, there is no proper consolidation of this information to indicate that stock of arrears if comprehensiveness. The possibility of omitting some vital arrears exists as explained below.
(ii)	Availability of data for monitoring the stock of expenditure payment arrears	Can't rate	
	Score (Method M1)	Can't score	

Rationale for the Score

The main reason for not rating the two dimensions is the possibility that available information is not comprehensive. The annual financial reports do not contain information on outstanding arrears.

[75] See Auditor General's Report for 2006 (page 23- 42)
[76] See 2005 report, pages, 10 - 17

Information on arrears exists in a fragmentary form in several scattered documents, although several of them appear organized, carefully prepared, of reasonable quality. In addition, several arrears of payments are still undergoing reconciliation. Finally, documentary evidence contradicts some claims by the State technical team on the assessment. The following paragraphs illustrate these points.

First, a *November 8, 2006* memo from the Head of Service to the Governor traced the genesis of 16 months (January 2002 to April 2003) pension arrears in the State, amounting to N1,395,033,496.91 to previous governments. The memo also says, "*Gratuities, being bulk sums were not paid at all for many years*". However, while it worked out a plan for settling the pension arrears in eight monthly installments beginning November 2006, the memo said nothing about the payment of the outstanding gratuities. The explanation provided by to the assessors was to that the regime that ruled the State between May 2003 and March 2006, completely settled gratuities arrears. This is entirely plausible, and is indeed likely; however, the assessors chose to ere on the side of prudence since there was no supporting documentary evidence.

Second, the technical team also claimed that there were no contractor arrears, because the State set up a verification committee on contractor debts incurred up to May 2003. The Government has settled all proven contract debts, including those initially rejected, but later confirmed by the courts. It claimed the SG did not incur contractor arrears after May 2003. However, a document originating from the Highways and Transport Department of the State[77] details the four phases of road construction in the State from November 2003 to March 2006,[78] and the arrears outstanding on them. The arrears amount to N6,753,117,658.34. *Table 3.4b* below reproduces only the summary page of this document.

Table 3.4: Summary of Road Construction Programme in Anambra State – Situation Report as at March, 2006 (Nominal Naira)

S/No.		Phase I	Phase II	Phase III	Others	Total
1.	Amount Spent (Naira)	6,045,558,100.40	4,638,003,596.32	1,470,939,866.33	914,975,279.05	13,069,476,842.10
2.	Completed Length (kms)	86.77	78.96	20.204	5.60	191.54
3.	Amount/Km (naira)	69,673,367.53	58,735,671.91	72,804,388.55	53,745,585.54	68,233,668.38
4.	**Outstanding Liability (Naira)**	**896,002,193.80**	**3,195,329,938.66**	**1,192,242,880.76**	**1,469,542,645.12**	**6,753,117,658.34**

Source: Anambra State Ministry of Economic Planning and Development (obtained from Highway and Transport Department)

Finally, documentary evidence show that in 2007, there were still efforts to reconcile certain contractor debts dating back more than 13 years and involving foreign companies, and the three states of Anambra, Enugu, and Ebonyi, which were previously one state (the old Anambra State). At least one of these debts contains a default clause that includes interest payment on arrears, and that capitalizes interest payments.

3.2 Comprehensiveness and Transparency

The set of indicators comprising comprehensiveness and transparency deal essentially with cross cutting issues of the entire PFM system. They typically seek to assess the extent to which budget and fiscal risk oversight are comprehensive, and budget and fiscal information is accessible to the public.

[77] Obtained from the Ministry of Economic Planning and Development
[78] A period of another government

PEFA describes the importance of comprehensiveness and transparency in these words, "Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation."[79] This set consists of *PI-5 to PI-10*.

PI-5: Classification of the Budget

This indicator measures the robustness of the budget and accounts classification system and the extent to which it allows tracking of spending along administrative unit, economic, functional, and program dimensions. Anambra State in 2004 embraced a new budget classification system. Although this system does not fully accord with international classification practices, it is in line (as State officials claim) with that recommended by the Conference of Accountants General in the country. The system consists of 12 digits in all; however, three of the digits are redundant and merely serve as a breaker between the preceding three functional digits and the following three MDA digits. The last three digits refer the subhead within the MDA.

On the surface, it appears that the classification system allows for expenditure tracking along administrative and program/functional heads at the same time. In fact, however, it does not and the state government does not fully operate it in that manner. In practice, considerable confusion surrounds its application and it is not easy to understand how it functions. For instance, it is difficult to accumulate or track total costs of an MDA because there is no relationship between the current budget and capital budget codes. *Table 3.5a* illustrates this.

Table 3.5a: Illustration of Inability of Budget codes to Track spending By Administrative Unit

Administrative Unit/MDA	Current Budget Bode	Capital Budget Code	Comment
Education	418090201	458090201	No relationship between current and capital codes
Health	420090201	459090201	No relationship between current and capital codes The code tracks the personnel and overhead spending for all, but cannot track their capita spending
Environmental Health		459090201	
Agriculture	416090201	450090201	No relationship between current and capital codes The code tracks the personnel and overhead spending for all, but cannot track their capita spending
Agriculture (Crops)		450090202	
Agriculture (Fisheries)		453090201	
Agriculture (Livestock)		451090201	
Source of Data: Compiled for Annual Reports of the Accountant General, 2006			
Score (Method M1)	**D**		

This lack of connection between current expenditure and capital expenditure codes of the same MDA stems from the dual budgeting system of the SG. This system separates control over current and capital budgets and consigns their control to different units. Thus, while the Ministry of Finance and Budget controls current expenditure using a set of codes, the Ministry of Economic Planning controls the capital budget, with a different set of codes, even when they relate to the same MDAs. The Auditor General consistently noted the confusion surrounding the current classification system in audit

[79] PEFA, **Public Expenditure and Financial Accountability** (the blue book), June 2005, page 66

reports. The typical phrasing of the complaints is like this, "Incorrect classification of accounts remains the greatest impediment" to the auditor's work.[80]

However, the State Government recognizing this problem is working to introduce a new budget and accounts classification system beginning with Fiscal Year 2009.

PI-6: Comprehensive of Information Included in Budget Documentation

This indicator assesses whether the documentation submitted along with the budget to the Legislature for scrutiny and approval allows a complete picture of relevant fiscal forecasts, budget proposals and out-turns of the previous year. While the indicator considers detailed information on revenues and expenditures important, it does not consider them as sufficient. To be sufficient, there is a list of nine other items, which the executive should provide to the Legislature along with the revenue and expenditure estimates. The number of these items given to the Legislature along with the budget proposal determines the score. *Table 3.6* presents the result: five of the nine items are either not relevant in the State, or the State provides them to the House of Assembly.

Table 3.6: Performance on Indicator PI-6

	Item	**Whether Provided**
1.	Macro economic assumptions, including state level estimates of economic growth in the SNG jurisdiction, etc.	Not provided
2.	Fiscal deficits (where relevant)	**Not relevant**; no deficit budgets during the period
3.	Deficit financing, describing anticipated composition (where relevant)	**Not relevant**
4.	Debt stock, including details, at least for the beginning of the current year (where relevant)	Not provided
5.	Financial assets, including details, at least for the beginning of the current year	Not provided
6.	Prior year's budget out-turn, presented in the same format as budget proposal	Not provided (but included in published budget after legislative passage)
7.	Current year's budget (either the revised budget or the estimated out-turn), presented in the same format as the current budget	**Provided**
8.	Summarized budget data for both revenue and expenditure according to main heads of classification, including data for the current and previous year	**Provided** in Governor's budget speech (but current and previous year's data not so detailed)
9.	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programme	**Provided** in budget speech
	Score (Method M1)	**B**

Rationale for the Score

The assessment counted the items identified as not relevant in the SG's favour because of the circumstances surrounding them. There are no fiscal deficits because the SG decided not to adopt the route of deficit budgeting. Similarly, the budgets cannot include information on deficit financing. The reasoning is that the SG should take the credit for such prudent fiscal measures.

[80] See Auditor General's reports for 2006 (page 4), 2005 (page 2), and 2004 (page 2).

PI-7: Extent of Unreported Government Operations

This indicator assesses the extent to which government reports meant for public consumption, including annual budget estimates, in-year budget reports, year-end financial statements, and other fiscal reports cover all budgetary and extra budgetary activities. Public fiscal reports should allow a complete picture of the SG's revenue and financing, across all categories. It examines whether extra budgetary operations of the government are insignificant, or where they are significant, whether they fiscal report includes them. It also examines the extent to which fiscal reporting includes activities provided for in the budget but managed outside government's budget management and accounting system. *The indicator defines extra budgetary operations as activities of government not included in the annual budget, for example, those funded through extra budgetary funds, or unbudgeted revenue.*[81]

The indicator has two dimensions of measurement, namely, the level of unreported extra-budgetary expenditure (other than donor-funded projects) i.e., not included in fiscal reports, and income and expenditure information of donor-funded projects included in fiscal reports.

It is difficult to estimate the level of unreported operations of Anambra State Government. For each of the years, 2004 to 2006, fiscal reports included unbudgeted revenues collected from the centre and from IGR, as indicated in *Table 3.3* above. The variance columns in that *Table* show revenues accruing to the SG in excess of the budget. Annual reports of the Accountant General faithfully included such information. However, it is difficult to conclude from this alone that the fiscal reports disclosed all activities of the SG that happened outside the budgeted values.

First, the reports do not include information on activities of donor-funded projects, and how much assistance MDAs received from donors during the period; and it is difficult to estimate the total value of such donor funded activities. Second, the Accountant General's report for each of 2004 to 2006 lacks information from government parastatals and autonomous agencies. These parastatals are government agencies, most of which receive subventions. However, only five out of about 33 of them bother on their activities.[82] The typical wording of the auditor general's comments in this regard is as follows, "in the period under review, attempts continued towards getting these statutory bodies and agencies to account for the *enormous public resources entrusted to them…Notwithstanding all these, the level of compliance remains abysmally low*"[83] (emphasis added).

The Auditor General's reports identify other forms of unreported operations of the government. These include (i) a number of cases of agencies that collect and spend public resources in an unauthorized manner,[84] (ii) cases of some MDAs printing unauthorized receipts and using the same to collect

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[81] Thus, extra-budgetary operations typically refers to the activities of parastatals, public enterprises (PEs), and other autonomous government agencies (AGAs), whose expenditures are not usually part of the government budgetary system. It would also include activities of MDAs that collect and spend revenues on their own outside the budget, whether or not government policy supports such spending.
[82] See Auditor General's report for 2006 (pages 139 -146), 2005 (pages 31 – 32), and 2004 (page 29)
[83] 2006 Auditor General's Report, page 139
[84] See for instance, the 2006 report (pages, 116 – 117), 2004 report (pages 27 – 28)

revenue illegally,[85] and (iii) other activities originally included in the budget but carried out differently[86]. The fiscal reports could not include such items.

It was no possible to estimate the value of these unreported extra budgetary activities. Consequently, it was not possible to rate the SG government's performance on the two dimensions of this (See *Table 3.7*). Given this, it was not possible to score this indicator.

Table 3.7a: Extent of Unreported Government Operations		
	Dimension	**Score**
(i)	The level of extra budgetary expenditure (other than donor funded projects) which is unreported, i.e., not included in fiscal reports	Not rated
(ii)	Income/expenditure information on donor-funded projects included in fiscal reports	Not rated
	Score (Method M1)	Not scored

Government Reform Activities in the Area

Beginning in January 2007, government introduced the "Anambra State pay direct system". Revenue generating MDAs no longer collect cash. Customers and clients pay taxes, user fees, and other charges directly to participating banks (the accounts link directly to the SG Treasury Department) and obtain electronic receipts, which they take to MDAs. Once the MDAs verify the payments on the manifest, they issue the payee with official Anambra State Government receipts. These reforms, which came into force in January 2007 (outside the assessment period of 2004 – 2006) should help to reduce (not eliminate) cases of illegal collection of government revenue. Additional measures will help to stop cases of MDAs printing unauthorized receipts for collection of additional revenue, which could still happen at the point of conversion of electronic receipts to official receipts.

PI-8: Transparency of Inter-Governmental Fiscal Relations

In Anambra State's context, this indicator assesses the clarity of criteria, such as formulae, for the distribution of revenues accruing to local governments by the SG. Existence of clear and dutifully applied formulae ensures allocative transparency and enables LGs to predict resources for planning and expenditure. The indicator also assesses whether SGs provide firm and reliable information to LGs on annual allocations well in advance to guide their own budget preparation processes. This is especially crucial in Nigeria where local government capacity for planning remains very weak. Finally, the indictor measures the extent to which the SG tracks expenditure information at all levels of government (i.e., state and local governments) according to sectoral categories. This tracking is essential to ensure correct interpretation of sectoral resource allocation and actual spending effort, especially given the tendency to require LGs to manage primary service delivery (education and health). *Table 3.8* below presents the SG's performance on this indicator.

Table 3.8a: Transparency of Inter-Governmental Fiscal Operations		
	Dimension	**Score**
(i)	Transparent and rules based systems in the horizontal allocation among local governments of unconditional and conditional transfers from the SG (both budgeted and actual allocations)	C
(ii)	Timeliness of reliable information to local governments on their allocations from State	D

[85] 2006 Auditor General Report, pages 128 – 129, 2004 report
[86] See for instance, 2006 report, pages 130 – 135, where a Commissioner spent certain allocated resources in a manner different from what the budget approved,

	Governments for the coming year	
(iii)	Extent to which financial information (at least on revenue and expenditure) is collected and reported by the SG according to sectoral categories	D
	Score (Method M2)	D+

Explanation of Rationale for the Score

The SG's dealings with LGs is neither sufficiently transparent nor in accordance with the law. Two statutes determine the revenues accruing to LGs. The Constitution of the FGN gives LGs a share in Federation revenues. However, the SC has ruled in 2002, that such revenue transfers must pass through their respective parent SGs. The Constitution also requires SGs to transfer some of their revenue to LGs. The Anambra State Local Government Law, No. 5 of 1999 also contains rules on what revenues accrue to LGs and the arrangements for their sharing.[87] As pointed out in *Chapter 2* above, the rules appear to be in breach of constitutional provisions, since they accrete to LGs 10 percent of the State's *IGR*, instead of ***total revenues*** as required.[88]. The law further empowers the SG to retain half of this 10 percent for unspecified "common services". Even then, in practice, the SG did not comply with this rule in any of the year between 2004 and 2004. As indicated in *Chapter 2*, the SG transferred only 2 percent, 1 percent, and 0.5 percent of its IGR to LGs in 2004, 2005, and 2006 respectively.

Further, the State Local Government Law provides for a deduction of two percent from Federation Allocations to LGs[89] for common services, and the payment of the balance to them. Although it was not possible to collect transcripts of actual transfers to LGs, SG officials admitted that the State made further deductions for payment of LG staff salaries, pensions and gratuities, payment of contractors (debts), etc, before remitting the balance to LGs. All these deductions are in contravention of the provisions of the Anambra State Law on LGs. Indeed, in some years, the SG paid outstanding contractors in a pooled manner, rather than paying what each LG owed.[90] Officials inform that, that practice has now stopped; deductions from LGs for contractor debts are in relation to the LG's actual debt, but that still does not make the deductions right.[91]

Anambra State Government does not provide LGs advance information on expected annual budgetary allocations. There is also no evidence that the State tracks LGs' spending on major sectors. Indeed, the SG admitted that it does not. Finally, the State does not prepare any consolidated report to that effect.

[87] See *ss. 12 – 15*; see also discussion in Chapter 2 above.

[88] As pointed out in Chapter 2, this reluctance to interpret the Constitution in this way is not peculiar to Anambra State, but common to all the states of the Federation. Their argument is that since LGs share in the Federation Accounts, it is unfair to require SGs to further distribute a portion of heir own share among LGs. The intendment of the maker of the Constitution appears to be to make LGs a major development institution or agent of the SGs especially in service delivery (health and education). For this reason, the Constitution provided for their proper funding. Clearly, this intended role of LGs as the major SG's development agent at the grassroots caught on only in terms of assignment of roles but not also in devolution of commensurate funding.

[89] Which by law must pass through SGs

[90] Although SG officials explained that LGs owed so much and would not pay otherwise, it is still a violation of the Law, which does not empower SGs to do that.

[91] There was no evidence that the SG publishes accounts, interim or annual, of accretions to the common services fund and the disbursements.

PI-9: Oversight of Aggregate Fiscal Risks from Other Public Sector Entities

This indicator measures the extent to which government exercises oversight over the fiscal risk potentials of parastatals and local governments. Unmonitored borrowing and other debt-incurring[92] activities of parastatals and LGs (where applicable) could pose serious fiscal risk to the SGs. The indicator underlines the responsibility of the SG to require and receive financial statements and year-end statements from its autonomous (government) agencies (AGAs) and public enterprises (PEs) and use them to monitor performance against financial targets. In addition, it requires the consolidation and reporting of information on AGAs' and PEs' performance to provide an aggregate overview of fiscal risks for the State Government. Such monitoring will enable the SG take necessary corrective measures on actions of parastatals and LGs in a transparent and accountable manner, and in a manner consistent with governance arrangements and relative responsibilities of those institutions. *Table 3.9* presents the performance of the State's PFM system on the two dimensions of this indicator.

Table 3.9: Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

	Dimension	Score
(i)	Extent of the SG's monitoring of AGAs and PEs	D
(ii)	Extent of the SGs' monitoring of LGs' fiscal position	C
	Score (Method M1)	D+

Rationale for the Score

Anambra State does not require and does not receive quarterly or any other in-year financial statements from its parastatals. Further as already indicated above, only five of the 33 (or so) parastatals regularly prepare and submit audited year-end financial statements to the government. The government does not consolidate information from these parastatals, and is therefore unaware of the potential financial risks they pose. During the assessment exercise, some SG officials argued that most (it does not state how many) of the parastatals are dead and redundant and therefore do not pose any fiscal risks. However, this is not the impression created by the auditor general's reports, which clearly creates the impression of active agencies to which the Office makes regular demands for reporting, but which argue that they do not receive adequate funding to pay auditors. Critically, these agencies still have staff to which they pay monthly wages and salaries. Besides, if it were true that these agencies are dead, the better thing to do would be to remove them from the role. This is in line with comments (directed at the State Executive Council) of the State's Technical Committee on the Interim Report of the Assessment[93].

From the above, it is obvious that the SG's receipt of annual reports from only five out of 33 AGAs in the State, leaves monitoring of fiscal risks significantly incomplete.

PI-10: Public Access to Key Fiscal Information

This indicator further assesses transparency of the PFM system by examining the extent to which members of the public or, at least key interest groups have access to information on fiscal plans, positions, and performance of government. It lists eight items to which the public ought to have

[92] Such as contractor debts, salary arrears, etc
[93] See Comments by the State Technical Committee on the Interim Report on the PFM Assessment, June 11, 2008

routine access and awards a score based on the number positively identified as accessible to the public. *Table 3.10* lists these items and Anambra State's score.[94]

Table 3.10: Public Access to Key Fiscal Information

	Item	Whether Accessible	Comment
1.	Annual budget documentation: the public can obtain a complete set of documents (including the items listed under *PI-6*) through appropriate means when it is submitted to the State House of Assembly (SHA)	Not accessible	Although the SG has a website, it is largely inactive, redundant, and not recently serviced. The Government does not post any fiscal information on the site. There is no evidence that it publishes or makes accessible to the public in any other way, items sent to the State House of Assembly.
2.	In-year budget execution reports: routinely made available to the public through appropriate means within one month of their completion	Not accessible	The State does not prepare in year budget reports
3.	Year-end financial statements: available to the public through appropriate means within six months of completed audit	Not accessible	The Accountant General prepares annual financial reports; however, the public has no access to them. The SG neither posts the audited statements on the web nor makes them available to the public in any other way.
4.	External audit reports: all reports on consolidated central government operations made available to the public through appropriate means within six months if completed audit	Partially accessible	The auditor general sends copies of his report to the SHA; however, there is no evidence that the broader members of the public directly obtain copies. The SG also does not publish it on its website. SG officials argue that the any one can purchase copies from the Government Press; however, there is no evidence that the public receives information on this fact or that the SG actively invites the public to do so, through say, radio announcements.
5.	Contract awards: that the SG publishes award of all contracts with value above US $ 100,000 equivalent (N120 million naira) at least quarterly through appropriate means	Not accessible	The State Government does not publish a procurement journal and it does not publish the information on its official website. This is a critical test of the transparency and openness of public procurements in the State.
6.	Resources available to primary service units: the SG publicizes information through appropriate means at least annually, or available on request, for primary service units, e.g., hospitals	Not accessible	The SG does not publish information on its primary service units. During the assessment exercise, it was not possible to obtain information on primary education spending either from the published accounts or from the Anambra State Universal basic Education Board (ASUBEB).
7.	Fees and charges for major service organizations are posted at the service delivery site and in other appropriate locations/media	Accessible	MDAs, including hospitals, post chargeable fees and other costs on service notice boards
	Score (Method M1)	**C**	This is the appropriate score for meeting only two out of the seven criteria

3.3 Policy Based Budgeting

This set of two indicators deal with the extent to which the SNG prepares its budget with due regard to stated policy. Due regard for policy in budgeting is essential for a disciplined pursuit of the goals, of aggregate fiscal discipline, implementation and achievement of government's strategic objectives, and efficient service delivery, the three outcomes that a good PFM seeks to enable.. The two indicators

[94] As already indicated, the Framework applied here as in all the assessment is the new exposure draft on assessment of SNGs. Under, this, there are seven items for consideration, rather than six in the case of central government t assessment.

under this set are orderliness and participation in the annual budget process, and multi-year perspective in fiscal planning, expenditure policy, and budgeting.

PI-11: Orderliness and Participation in Annual Budget Process

Indicator *PI-11* assesses whether participation in the annual budget process is full and effective. Full and effective participation requires that the budget process meet a number of conditions. First, there must be an integrated top-down and bottom-up budget process involving all relevant parties. Second, this involvement must be in an orderly and timely manner in accordance with a predetermined budget formulation calendar. Third, the budget calendar should allow MDAs to prepare meaningfully detailed budget proposals and for the passing of the budget before the start of the fiscal year. Fourth, MDAs should receive appropriate guidance at the commencement of the budget process. This guidance should take the form of hard budget constraints such as government's spending priorities for the medium term and approved sectoral spending ceilings. Finally, it is important that the political leadership be actively involved in setting aggregate sectoral or functional allocations at an early stage of the budget preparation process. If this does not happen, last minute changes to budget proposals may be inevitable but disruptive. *Table 3.11* shows the three dimensions under the indicator and the State PFM's performance under each.

Table 3.11: Orderliness and Participation in the Annual Budget Process

	Dimension	Score	Comment
(i)	Existence and adherence to a fixed budget calendar	D	The assessors could not establish the existence of a clear budget calendar, despite the claim of SG officials. Although the Ministry of Finance issues budget circulars (BCs) that allow MDAs up to four week to submit their proposals, the 2005 and 2008 BC provided as sample, did not contain a timetable of events leading to the submission of the draft budget to the SHA.
(ii)	Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	D	The Anambra State Executive Council approves allocations but only before submission of detailed estimates to the SHA. The Government does not provide hard budget constraints and sectoral ceilings to MDAs to guide their estimates.
(iii)	Timely budget approval by the State House of Assembly (within the last three years)	D	The SHA approved the 2004 budget on time. However, it approved the 2005 budget in April 2006 and the 2006 budget in March 2007. The SG issued the 2005 BC on August 16, 2004, and the 2008 BC circular on June 27, 2007.
	Score (Method M2)	D	

Rationale for the Score

Anambra State Government issues call circular to MDAs to kick start the budget process. However, the circular typically does not contain a detailed budget timetable for the different steps involved in the executive budget process leading up to submission to the SHA.[95] The BC provides general and brief

[95]For the 2005 exercise, the Ministry, on September 09, 2004, issued a follow up circular containing a "Timetable for Bilateral Discussion on the 2005 Draft Capital Estimate for Anambra State". The circular indicated the dates and times for meetings with different MDAs on their submissions. There are two issues with this. First, the arrangement should have been part of the original BC to afford a more complete picture and improve MDAs use of time. Second, the timetable does

guidelines and proformas on how to arrive on revenue and expenditure estimates. However, it does not include information on the policy thrust and direction of the budget for the next year. It also does not include information on sectoral budget ceilings. Generally, MDAs do not have information on how much to expect in the next year for their activities until the SHA approves the budget.

PI-12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

This indicator assesses the extent to which fiscal planning and expenditure decisions reflect the multi-year nature of economic development. Economic development and poverty reduction are multi-year rather than annual phenomena. In the same way, expenditure policy decisions targeted at addressing them also ought to have multi-year implications. There is therefore, need to align expenditure policy decisions with availability of resources in the medium term. This requires that the foundation for policy changes be multi-year fiscal forecasts of revenue, mandatory expenditure aggregates, and potential deficit financing. This indicator assesses the extent to which the SG recognizes this and adopts a multi-year approach to fiscal planning. It examines the existence of fully costed sector strategy documents and estimates of forward expenditure of both recurrent and capital spending. This will help determine the affordability of current and new policies. It will also form the basis for making policy choices and for establishing indicative medium term sector allocations. To complete the cycle, there should be a clear link between the explicitly costed forward estimates of new policy initiatives, transparent strategy-linked selection criteria for investments (capital spending), and integration into their annual budget process.

Given the high proportion of public funds committed to *public procurement* in Anambra State (see *Chapter 2* above), a multi-year perspective in planning is especially important to increase the chances of securing good budgetary outcomes from the committed resources. *Table 3.12* shows the performance of Anambra State on the four dimensions of measurement under this indicator.

Table 3.12: Multi-year Perspective in Fiscal Planning, Expenditure Policy and Budgeting

	Dimension	Score	Comment
(i)	Preparation of multi-year forecasts and functional allocations or programs	D	Anambra State still uses the annual, dual budgeting approach. There is no multi-year perspective to fiscal planning.
(ii)	Scope and frequency of debt sustainability analysis (DSA)	D	There was no State level DSA within the period, 2004 - 2006. Only the FG currently has the capacity to do a DSA. However, the SG is not in any immediate serious debt situation, given the level of revenue flows from the centre in recent years.
(iii)	Existence of sector strategies with multi-year costing of recurrent and investment expenditures	D	Anambra State SEEDS does include statements of sector strategies and some cost statement. However, the strategies did not involve rigorous analysis of expenditure policy and government priorities. There was also no clarity on the selection criteria or process. The costing of the elements is not serious and excludes the recurrent spending aspect.
(iv)	Linkages between investment budgets and forward expenditure estimates	D	None; control over investment and recurrent expenditure/programming currently involve

not outline the entire budget preparation agenda and the timing of the different activities leading up to presentation of the budget to the SHA.

			separate processes. The Ministry of Finance and Budget controls the current budget, while the Ministry of Economic Planning oversees capital budgeting.
	Score (Method M2)	**D**	

Rationale for Score

It is possible to argue that, Anambra State (and indeed other states in Nigeria) has limited capacity to engage in serious multi-year fiscal planning because of the high level of dependence on revenue flows from the centre. However, since introducing multi-year budgeting in Fiscal 2004, the FG regularly shares with states and the general public, in advance, its Fiscal Strategy Paper (FSP), which lays out in detail the major macroeconomic assumptions that underlie its planning in the medium term. The FSP includes policies and projections of revenue and expenditures, inflation, and exchange rate, etc., for the next three years. Anambra State could take its cue from this and plan on a multi-year basis, as some other states have begun to do. The main factors preventing the State from doing this currently are capacity shortages, including inadequate personnel and lack of proper knowledge and training.

Anambra State Government has a Debt Management Department (DMD). However, as is the case with several of the new reform units recently set up[96] the department faces a serious staffing problem. The Ag Director of the unit is a retired civil servant working on consultancy/interim basis, and he is the only professional staff of the department.

The SG is at the early stages of introducing a multi-year approach to budgeting. The EU-SRIP is assisting the SG in this regard. It has completed several scoping studies and conducted initial training workshops on *Performance-based Budgeting, Budget Classification and Chart of Accounts*, and *Development of Medium Term Expenditure Framework.* However, these workshops appear more to be sensitization activities for politicians and senior level policy makers, rather than serious training activities that could permit the introduction of MTEF for Fiscal 2009 as currently suggested. For instance, although the Ministry of Economic Planning and Development issued a call circular for the "2008 Capital Estimates and Medium Term Expenditure Plan for Anambra State, the 2008 budget did not follow a multi-year framework.

3.4 Predictability and Control in Budget Execution

Planning alone is not sufficient to deliver expected results, notwithstanding how principled and policy-based it may be. Effective implementation must support policy based planning and budgeting. This is the only way to realize anticipated budgetary outcomes of fiscal discipline, strategic allocation of resources, and efficient and effective service delivery. This next set of nine indicators, ***PI-13 – PI-21***, deal with budget implementation, examining whether implementation is in orderly and predictable manner, and what arrangements there are for exercising control and stewardship in the use of public funds.

[96] Including the Due Process of Procurement Unit, for instance

PI-13: Transparency of Taxpayer Obligation and Liabilities[97]

This indicator evaluates the degree of openness of the tax administration system in determining and communicating responsibilities of the taxpayer. An open and transparent tax system, i.e., one in which taxpayer obligations and liabilities are clear, should more easily secure taxpayer compliance than a closed system, i.e., one in which tax obligations are not open and clear enough. A transparent tax system has a number of characteristics, clarity of tax legislation, access to information on tax liability, and ability to contest administrative rulings on tax liability, etc. Clear and comprehensive tax legislation limits the discretionary powers of tax assessment institutions and officials. It narrows the room for individual negotiation of tax liability and unnecessary exemptions. A good tax education system facilitates taxpayer compliance with registration, declaration, and payment procedures, as does the opportunity to context administrative rulings in a fair and cost effective manner. This indicator has three dimensions. *Table 3.13* presents the rating of the performance of Anambra State on each of them as well as the overall score.

Table 3.13: Transparency of Taxpayer Obligations and Liabilities

	Dimension	Score	Comments
(i)	Clarity and comprehensiveness of tax liabilities	A	Anambra State does not legislate on PIT; the FG does this for States to administer and collect. Legislation on PIT is sufficiently comprehensive and clear. On the other hand, states have responsibility to legislate on property taxes for LGs to administer and collect. A dated law on property taxes (predating the creation of the current Anambra State) exists. However, State officials did not present any evidence on the extent of its recent modernization. However, both the PIT and property taxes are clear and comprehensive with limited discretionary powers for administrators
(ii)	Taxpayers' access to information on tax liabilities and administrative procedures	B	Access to information on PIT is comprehensive and user friendly; perhaps less so for other taxes
(iii)	Existence and functioning of a tax appeals mechanism	C	The tax appeal system needs substantial redesign to make fair, transparent, and efficient.
	Score (Method M2)	**B**	

Rationale for the Score

There is clear legislation on the major taxes, including personal income taxes on which the FG legislates. PIT legislation has clear clauses on tax liability, penalties, administration, and appeal/grievance resolution mechanisms. The Federal Inland Revenue Service (FIRS) and the Joint Tax board (JTB)[98] regularly propose revisions in the tax rates for the National Assembly to enact into law. The old regional law on property taxes contains clear but outdated administrative and penalty clauses. However, since SNGs do not collect property taxes (LGs do), this dimension has assessed them on the strength of clarity and comprehensiveness of PIT only.

[97] *PI-13 – 15* apply to subnational governments only to the extent that they have capacity to raise revenue through taxes and not only user charges. The indicators also do not apply to cases of revenue sharing where the government collects taxes on behalf of SNGs. Although as indicated in *Chapter 2* above, the bulk of SNG revenues are of the form of unconditional transfers from centrally collected revenues, SGs still have responsibility for administering, collecting, and using personal taxes, both income and capital, and for legislating on and administering property taxes, for their residents. These three indicators apply to Anambra State in respect of these taxes.

[98] Comprising the Tax Administrations of the FG and SGs

The State Board of Internal Revenue uses handbills put in strategic places, including banks, and radio and television campaigns to inform the public on their responsibility to pay their taxes and to warn of the consequences of default. Generally, people in urban areas appear to have better information on their tax obligations than those in rural communities. However, a recent EU-SRIP commissioned study of the State internal revenue generation effort found the tax education process of the SG inadequate.[99] The SG does not issue information on taxes its website. It also does not organize tax seminars for the purpose of tax education.

The administrative tax appeal process in respective order of hierarchy (appeals progressing only in cases of non-resolution by a lower authority) runs thus: the zonal tax authority, state tax authority, Appeals Commission and High Court. Aggrieved persons must first pay 50 percent of assessment before hearing commences. Usually, the tax authorities manage to resolve cases raised by aggrieved tax assessors before it goes to Court. However, the study cited above also found the appeal process wanting in effectiveness.[100]

However, the handling of cases of tax evasion is different. The tax authority has no power to prosecute directly but refers cases to the Attorney General of the State for prosecution. There are no special revenue courts in Anambra State; instead, magistrate courts also sit as revenue courts on specific days when the need arises. The SBIR was able to show evidence of a list of cases referred to the Attorney General for prosecution, but could not show evidence of any that actually progressed to the courts and any cases of successful prosecution.

PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

This indicator underscores the role of effective registration of potentially liable taxpayers in facilitating correct assessment of the tax liability of those taxpayers. A comprehensive taxpayer database with adequate control mechanisms will facilitate taxpayer registration. A control mechanism of this attribute should maintain a taxpayer database with a unique taxpayer identification number. Linking or combining this with other government registration systems involving taxable turnover of assets[101] further enhances effectiveness. Among measures that could be designed into the system to enforce compliance are occasional surveys of potential taxpayers, e.g., by selective, physical inspection of business premises and residences, and penalties for default. *Table 3.14* summarizes the assessment of performance of Anambra State on the three dimensions of measurement of this indicator.

Table 3.14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment

	Dimension	Score	Comments
(i)	Controls in taxpayer registration system	D	Anambra State does not have a single comprehensive tax databases for any of the major taxes. Manual databases exist at the zonal level for individual taxes; however, the SG did not consolidate or computerize them, and did not index or link them to other registrations systems.
(ii)	Effectiveness of penalties for non-compliance with registration and tax declaration	C	Penalties for non-compliance with tax declaration exist, but they have very limited impact since there is no enforcement. There is no law on compulsory taxpayer

[99] Eze, Chinedu: Preliminary Situation Analysis of Internal Revenue Administration in Anambra State, June 2008
[100] See Exe, Chinedu, Op. cit.
[101] Issue of business licenses, opening of bank accounts and pension fund accounts, etc., for instance

			registration, and therefore, no applicable penalty
(iii)	Planning and monitoring of tax audit programs	D	Consultants hired by the SG undertake tax audits but only on *ad hoc* bases
	Score (Method M2)	**D+**	

Rationale for the Score

Separate manual registers of taxable persons exist at the zonal level for each category of tax as individual stand-alone registers. There is no consolidation or computerization of the databases, or linkage to other asset turnover systems. In addition, these taxpayer bases are not comprehensive. For example, the study of the State's internally generated revenue, already cited above, reports a PIT database of only 46,603 registered taxpayers in the State, which has a population of more than four million inhabitants,[102] 50 percent of whom are within the income tax paying range.

Taxpayer registration is not compulsory in Anambra State. Further, the SG does not enforce applicable penalties for non-compliance with tax declaration. For instance, although the Personal Income Tax Act (PITA) 1999 requires bank managers under penalty for default, to submit information on new bank accounts to the State Tax Authorities, SG officials report that only one bank complies. The SG neither enforces the penalty for non-compliance nor applies the information received in updating the taxpayer register.

Tax audits and fraud investigations are rare and only undertaken by consultants; the State Board of Internal Revenue does not have the capacity to carry out such exercise.

PI-15: Effectiveness in Collection of Tax Payments

The concern of this indicator is with credibility of the tax administration system. It assesses how able the revenue authority is to collect taxes and whether taxpayers pay their taxes voluntarily or require close follow-up. It keeps record of tax arrears. Unless the overall level is insignificant, the ability of the revenue authority to collect tax arrears is important. Also important is the prompt transfer of collections to the State Treasury. There are several ways of achieving this promptness, e.g., by putting in a place a mechanism that encourages taxpayers to pay directly to Treasury bank accounts, by the revenue authority frequently making full transfers into Treasury accounts, etc. It is also important that the revenue authority aggregate and report on periodic tax assessments, collections, and transfers to the Treasury. To complete the process, it is necessary to carry out periodic reconciliation of assessments, collections, and transfers. *Table 3.15* summarizes the performance of the State on the three dimensions of this indicator.

Table 3.15: Effectiveness of Collection of Tax Payments

	Dimension	Score	Comments
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at beginning of a fiscal year, which was collected during that fiscal year (average of last two fiscal years)	D	Anambra State does not maintain a systematic record of unpaid tax assessments; therefore, it is not possible to determine this ratio.
(ii)	Effectiveness of transfer of collections to the Treasury by the revenue administration	A	Between 2004 and 2006, the SBIR made daily transfer collections to Treasury accounts
(iii)	Frequency of complete accounts	D	There is no reconciliation of tax assessment, tax

[102] 2006 Population Census figures, see *Chapter 2* above

	reconciliation between tax assessments, collection, arrears records, and receipt by Treasury		collections, and transfers to the Treasury
	Score (Method M1)	**D+**	

Rationale for the Score

Although there are no records to support it, the general belief is that tax payment arrears is high given the general apathy of Nigerians[103] and the weakness of the tax administration system.

However, during that period, the tax authority (on a daily basis) directly paid tax revenue collections to the state treasury or sub treasuries, as applicable.

Anambra State did not keep record of aggregate tax assessments, aggregate collections, and aggregate transfers to the Treasury between 2004 and 2006. It was therefore not possible to reconcile tax assessments, collections, arrears, and transfers to the Treasury.

PI-16: Predictability in Availability of Funds for Commitment Expenditure

This indicator assesses the extent to which the Ministry of Finance, or other responsible SG body, provides reliable information on availability of funds to MDAs that manage administrative or program budget heads. Effective execution of the budget as planned requires that MDAs receive timely and reliable information on funds availability to guide commitment expenditure, both current and capital. There are various ways of achieving this. The MoF may release funds at staged and regular intervals, say quarterly, during the budget year. In other situations, passage of the budget law grants full authority to spend at the beginning of the year, in which case, MDAs require no further information on funds availability. In these jurisdictions however, the MoF may, impose delays on ministries in making new commitments in periods of cash squeeze. Whichever option applies, it is important not to reduce the amount of funds made available to an entity in a specific period. Mid-stream reduction of voted funds makes the PFM system unreliable. Finally, it is important that the Treasury effectively plans, monitors, and manages cash flows on order to facilitate predictability of funds. This indicator has three dimensions of measurement. *Table 3.16* shows the ratings and scores.

Table 3.16: Predictability in the Availability of funds for Commitment of Expenditures

	Dimension	Score	Comments
(i)	Extent to which cash flows are forecast and monitored	D	Anambra State does not undertake forward-looking cash flow planning and monitoring.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	MDAs do not receive any reliable indication of actual resource availability for commitment
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	D	Significant in-year budget adjustments are frequent and not done in a transparent manner
	Score (Method M1)	**D**	

Rational for the Score

[103] Including residents of Anambra State, to pay their taxes

Although MDAs are project-executing units, under current arrangements, they have no authority over their spending decisions, and therefore do not need to receive advice on fund availability. Notwithstanding the inclusion of sector projects in the budget, responsible sector heads do not have the power to commit funds because the ***procurement*** process in Anambra State centres on approvals from the Executive Governor.

As explained under ***PI-19***, MDAs wishing to procure items or commit budgeted funds must first apply to the Governor for approval. The Executive Governor must give personal approval to all commitments and payments on all capital and certain overhead spending. Consequently, the Accountant General's advice on the state of finances goes to the Governor rather than to MDAs that have little need for it. This system is both ineffective and inefficient, and indeed, cumbersome.

PI-17: Recording and Management of Cash Balances, Debt, and Guarantees

PI-17 evaluates the quality of management of debt and guarantees. Poor management of debt and guarantees can create unnecessary high debt service costs and pose significant fiscal risks. A key requirement to avoid unnecessary borrowing is the consolidation of cash balances in all bank accounts, or better, existence of a single Treasury Account or centralization of all accounts. It is also critical to properly record and report all guarantees issued by the government. Equally important is that a single government entity should approve all guarantees. This indicator has three dimensions, the performance of which ***Table 3.17*** assesses and rates.

Table 3.17: Recording and management of Cash balances, Debt, and Guarantees

	Dimension	Score	Comment
(i)	Quality of debt data recording and reporting	C	Domestic and foreign debt records are complete, updated, and reconciled, at least, annually. Quality of debt data is fair but some gaps remain.
(ii)	Extent of consolidation of the government's cash balances	C	Anambra State Government (and its MDAs) has many bank accounts (over one hundred) however, officials claim calculation and consolidation of most bank balances takes place at least, monthly.
(iii)	Systems for contracting loans and issuance of guarantees	A	System for contracting new loans is transparent and controlled by the Governor. In addition, the FG must approve foreign loans
	Score (Method M2)	**B**	

Rationale for the Score

As listed in the Accountant General's reports, Anambra State and its MDAs have a staggering number of bank accounts – over 100. Most MDAs have several bank accounts. The current banking system does not allow automatic consolidation of bank balances. This makes it very difficult to track and monitor cash balances. Although officials claim monthly consolidation of bank balances, the assessors could not access any physical/documentary evidence to support the claim.

Anambra State produced impressive records of domestic and foreign debt relating to 2004 - 2006. The quality of recording is fair, although some gaps remain. The record of foreign debt, especially as related to Paris and London Club debts and repayments, are not original but taken from the Federal Debt Management Office, which manages foreign debt of the entire country. Although the State regularly reconciles these debts with the DMO, outstanding issues remain. The SG also keeps records of IDA loans and repayments. The SG did not contract any loans between 2004 and 2006.

The State has strict control over new loans. Since 2004, it has taken no new loans. However, the SG continues to service domestic and foreign debts arising from before that period. The current arrangement is that the Executive Governor must personally approve any new domestic loans when necessary. MDAs and certain parastatals cannot borrow directly from banks. The State Government has no capacity to contract foreign loans; to do this, the SG must secure approval of the FG.

PI-18: Effectiveness of Payroll Controls

PI-18 recognizes that the wage bill is one of the largest items of government expenditure and that often, it is susceptible to weak controls, abuse, and corruption. A good PFM system must pay particular attention to control measures and practices around the payroll, and their effectiveness. The key to payroll control is the link between the personnel database (nominal roll) and the payroll. For effective control, a comprehensive personnel database or nominal roll should underpin the payroll. The database may or may not be computerized; however, it should provide a list of staff to be payrolled every month. It should be possible to verify the payroll against the establishment list and the individual staff files. Amendments to the nominal roll should (i) flow from the appropriate authority, (ii) be processed in a timely manner through a change report, and (iii) result in an audit trail. Finally, regular personnel audits will help identify ghost workers, fill data gaps, and identify control weaknesses. *Table 3.18* presents the four dimensions of this indicator with the ratings attaching to them.

Table 3.18: Effectiveness of Payroll Controls

	Dimension	Score	Comments
(i)	Degree of Integration of reconciliation between personnel records and payroll data	B	Changes to personnel records are regularly updated; however, in a minority of cases, up to three months delay occurs, but this is rare
(ii)	Timeliness of changes to personnel records and the payroll	A	Required changes to personnel records are updated monthly and in time for the following month’s pay, Retroactive adjustments are very rare
(iii)	Internal controls of changes to personnel records and the payroll	B	The Head of Service authorizes changes to personnel record, which the Accountant General picks up for the payroll
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers	A	The SG organizes regular periodic pay parades to identify control weaknesses and ghost workers
	Score (Method M1)	**B+**	

Rationale for the Score

Payroll controls are some of the best organized, strictest, and best functioning in the entire Anambra State PFM system. Full documentation of personnel records supported payroll data between 2004 and 2006. There were regular monthly updates to personnel and payroll records. Only the Head of Service could authorize changes to personnel records, and that for very clear reasons, often first verified with MDAs. The SG also conducted payroll audits to authenticate payroll records during the period. However, areas of improvement remain.

Notwithstanding this, full and proper integration of the personnel and payroll information system is necessary. Further, the 2006 audit reports identify some control violations, including "substantial number of civil servants and political office holders" receiving salary by cash contrary to an Accountant General's circular dating back to 2000, and continued collection of salary of a retired political appointee for up to six months after leaving office.[104]

PI-19: Competition, Value for Money and Controls in Procurement

Recent OECD studies estimate that between 20 and 70 percent of total public spending involve one form of procurement or the other. Public procurement in advanced and developed economies is closer to the lower margin. However, the reliance on public procurement to advance development activities in the social and economic spheres pushes the percentage closer to the 70 percent margin in developing economies. Herein lies the importance of ***PI-19*** on public procurement. ***PI-19*** devotes entirely to public procurement; however, some other indicators also bear on the subject. Other indicators relevant to the topic include ***PI-4***, ***PI-10***, ***PI-12***, ***PI-16***, ***PI-20***, ***PI-21***, and ***PI-26***. This underscores the role of public procurement in securing a good and effective PFM system.

This indicator focuses on the quality and transparency of the procurement regulatory framework and the extent to which it establishes the use of open and fair competition as the preferred procurement method. An open and transparent procurement process recognizes the existence of circumstances when it may not be expedient to use open competition e.g., in certain security contracts or in emergencies. The procurement system therefore clearly defines the alternatives to open competition and the exceptional situations that would warrant or justify their use. In this way, a properly functioning procurement system ensures effective and efficient use of resources and promotes value for money. *Table 3.19* presents the performance of Anambra State on the three dimensions of this indicator.

Table 3.19: Competition, Value for Money and Controls in Procurement

	Dimension	Score	Comment
(i)	Use of open competition for award of contracts that exceed State established monetary threshold for small purchases	C	Selective tendering was the basis for awarding majority of contracts awarded between 2004 and 2006.
(ii)	Justification for use of less competitive procurement methods	C	Generally very weak justification for use of non-competitive procurement method; in most cases, none provided at all; selective tendering almost institutionalized in Anambra State for high value contracts
(iii)	Existence and operation of a procurement complaints mechanism	C	A procurement complaints process exists, but the rules are neither clear nor backed by legislation.
	Score (Method M2)	**C**	

Rationale for the Score

Anambra SG has clear guidelines establishing thresholds and sanctioning authorities for open tendering in public procurement. There are departmental, ministerial, and State tenders boards, and the State Executive Council, each with established sanctions/approval/procurement limits. The limits are 0.5 million, 2 million, 30 million, and above 30 million respectively. The Governor appoints members

[104] 2006 Audit Report, pages 109 - 110

of the State's Tenders Board for limited terms of six months each. The rules provide that all procurement from the capital vote must be by open tendering. However, the practice is that the various tenders' boards must first obtain the written approval of the Executive Governor before commencing public advertisement of the process. They must again obtain written approval before notifying the winner of the process.

As *Table 2.5a* shows, about 46 percent of the SG's actual spending during the period went to the Works Department. Much of the procurement work of this section during this period was for road construction. Majority, if not all, of the contracts for road construction, which the SG awarded during this period was through the selective tendering process. Justifications provided by the SG are that road construction is a specialized area of activity and the need to ensure proper execution of the tasks and avoid abandonment. These are very weak justifications, to say the least. There are many firms doing road construction work to a very high level of quality and satisfaction in Nigeria. The means for securing good quality work are openness and transparency of the process, careful negotiation, and effective supervision.

Reforms Underway

Procurement process reforms are underway in Anambra State. The State Government has recently established a procurement due process office, although the staffing position is currently precarious, with only one professional staff. The office is therefore not yet functioning properly. In addition, the SG has joined the FG/international donors supported initiative to encourage SGs to enact and implement new, international standard legislations on public procurement, as a first step towards effective procurement reform. The State not only participated in recent clinics jointly organized by the FG and donors for states on public procurement and fiscal responsibility legislations, but sent very powerful delegations of relevant commissioners (political office holders) to represent it. This signaled the importance that the State attaches to the reform process. Anambra State is currently drafting a public procurement law and a fiscal responsibility law as well, using templates distributed at the clinics.

PI-20: Effectiveness of Internal Controls for Non-Salary Expenditures

This indicator examines how effective internal control procedures are on all expenditures other salaries (which are the concern of ***PI-18***). Effective internal controls should meet the criteria of relevance and comprehensiveness. They should also aide understanding, acceptance, and compliance. Compliance with controls is crucial to their effectiveness and it is important that circumvention be only in genuine emergencies. Any circumvention of established procedures should be transparent and open, and properly documented for audit purposes.

Among its many values and contribution to the PFM system, effective internal controls are important to protect the integrity of the *procurement process*. Weak controls could leave gaps in the process. This is not good in a system that relies heavily on public procurement to deliver public services. *Table 3.20* outlines the three dimensions of this indicator, their ratings, and the overall score.

Table 3.20: Effectiveness of Internal Controls for Non-Salary Expenditure

	Dimension	Score	Comments
(i)	Effectiveness of Expenditure Commitment	D	The Financial Regulations (FR) contain clear rules for

	Controls		commitment control; however, evidence of failure to adhere to budgeted spending during the period point to their routine violation. Use of emergency commitment procedures in unjustified situations during 2004 – 2006 is an important concern.
(ii)	Comprehensiveness, relevance, and understanding of other control rules/procedures	B	
(iii)	Degree of compliance with rules for processing and recording transactions	D	
	Score (Method M1)	**D+**	

Rationale for the Score

The State FR, although dated,[105] contains clear and comprehensive rules on procurement, expenditure commitment procedures, prevention and detection of mistakes (internal audit and reporting, pre payment checks, inspection, and board of surveys for disposal of assets), information safeguards on assets (annual financial reports and external audit), and quality and timeliness of accounting and reporting. Clearly, there is need to revise the Regulations to bring it in line with modern realities and ongoing political and economic reforms, including the presidential system of government, multi-year budgeting, and greater demands of transparency and openness.

Even then, the SG did not substantially comply with the Regulations during the period under review. As Indicated in ***PI-19***, the predominant method of procurement was selective tendering, which the Regulations permit only under very exceptional circumstances, i.e., security needs and, emergency. Further, there was also widespread failure to adhere to budget commitment limits during the period (see, for example, *Table 3.2a* above). Although the FR permits virement, it does so under very clear and certain conditions, and following established procedures, including quick eventual ratification by the Legislature. During the period under review, the SG not only engaged in widespread virement beyond the estimation of the Regulations, but also failed to respect the rules by not seeking quick ratification by the SHA.

PI-21: Effectiveness of Internal Audit

This indicator assesses the effectiveness of internal audit and its ability to provide sufficient and timely feedback to management. It also assesses its ability to support the work of the Supreme Audit Institution (SAI), that is, the Auditor General of the State. It assesses the extent to which the internal audit functions as a systems monitoring process (rather than merely as a prepayment audit unit[106]). It also assesses the ability of internal audit to produce relevant and timely reports. In addition, it examines how management reacts to internal audit reports. These functions help the internal audit play a very important role in protecting the integrity and sanctity of the *procurement process*. The high level of public procurement in Anambra State underscores the potential critical role that internal audit could play in securing effectiveness of the PFM system in the state.

To discharge its functions effectively, the internal audit unit must possess the twin key attributes of professionalism and independence. Internal audit practice should be in accordance with *International Standards for the Professional Practice in Internal Audit (ISPPIA)*, issued by the **Institute of Internal**

[105] First produced based on the Finance Law of Eastern Nigeria of 1958, but revised in 2000; set of detailed rules and regulations called subsidiary or quasi legislation, which under Nigerian Law, has the same force as the original Legislation on which it is based

[106] PEFA considers prepayment audit to be part of internal controls assessed under *PI-20*.

Auditors (IIA). *Table 3.21* sets out the three dimensions of measurement and the performance of Anambra State.

	Table 3.21: Effectiveness of Internal Audit		
	Dimension	**Score**	**Comments**
(i)	Coverage and quality of internal audit function	D	There is no system monitoring process in Anambra State
(ii)	Frequency and distribution of reports	D	Reports are non-existent. In the words of the Auditor General, *Internal Audit Units of Ministries and non-ministerial departments seemed to be non-functional, for no single internal audit report was received in my office during the period under review; This has been the situation over the years.; Therefore, there is need to develop and strengthen the Unit".*[107]
(iii)	Extent of management response to internal audit findings	D	See comment above
	Score (Method M1)	**D**	

Rationale for Score

Internal audit in Anambra State is a Treasury function, supervised by the Office of the Accountant General (OAG), which itself is an autonomous department of the Ministry of Finance. Provisions of the Financial Regulations require the Accountant General to post internal auditors to all self-accounting departments of the government, including MDAs and sub treasuries. In addition to prepayment audit, internal auditors should prepare regular periodic reviews of the PFM system, highlighting weaknesses and recommending solutions. The reports should go to the political heads of the MDAs, with copies to the Accountant General and the Auditor General for monitoring and control. In addition, there is an inspectorate function in the Treasury, which should monitor compliance with rules and procedures through occasional reviews.

Over the years however, both the internal audit and inspectorate functions have broken down and disintegrated. Although the Accountant General stills posts internal auditors to MDAs, the internal auditors so posted are relatively very junior officials, who are not able to stand up to their political heads or prepare reports critical of them. The Auditor General's Office complains that this situation forces them to adopt a continuous auditing approach, which overstretches its limited staff.

The State Government did not indicate any reform in the pipeline in this area.

3.5 Accounting, Recording, and Reporting

The set of indicators, *PI 22 – 25*, recognize the vital role the accounting and reporting process in supporting the PFM system to secure and strengthen its integrity. The accounting system ensures the maintenance, production, and dissemination of adequate records and information to meet critical decision making and control. These are the subject matter of this next set of four indicators.

PI-22: Timeliness and Regularity of Accounts Reconciliation

[107] Auditor General's Report, 2006 (page 3)

This indicator assesses one of the main measures put in place to secure reliability and integrity of financial information – reconciliation of accounts. Constant checking and verification of recording practices make significant contributions to internal controls. This indicator evaluates practices around reconciliation of bank and book balances and treatment of suspense accounts and advances. Timeliness and frequencies of reconciliation are critical and fundamental to reliability. The indicator has two dimensions, regularity of bank reconciliation, and regularity of reconciliation and clearance of suspense accounts. *Table 3.22* presents the ratings and the indicator score.

Table 3.22: Timeliness and Regularity of Accounts Reconciliation

	Dimension	Score	Comments
(i)	Regularity of bank reconciliations	D	No reconciliation statements prepared
(ii)	Regularity of reconciliation and clearances of suspense accounts and advances	A	No suspense accounts in the system on suspense accounts
	Score (Method M2)	**C+**	

Rationale for the Score

The 2005 Auditor General's Report observed on page 4, "sub treasuries and Ministries did not prepare bank reconciliation statements. What were attached as bank reconciliation statements by some of the boards of cash Survey Presidents showed clear lack of understanding of the rudiments of bank reconciliation". The report recommended a retraining of accounting staff. In response, the Accountant General noted this observation and mapped out a capacity building strategy for redressing the issue. The training programme was to run in November and December 2006. It is not certain that this training actually to place. During a meeting, the Auditor General explained that the problem persists. As evidence, he produced a recent bank reconciliation statement submitted to his office. The statement relates to the 2007 accounts currently under audit. The statement was not good, and did not reconcile the bank and book accounts balances.

Although the SG did not produce any documents to support its claim of lack of suspense accounts in the system, the way the system functions lends credence to the claim. Political and civil appointees undertake official missions for which they receive advances. The procedure however, is that those officials receive predetermined amounts as traveling allowances depending on their grade levels and offices. These amounts are one off payments and are not subject to retirement, unless the mission did not eventually take place. Such cases may happen, but they are rare. When it happens, officials make a full refund of the advance received.

PI-23: Availability of Information on Resources Received by Service Delivery Units

PI-23 measures the extent to which frontline service delivery units providing service at the community level (such as schools and health clinics) obtain resources intended for their use in cash or kind. Frequently, frontline service delivery units suffer most when resources fall short because they are furthest in the resource allocation chain. At other times, there are significant delays in transferring resources, whether cash or kind, to such units. It is crucial to track information on resource allocation and availability to such units in order to determine the extent to which the PFM system effectively supports frontline service delivery. This indicator assesses this. *Table 3.23* presents the summary of performance at this level.

Table 3.23: Availability of Information on Resources received by Service Delivery Units

	Dimension	Score	Comments
(i)	Collection and processing of information to demonstrate resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools) and primary health clinics) in relation to overall resources made available to the sectors(s) irrespective of which level of government is responsible for the operation of the funding unit	C	The assessment team did not obtain information on primary health. A special report from the Anambra State Universal Basic Education Board (ASUBEB) could only show FG and SG counterpart fund in for basic education for 2005 and 2006.
	Score (Method M1)	**C**	

Rationale for the Score

The FG and SG jointly fund the Anambra State Universal Basic Education Board (ASUBEB). The FG counterpart funding (50 percent) depends on the SG providing its portion. ASUBEB also receives funding from UNICEF, as well as in-kind contributions, such as completed school blocks, from other sources. However, neither the SG's accounting system nor that of ASUBEB keeps routine and systematic information on funds transfer nor other resources received. A special report from the Anambra State Universal Basic Education Board (ASUBEB) could only show FG and SG counterpart fund in for basic education for 2005 and 2006 as at 19th September, 2007.[108] For 2005, the FG and the SG contributed N459,729,729 each, while for 2006, the FG contributed N277,767,567, while the SG contributed N567,091,891.32.[109]

PI-24: Quality and Timeliness of In-year Budget Reports

This indicator focuses on ability of the PFM system to produce *comprehensive and quality* reports from the accounting system on all aspects of budget execution in a timely fashion. "Flash reports" on release of funds to MDAs does not qualify as interim/in-year budget reports because they do not provide sufficient information to meet the requirements of monitoring and corrective decision-making. Proper in-year budget reports should cover expenditures at both commitment and payment stages to facilitate monitoring of budget implementation and utilization of released funds. In-year budget report must be (i) regular, (ii) timely, (iii) available to both the Ministry of Finance and the cabinet (State Executive Council) to monitor performance, and if necessary identify new actions necessary to get the budget back on track, and (iv) available to MDAs for managing the affairs under their responsibility. *Table 3.24* summarizes the performance of Anambra State on the three dimensions of this indicator.

Table 3.24: Quality and Timeliness of In-year Budget Reports

	Dimension	Score	Comments
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	D	The State Government does not prepare in year budget reports
(ii)	Timeliness of issues of the reports	D	
(iii)	Quality of information	D	
	Score (Method M1)	**D**	

108 ASUBEB: UBE Matching Grant Contribution Account (a special report)

109 These SG contributions do not show anywhere in the State's books, including the Accountant General's Final Accounts and Reports. It is very likely therefore, that these contributions do not come directly from the SG's own resources, but from the deductions made by the SG for primary education from LGs' Federation Account allocations.

Rationale for the Score

The budget call circular issued by the Ministries of Finance/Economic Planning requires MDAs to guide themselves with the current year's partial expenditure in preparing their proposals for the coming year. The State House of Assembly similarly requests information on MDA's previous year's spending during the budget approval process as evidence of their spending capacity. These do not constitute in-year budget reporting. It is correct to state that there is no culture of producing quarterly or other in-year budget reports in the manner described above, or in any other form. The 2006 Auditor General's report illustrates this point as follows, "*none of the Ministries rendered return on capital expenditure appropriated to them*".[110]

PI-25: Quality and Timeliness of Annual Financial Statements

The indicator assesses whether the SG prepares annual financial statements, and the extent to which such statements are complete, timely and conform to generally accepted accounting standards. To be complete, financial statements must cover details of all ministries, independent departments, and deconcentrated units. Timeliness of the financial statements indicates how well the accounting system is functioning and the quality of records maintained. Compliance with international standards makes the accounts understandable and transparent in dealing with assets and liabilities. This indicator has three dimensions; *Table 3.25* summarizes the performance of the dimensions and the indicator.

Table 3.25: Quality and timeliness of Annual Financial Statements

	Dimension	**Score**	**Comments**
(i)	Completeness of the financial statements	B	Anambra State prepares annual consolidated statements that include all MDAs, service delivery units (excluding AGAs and LGs). The accounts cover full information on revenues, expenditure, and financial assets. However, it does not include information on outstanding debts such as for instance, pension, contractor, and salary arrears.
(ii)	Timeliness of submission of the financial statements	A	The Accountant General cleared the backlog of accounts arrears in 2004. From 2005, accounts have been prepared within six months of year-end.
(iii)	Accounting standards used	A	Nigeria does not have standards for public accounting. However, the accounts conform with extant financial regulations and reporting formats agreed by the Conference of Accountants General in the country in 2002, although they do not strictly conform to internationally accepted standard.
	Score (Method M1)	**B+**	

Rationale for the Score

Accounts of the SG cover all MDAs but do not include those of LGs, AGAs, and PEs, which, by law must prepare independent accounts. Even though consolidated accounts would provide fuller information, insisting on that would delay the publication of accounts of the SG. Besides, the law does not require preparation of consolidated accounts. As it is, the SG accounts comply with extant laws.

[110] Auditor General's report, 2006, page 50

The Accountant General prepared and submitted the accounts to the auditor General within six months of the end of each fiscal year as follows 2004 accounts, June 9, 2005,[111] 2005 accounts on June 29, 2006,[112] and 2006 accounts on March 9, 2007.[113]

Nigeria has not yet published any public sector accounting standards.[114] However, since 2003, Anambra State prepares its account in general compliance with the reporting format approved by the Conference of Accountants Generals in the country early this decade.[115] These reporting standards do not fully comply with international public sector accounting standards (IPSAS) issued by the International Federation of Accountants (IFA). For instance, Nigeria has not migrated to accrual or modified cash basis of accounts. It still uses the cash basis.

3.6 External Scrutiny and Audit

This final set of indicators recognizes the importance of a high quality external audit in creating transparency in the use of public resources. Quality external audit has several aspects. First, it should have adequate scope and coverage, with audit mandate that extends to extra-budgetary funds AGAs, except where there is a separate provision for auditing them. Second, the audit process must adopt appropriate audit standards, including where possible standards of international practice of auditing. Third, the external audit institution must a high level of political, administrative, financial, and emotional independence[116]. Fourth, the audit must focus on systemic PFM issues, including the functioning of internal controls and procurement systems and the reliability of financial statements. Finally, there ought to be a follow up of audit findings through correction of errors and weaknesses identified by the auditors. *Table 3.26* presents the performance of the SG on the three dimensions of this indicator.

PI-26: Scope, Nature, and follow-Up of External Audit

Table 3.26: Scope, Nature, and Follow Up of External Audit

	Dimension	Score	Comments
(i)	Scope/nature of audit performed (including adherence to auditing standards)	B	The external audit covers all MDAs (AGAs have a different audit arrangement) and covers a wide range of financial audits. The Auditor General claims compliance with international audit standards.[117]
(ii)	Timeliness of submission of audit reports to legislature	B	There is evidence of timely submission of audited accounts to the State House of Assembly in 2005 (September 22, 2006) and 2006 (25 May 2007). Submission of 2004 account was on 30 November 2005.
(iii)	Evidence of follow-up on audit	B	Formal response made to audit queries and

[111] 2004 Auditor General's report, page 1
[112] 2005 Auditor General's report, page 1
[113] 2006 Auditor General's report, page 1
[114] A new law now empowers the Nigerian Accounting Standards Board (NASB) responsible for issuing business accounting standards to also issue public sector accounting standards
[115] Although the SG still has problems with classification, see *PI-5*, above.
[116] See for example, the standards set by the International Organization of Supreme Audit Institutions (INTOSAI) **-** the professional organization of supreme audit institutions (SAIs) in countries that belong to the United Nations or its specialist agencies
[117] See Audit Certificate in Accountant General's reports, 2006 (page 10), 2005 (page 13), and 2004 (page 13); it was not possible to verify these claims, although the auditor general's reports were quite always comprehensive.

	recommendations		recommendations; however, there is little evidence of systematic follow up. Further, there is no evidence of follow up and action by Public Accounts Committee of the SHA.
	Score (Method M1)	**D+**	

Rationale for the Score

Audit reports for 2004 – 2006 are quite comprehensive and covered many grounds. It also often identified systemic and specific issues for attention, such as internal audit flaws, problems with account reconciliation, lack of reporting by MDAs, out of budget spending, fraud and misappropriations, etc.

The Auditor General completed the audits and showed evidence of submission of audit reports to the Legislature[118] within the constitutional three months of receipt of financial statements from the Accountant General.

There was general evidence of follow up action by the Accountant General on the auditor's comments. For example, the Auditor General showed a letter by the Accountant General acknowledging the 2005 audit comment on reconciliation of accounts and stating plans to organize a training programme to redress the issue in November/December 2006. However, there is no evidence that this actually did take place. The audit reports also generally acknowledged "improvement in attention given to audit observations raised in the course of the audit".[119] However, it would appear that the SG has difficulty obtaining responses to audit query from political office holders; the audit reports include cases of malfeasance by political office holders of which the SG did nothing.

PI-27: Legislative Scrutiny of Annual Budget Law

PI-27 assesses the work of the Legislature in approving the annual budget. It examines the thoroughness and rigour with which the Legislature exercises its mandate to authorize government spending through passage of the budget law. Unless the budget approval process is rigorous, the Legislature would not be supporting the goals of accountability and transparency of the government to the electorate. The indicator assesses the scope of the Legislature's scrutiny, the internal legislative procedures, and the time allowed for that process. It also examines rules for in-year budget amendments and the level of adherence to them. There are four dimensions to this indicator. *Table 3.27* rates them and scores the indicator.

Table 3.27: Legislative Scrutiny of the Annual Budget Law

	Dimension	Score	Comments
(i)	Scope of Legislatures Scrutiny	B	The Anambra SHA examines both fiscal aggregates and details of MDA spending proposals, and conducts hearings at committee levels for more thorough scrutiny.
(ii)	Extent to which Legislature's procedures are well-established and respected	A	The SHA has well-established legislative procedures for scrutinizing and approving the budget
(iii)	Adequacy of time for the Legislature to provide response to budget proposals, both to	B	The budget for two of the three years reached the SHA in December, leaving barely one month to review and

[118] In the form of signed submission documents by staff of the SHA
[119] See Auditor General's report for 2005 (page 1) and 2006 (page 2)

	detailed estimates, and where applicable, for proposals on macro fiscal aggregates earlier in the budget cycle (time allowed in practice for all stages combined)		approve the budget. However, the SHA did not approve until well into the next fiscal year.
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the Legislature	D	Rules for in year budget amendments exist, but were not strictly adhered to in the three years
	Score (Method M1)	**D+**	

Rationale for the Score

Although the Anambra SHA does not receive complete documentation as part of the budget documentation process (see *PI-6*, above), it demands and receives substantial additional information during the approval process to properly debate and approve the budget.

The procedure adopted by the SHA follows normal legislative procedure. After formal presentation of the budget to the SHA (which constitutes the first reading of the budget) , the House subjects it to a second reading process[120] and it commits to its Finance and Appropriation Committee (F & AC) to manage the detailed examination process. The F & AC prepares a detailed timetable/schedule for budget hearing during which each MDA meets with the relevant legislative oversight committee to defend its budget proposal. The committees usually request MDAs to come along with details of the pervious year's appropriation and actual spending, explanations for the amount spent. MDAs also come prepared to justify their current proposals to the committees. These committee hearings are open to the public, who can also make representations as they deem fit. Following this, the different committees prepare and route their reports to the F & AC, which harmonizes them and presents to the committee of the whole House. This is the third reading of the budget, which also involve rigorous and detailed discussion. The SHA passes the budget after this third reading. This is the same process through which supplementary budget requests pass.

Until passage of the 2008 budget, the Financial Regulations (FR) permitted the Commissioner for Finance to approve virement between budget heads, so long as the aggregates approved by the SHA remain intact. Any alteration affecting budget aggregates must receive prior legislative approval or if that is not immediately possible, soon after. However, as already pointed out in several places in this report, the Executive did not adhere to this provision as it only initiated the process to approve 2003-2005 virements on December 23, 2005.

Reforms under Way

The approved Fiscal 2008 budget contains a clause that outlaws all virements, no matter how small without receiving prior legislative approval. If implemented, it will help curb the huge discrepancy between budget outturn and original approved budget, a major outcome of the Anambra State PFM performance between 2004 and 2006 (see sections on ***PI-1*** and ***PI-2*** above).

PI-28: Legislative Scrutiny of External Audit Reports

This last indicator examines anther key role of the Legislature in the budget process – exercise of scrutiny over implementation of the budget. Usually, a dedicated legislative committee examines

[120] This takes the form of general debates on the broad guidelines and contours/shape of the budget

eternal audit reports and questions responsible parties over audit findings. The oversight work of the committee covers both government entities directly audited by the SAI, and AGA, which by law, use other auditors. In addition to the recommendations of the external auditor, this committee imposes/recommends sanctions, which the executive implements. To underscore the importance attached to the operations of this committee, it is usual to allocate adequate financial and technical resources to its work. *Table 3.28* set out the three dimensions of this indicator and their ratings.

Table 3.28: Legislative Scrutiny of External audit Reports

	Dimension	Score	Comments
(i)	Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	D	Although the SHA regularly constitutes Public Accounts Committee, there is no evidence that PAC had for once examined audit reports since return to civil administration in 1999.
(ii)	Extent of hearings on key findings undertaken by the Legislature	D	The SHA/PAC does not conduct any hearings
(iii)	Issuance of recommended actions by the Legislature and implementation by the executive	D	The SHA/PAC does not issue any recommendations
	Score (Method M1)	**D**	

Rationale for the Score

There is evidence that the Auditor General submitted audited reports to the House for each of the three years, 2004 – 2006 (see ***PI-26*** above). However, it was clear from discussions with the both the Public Accounts Committee (PAC) of the SHA and the Auditor General (and his staff) that the PAC did not always do much with the reports. Committee members admitted not knowing exactly what to do with the reports.

Chapter 4: Government Reform Processes

4.1 Description of Recent and Ongoing Reforms

After decades of military rule, the return to democratic governance in Nigeria in 1999 ushered in a flurry of reforms at the national and state levels aimed at jump-starting the a comatose economy. The reforms encompass economic, social, and political institutions. The underpinning policy framework for these reforms is articulated in the National Economic Empowerment and Development Strategy (NEEDS) at the federal level. The states also bought into the policy and subsequently developed the states' versions of this development framework, which are tagged State Economic Empowerment and Development Strategy (SEEDS). Even Local Governments in the states in tune with this prevailing atmosphere of reform development the local governments' versions of the reform policy: the Local Economic Empowerment and Development Strategy (LEEDS). These documents were inaugurated in 2003/2004 with the aim of wealth creation, employment generation, poverty reduction, and value orientation.

In Anambra State, the SEEDS document was developed to guide the socioeconomic development of the state for the three-year period 2004-2007 with the aim of instituting an integrated approach to the development of the state. The reform initiative encompassed a wide range of institutions in education, health agriculture, governance, and fiscal policy among others. The key development priorities of the Anambra state SEEDS include -------

The breadth and depth of the reforms has been constrained by limited funds but the effort alone was good enough to attract the assistance of a number of international donor organizations to the state. The European Union, through the Support for Reforming Institutions Programme (SRIP) has played important roles in these reforms initiatives by proving funding to support capacity building and institutional reforms and other projects in the state.

The Public Financial Management Reforms

Fundamental to these on-going reforms in Anambra state is the public finance management reform. If the reforms are to be sustainable in the long-run, it is necessary that the state should continuously assess and improve its institutions and system of finance management. The key objectives in the public finance management in the state must include:

- To ensure that finance the state's annual budgets and financial plans are consistent with government set development priorities
- Actual spending is directed towards the target areas.
- The state's assets are protected while and liabilities are incurred and managed and controlled manner
- To eliminate waste and corruption in public financial management in the state
- That spending is effective and efficient in a way that achieves value for money

A regular public financial management and accountability exercise is therefore necessary to provide the essential basis for the conduct of government business in the state.

The Anambra state government has in recent years initiated reforms aimed at development the financial management system and capacity in the state. These steps have been supported largely by international donor organizations. In this aspect, the Support for Reforming Institutions Programme (SRIP) of the European Union has played a pivotal role in financing PFM reforms.

The main on-going or planned PFM reforms in the state include:

- The introduction of bank-based revenue collection system which requires that every payment (including taxes, school fees, registration fees, levies etc) is paid to the state through the bank
- A planned computerization of the state's payroll system to ensure that the payroll is properly managed
- The introduction of a new Budget Classification & Charts of Account (BC&COA) which aims reclassifying the state's according coding methods to meet with international accounting standards and to ensure transparency of information in all stages of the financial management process.
- The development of Medium Term Expenditure Framework (MTEF) with the purpose achieving fiscal discipline, linking state's expenditure to policy priorities, and instituting a three-year forward-looking costed plans to provide a consistent framework for the state's annual budgets
- Public Expenditure Review (PER) which attempts to review the public expenditure system of the state, the strengths and weaknesses of the system with the overall objective of improving the capacity for financial management system in the state.
- Reconciling the state's debt profile with the national Debt Management of Office (DMO) and a programming of liquidating the state's international and local debts.
- Attempts to restructure and centralize the authority to incur expenditure in the state.
- Strict adherence to the procurement procedure as documented in the stores regulation

The success of these reform initiatives depend largely on regular assessment and monitoring of PFM performance indicators.

Annex 1: Performance Indicators Summary

Indicator	Dimension Ratings				Overall Indicator Scoring	Brief Explanation and Cardinal Data Used
	i	ii	iii	iv		
A. PFM Outturns: Credibility of the Budget						
1. Aggregate expenditure out-turn compared to original approved budget	C				**C**	Actual primary expenditures (excluding donor funded projects) in 2004 and 2006 were below the originally budgeted expenditure by 29.9% and 10.5% respectively, whereas in 2005, expenditure was below budget by 0.8%
2. Composition of expenditure out-turn compared to original approved budget	D				**D**	Variance in expenditure composition exceeded deviation in primary expenditure by 38.6% in 2005, and 36.1% in 2006; in 2004 it exceeded it by only 1.0% respectively.
3. Aggregate revenue out-turn compared to original approved budget	Uncertain				**Uncertain**	Revenue collection (defined as total revenue from both federal and own sources) exceeded projection by 39.05% 20%, and 16.05%, respectively in 2004, 2005, and 2006
4. Stock and monitoring of expenditure payment arrears	Can't rate	Can't rate			**Can't score**	Although the SG appears to have stock of information on different of arrears, there is no proper consolidation of this information to indicate that stock of arrears if comprehensiveness. The possibility of omitting some vital arrears exists as explained below.
B. Key Cross-cutting Issues: Comprehensiveness and Transparency						
5. Classification of the budget	D				**D**	The State introduced a new program based budget codification and accounts classification system in 2004. However, the system cannot accumulate capital spending administrative. The system is not yet properly understood and has caused major accounting problems, leading the auditor general's reports to describe "incorrect classification of accounts" as "the greatest impediment" in the PFM system.
6. Comprehensiveness of information included in the budget	B				**B**	The Governor's speech presenting the budget to the State House of Assembly (SHA) typically includes an analysis of the state's fiscal performance in the outgoing year, summarized budget data for both revenue and expenditure according to the main heads, and explanation of budget implications pf new policy initiatives. The state government did not propose ant deficit budget between 2004 and 2006. However, there neither macroeconomic projections nor analysis of existing debt stock and financial assets.
7. Extent of unreported government operations	Not rated	Not rated			**Not scored**	Most parastatals do not submit their annual accounts to government. Only five out 33 AGAs regularly report to government. It was not possible to estimate the size in financial terms, of the parastatals. In addition, the audit reports contain a number of cases of MDAs

						failing to remit to the Treasury collected revenues; instead, they expended them, contrary to the Financial Regulations.
8. Transparency of inter-governmental fiscal relations	C	D	D		**D+**	The Anambra State Local government Law, No. 5 of 1999 (s. 15) provides for the deduction of 2 percent from Federation Account revenues due to local government councils and retention of 50 percent of state contribution (10 percent of State IGR) to local government funding for common services. However, s. 162 of the Constitution requires that state governments contribute 10 percent of their ***total*** revenue not only IGR) revenue to local government funding. Besides, there is evidence that the SG deducted more than the 2 percent allowed by law from LG funding. The extra deduction was to cover LG staff salaries, primary schools funding, staff pension contributions, settlement of outstanding debt, etc. Further, there was no evidence that local governments could predict their receipt revenue receipts from local governments. The SG did not collect and consolidate LG spending during the period.
9. Oversight of aggregate fiscal risk from other public sector entities	D	C			**D+**	SG monitoring of fiscal risk of parastatals and government enterprises was very weak during the period. The audit report each of 2004 – 2006 indicates that only 5 out of 34 listed parastatals prepared and submitted their annual accounts to the Government as required by law.
10. Public access to key fiscal information	C				**C**	The SG Printer produces audit reports, annual accounts, and budgets, which the public could purchase as desired. The State also advertises the annual budget through the print and electronic media. However, there is no evidence of the public (including civil servants) accessing and using these documents. The State does not publish these documents on its website. The SG did not widely disseminate information on contracts awards, etc. during the period.
C. Budget Cycle						
C (i). Policy-Based Budgeting)						
11. Orderliness and participation in the annual budget process	D	D	D		**D**	The assessors could not establish the existence of a clear budget calendar, despite claim by SG officials. Although the Ministry of Finance issues budget circulars (BC) that allow MDAs up to four weeks, the 2008 BC, provided as sample, did not contain a timetable of events leading to the submission of the draft budget to the SHA. The budget circular did not contain sectoral budget ceilings; instead, the State Executive Council approves allocations only after MDAs have submitted detailed estimates. The Auditor General's reports indicated that Legislature approved the 2005 budgets (April 2005) and 2006 (March 2006) with more than two months delay. The Executive presented the budgets to the Legislature in December of those years.
12. Multi-year perspective in fiscal	D	D	D	D	**D**	There were no forward estimates of fiscal aggregates between 2004 and 2006. There was also no debt

planning, expenditure policy, and budgeting						sustainability analysis, and no costed sectoral strategies. The State adopted the dual budgeting approach: investment (capital) and recurrent expenditure still exists as separate process. The Ministry of Planning controls capital budgeting, whereas the Budget Department of the Ministry of finance is in charge of recurrent budgeting.
C(ii). Predictability and Control in Budget Execution						
13. Transparency of taxpayer obligations and liabilities	A	B	C		**B**	There is clear legislation on the major taxes. Taxpayers have access to taxpayer information. However, the tax appeals system of administrative procedures requires substantial redesign to be fair, transparent, and effective.
14. Effectiveness of measures for taxpayer registration and tax assessment	D	C	D		**D+**	Taxpayer registration is not subject to effective controls and enforcement systems. Although, penalties for non-compliance generally exist, they make no impact at all. There is need for substantial changes to their administration. Tax audits and fraud investigations are rare and only undertaken by consultants; the State Board of Internal Revenue does not have the capacity to carry out the exercise.
15. Effectiveness in collection of tax payments	D	A	D		**D+**	The state does not compile information on tax arrears. However, during the period under review, the tax authority directly paid all tax revenues to the state treasury or sub treasuries, as applicable. Nonetheless, there was no evidence of complete reconciliation of tax assessments, collections, arrears, and transfers to the treasury.
16. Predictability in the availability of funds commitment of expenditures	D	D	D		**D**	There is no evidence of cash flow forecast and monitoring between 2004 and 2006. The SG also did not provide MDAs with commitment ceilings for any of the years. There was evidence of frequent significant in-year budget adjustments, the basis of which was not always clear.
17. Recording and management of cash balances, debt, and guarantees	C	C	A		**B**	Anambra State produced impressive records of domestic and foreign debt relating to 2004 - 2006. The quality is fair and some gaps remain. There was no evidence of consolidation if bank balances. The SG did not contract any loans between 2004 and 2006.
18. Effectiveness of payroll controls	B	A	B	A	**B+**	Full documentation of personnel records supported payroll data between 2004 and 2006. There were regular monthly updates to personnel and payroll records. Only the Head of Service could authorize changes to personnel records for very clear reasons. The SG also conducted payroll audits to authenticate payroll records during the period.
19. Competition, value for money, and controls in procurement	C	C	C		**C**	Majority contracts awarded during the period were on selective tendering. Justification for use of that method was generally weak. A procurement complaints process exists, but the rules are neither clear nor backed by legislation.
20. Effectiveness in internal controls for non-salary expenditure	D	B	D		**D+**	Although the Financial Regulations contain clear rules for commitment control, evidence of failure to adhere to budgeted spending during the period point to their routine violation. Use of emergency procedures in unjustified situations during 2004 – 2006 is an

						important concern.
21. Effectiveness of internal audit	D	D	D		**D**	As the audit report for 2006 observes, “the Internal Audit Unit of Ministries and non-ministerial Departments seemed to be non functional for no single internal audit report was received … during the period under review. *This has been the situation over the years*” (emphasis added). Internal auditors posted by the Accountant General to MDAs are often junior offices. Besides, the arrangement is that they report to the Commissioners, not the Accountant General.
C(iii). Accounting, Recording, and Reporting						
22. Timeliness and regularity of accounts reconciliation	D	A			**C+**	As the 2005 Auditor General’s Report observes on page 4, “sub treasuries and Ministries did not prepare bank reconciliation statements”. However, the Accountant General noted this observation and has since mapped out a capacity building strategy for redress the issue.
23. Availability of information on resources received by service delivery units	C				**C**	The assessment team did not obtain information on primary health. A special report from the Anambra State Universal Basic Education Board (ASUBEB) could only show FG and SG counterpart fund in for basic education for 2005 and 2006.
24. Quality and timeliness of in-year budget reports	D	D	D		**D**	The State Government does not prepare in year budget reports
25. Quality and timeliness of annual financial statements	B	A	A		**B+**	Backlog of accounts arrears cleared in 2004. From 2005, accounts have been prepared within six months. Nigeria does not have standards for public accounting. However, the accounts conform with extant financial regulations and reporting formats agreed by Conference of Accountants General in the country, although they do not conform to internationally accepted standard.
C(iv). External Scrutiny and Audit						
26. Scope, nature, and follow-up of external audit	B	B	B		**B**	There is evidence timely submission pf audited accounts submitted to the State House of Assembly on time, in 2005 (September 22, 2006) and 2006 (25 May 2007). Submission of 2004 account was on 30 November 2005. However, there is no evidence of follow up and action by Public Accounts Committee.
27. Legislative scrutiny of annual budget law	B	A	B	D	**D+**	Rules for in year budget amendments exist, but were violated in each of the three years
28. Legislative scrutiny of external audit reports	D	D	D		**D**	There is evidence that the Auditor General submitted audit reports to the House, but there is no evidence that the PAC discussed the reports or took any action
HLH-1 Predictability of Transfers from Higher Level Government						
HLH-1. Predictability of Transfers from Higher Level Government						

Annex 2: Sources of Information

Anambra State Government of Nigeria, **Anambra State Handbook**, Awka: Ministry of Information and Culture, Jan. 2001

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Okonji, Patrick and Eze, Chinedu: *Development of Anambra State New Budget Classification and Chart of Accounts*, EU-SRIP, November 2007

Okonji, Patrick: *Development of Medium Term Fiscal Framework*, EU-SRIP, November, 2007

Annex 3: List of Nigerian Government Officials Met

Attendance at Inception Workshop

1. Abadom, Odira A., Ag Director, Office of the Auditor General of the State
2. Agbaim, Chijioke Ify, Chief Statistics Officer, Ministry of Economic Planning and Development, Awka
3. Anene, R. O, Ag Director, Min. of Finance
4. Azi, B. U., Ag. Director – Ministry of Economic Planning and Development, Awka
5. Eze, Echesi, Commissioner, Min. of Finance and Budget
6. Nwakalor, Oby, Min. of Finance, Head of Department (Final Accounts), Office of the Accountant General
7. Nwandu, Vivian O. Perm. Sec, Ministry of Economic Planning and Development, Awka
8. Nwokolo, R. Enu, Perm. Sec, Min. of Finance
9. Nwosu, A. B. C., Deputy Director (Planning) Due Process (Procurement)
10. Obigwe, Hilary O., Min. of Finance, Accounts
11. Ogbogu, R. H. C., Accountant General, Min. of Finance and Budget
12. Okafor, Joseph N., Partner of the Chartered Accountants
13. Okeke, Azuka, Director of Planning, Office of the Secretary to the State Government
14. Okeke, C. O., Deputy Director (Statistics), Ministry of Economic Planning and Development, Awka
15. Ononye, R. N.-Min. of Finance, PRO Accounts
16. Onuchukwu, P. U., Ag Director (Accounts), Office of the Accountant General of Anambra State
17. Onyekwuluje, P. M., Chairman, Board of Internal Revenue
18. Orji, K. O., Government House
19. Umeobi, A. O., Director of Planning, Ministry of Economic Planning and Development, Awka
20. Umeocha, L. I., Principal Executive Officer, Accounts, Budget
21. Umerah, B. C., Ag. Director, Planning, Research, and Statistics Department, Ministry of Agriculture

Members of Anambra State House of Assembly (PAC and Finance & Appropriation Committee Members) Met

1. Hon. Boniface Okonkwo – Finance & Appropriation
2. Hon. Chinedu Muokwune – Public Accounts Committee/Finance & Appropriation
3. Hon. Chukwuka Obiora – Foreign Affairs/ Finance & Appropriation
4. Hon. Emeka G. Idu – Public Accounts Committee
5. Hon. G. O. Onyenweife – Public Accounts Committee/Finance & Appropriation
6. Hon. M. O. Offor – Public Accounts Committee

Meeting at Anambra State Universal Education Board (ASUBEB)

1. Agudosi, Chris, Director (Accounts)
2. Agusiobo, Chuka (Dr.), Board Secretary
3. Mba, D. I., Director, Planning, Research, & Statistics Department
4. Mbonu Chu'ma – Chairman
5. Nwachukwu, Louis Idi, Member II
6. Nwakalor, Oby, Head of Department (Final Accounts), Office of the Accountant General
7. Nwosu, Ngozi (Mrs.), Member III
8. Okafor, E. C., Desk Office (State Debt Management Department)
9. Ononye, Felicia, Planning, Monitoring & Evaluation
10. Onuchukwu, P. U., Ag. Director, Office of the Accountant General

Members of State Technical Committee on PEFA Assessment Members (Jointly Evaluated Evidence with Consultants Assessors)

1. Abadom, Odira A., Ag Director, Office of the Auditor General of the State
2. Anene, R. O, Ag Director, Min. of Finance – Deputy Chairperson
3. Azi, B. U., Ag. Director – Ministry of Economic Planning and Development, Awka
4. Nwakalor, Oby, Head of Department (Final Accounts), Office of the Accountant General - Member
5. Nwosu, A. B. C., Deputy Director (Planning) Due Process (Procurement)
6. Okafor, E. C., Desk Office (State Debt Management Department) - Member
7. Okeke, Azuka, Director of Planning, Office of the Secretary to the State government

8. Onuchukwu, P. U., Ag. Director, Office of the Accountant General - Member
9. Onwuamaeze, Kenneth
10. Udu, Harry, Director, Establishment Office, Office of the Head of Service
11. Umeobi, A. O., Director of Planning, Ministry of Economic Planning and Development, Awka – Chairperson
12. Umeocha, Lucy Ifeoma, Principal Executive Office (Budget), ministry of Finance and Budget

Annex 4: Excel Calculations for PI-1 – PI-3

Table 1 - Fiscal years for assessment

Year 1 =	2004
Year 2 =	2005
Year 3 =	2006

Table 2

Data for year =	2004				
functional head	budget	actual	difference	absolute	percent
Ministry of Works & Transport	5790.48	4964.72	825.76	825.762	14.3%
General Administration	2157.04	1643.15	513.89	513.888	23.8%
Ministry of Education	3517.52	3083.28	434.23	434.234	12.3%
Ministry of Health (including Environmental Health)	1214.21	510.10	704.11	704.105	58.0%
Ministry of Finance & Budget	527.40	598.29	-70.89	70.89	13.4%
Min of Information and Culture	285.51	85.24	200.27	200.265	70.1%
Min of Women Affairs (incl. Social Dev)	484.61	155.82	328.80	328.796	67.8%
Bureau for Lands, Survey, & Urban Planning (Ministry)	158.83	30.42	128.41	128.411	80.8%
Min of Environ, & Mineral Res. (incl. Sc. Tech)	771.66	312.98	458.69	458.685	59.4%
Ministry of Agriculture (incl. Livestock, Fisheries, & Forestry)	384.82	170.18	214.64	214.642	55.8%
Bureau of Public Utilities (incl. Bureau of Publ. Ulities & Infra)	1027.68	121.13	906.55	906.552	88.2%
Ministry of Housing & Urban Dev	886.50	898.37	-11.87	11.874	1.3%
Board of Internal Revenue	105.19	72.44	32.75	32.749	31.1%
Ministry of Commerce (including Mfg & Crafts, Coop & Tourism)	281.29	84.07	197.22	197.223	70.1%
Min. Of Industry, Science and Technology	0.00	0.00	0.00	0	#DIV/0!
Min of Youths & Sports	357.50	19.41	338.10	338.095	94.6%
Transfers to LGs (10 percent of IGR Collection)	360.00	162.84	197.16	197.16	54.8%
Government Press	346.02	152.43	193.59	193.587	55.9%
Examination Development Centre	8.16	6.28	1.87	1.872	23.0%
Office of the Accountant General	5.50	11.53	-6.03	6.03	109.6%
Sum of the Rest	23.12	25.85	2.731	2.731	11.8%
total expenditure	18693.02	13108.52	-5584.5	5584.501	29.9%
composition variance	18693.02	13108.52		5767.551	30.9%

Table 3

Data for year =	2005				
functional head	budget	actual	difference	absolute	percent
Ministry of Works & Transport	8152.66	12695.49	4542.828	4542.828	55.7%
General Administration	5171.58	4563.27	-608.317	608.317	11.8%
Ministry of Education	4204.49	3662.20	-542.282	542.282	12.9%
Ministry of Health (including Environmental Health)	1282.09	1145.11	-136.985	136.985	10.7%
Ministry of Finance & Budget	442.23	736.56	294.33	294.33	66.6%
Min of Information and Culture	311.00	66.21	-244.786	244.786	78.7%
Min of Women Affairs (incl. Social Dev)	488.50	250.81	-237.694	237.694	48.7%
Bureau for Lands, Survey, & Urban Planning (Ministry)	155.28	24.13	-131.153	131.153	84.5%
Min of Environ, & Mineral Res. (incl. Sc. Tech)	360.15	108.88	-251.267	251.267	69.8%
Ministry of Agriculture (incl. Livestock, Fisheries, & Forestry)	634.52	173.62	-460.893	460.893	72.6%
Bureau of Public Utilities (incl. Bureau of Publ. Ulities & Infra)	1050.54	371.62	-678.919	678.919	64.6%
Ministry of Housing & Urban Dev	1631.56	647.44	-984.122	984.122	60.3%
Board of Internal Revenue	132.29	67.63	-64.666	64.666	48.9%
Ministry of Commerce (including Mfg & Crafts, Coop & Tourism)	171.40	26.35	-145.053	145.053	84.6%
Min. Of Industry, Science and Technology	0.00	0.00	0	0	#DIV/0!
Min of Youths & Sports	419.24	185.25	-233.987	233.987	55.8%
Transfers to LGs (10 percent of IGR Collection)	372.00	87.23	-284.773	284.773	76.6%
Government Press	35.55	15.31	-20.235	20.235	56.9%
Examination Development Centre	10.64	9.96	-0.685	0.685	6.4%
Office of the Accountant General	9.00	9.13	0.131	0.131	0.0%
Sum of the Rest	22.38	10.53	-11.85	11.85	53.0%
total expenditure deviation	25057.10	24856.72	-200.378	200.378	0.8%
composition variance	25057.1	24856.72		9874.956	39.4%

Table 4

Data for year =	2006				
functional head	budget	actual	difference	absolute	percent
Ministry of Works & Transport	7236.20	12171.08	4934.883	4934.883	68.2%
General Administration	7399.38	5729.98	-1669.4	1669.398	22.6%
Ministry of Education	5421.92	3280.19	-2141.74	2141.735	39.5%
Ministry of Health (including Environmental Health)	1361.08	1298.50	-62.579	62.579	4.6%
Ministry of Finance & Budget	619.70	685.55	65.847	65.847	10.6%
Min of Information and Culture	684.20	369.30	-314.898	314.898	46.0%
Min of Women Affairs (incl. Social Dev)	691.40	276.46	-414.937	414.937	60.0%
Bureau for Lands, Survey, & Urban Planning (Ministry)	446.40	276.38	-170.017	170.017	38.1%
Min of Environ, & Mineral Res. (incl. Sc. Tech)	401.00	262.93	-138.07	138.07	34.4%
Ministry of Agriculture (incl. Livestock, Fisheries, & Forestry)	731.70	145.90	-585.8	585.8	80.1%
Bureau of Public Utilities (incl. Bureau of Publ. Ulities & Infra)	780.60	143.18	-637.422	637.422	81.7%
Ministry of Housing & Urban Dev	1057.50	132.43	-925.072	925.072	87.5%
Board of Internal Revenue	113.85	108.67	-5.18	5.18	4.5%
Ministry of Commerce (including Mfg & Crafts, Coop & Tourism)	465.40	76.12	-389.285	389.285	83.6%
Min. Of Industry, Science and Technology	0.00	34.30	34.297	34.297	#DIV/0!
Min of Youths & Sports	529.00	32.40	-496.597	496.597	93.9%
Transfers to LGs (10 percent of IGR Collection)	0.00	32.30	32.297	32.297	#DIV/0!
Government Press	36.76	24.01	-12.752	12.752	34.7%
Examination Development Centre	17.30	15.06	-2.244	2.244	13.0%
Office of the Accountant General	11.00	9.76	-1.24	1.24	11.3%
Sum of the Rest	33.70	3.43	-30.267	30.267	89.8%
total expenditure deviation	28038.08	25107.91	-2930.17	2930.169	10.5%
composition variance	28038.08	25107.91		13064.82	46.6%

Table 5 - Results Matrix

	for PI-1		for PI-2
year	total exp. deviation	total exp. variance	variance in excess of total deviation
2004	29.9%	30.9%	1.0%
2005	0.8%	39.4%	38.6%
2006	10.5%	46.6%	36.1%

Annex 5: Terms of Reference

SUPPORT TO REFORMING INSTITUTIONS PROGRAMME (SRIP)

ANAMBRA STATE OPE 1

TERMS OF REFERENCE

Activity 3.2.1.1B – Assessment of Public Finance Management System in Anambra State, using PEFA – Performance Measurement Framework

1. BACKGROUND

The Support to Reforming Institutions Programme (SRIP) aims at supporting the National Economic and Empowerment Development Strategy (NEEDS) launched on March 15, 2004 and its derived activities at the state and local government levels (SEEDS and LEEDS). In doing so, the SRIP is geared to improving public service delivery. Such an outcome directly calls for a more efficient and more transparent budget management; the end-result of which must be reflected in a business climate more conducive to private productive investment and job creation and, subsequently, to a marked reduction of poverty in the affected Programme areas.

SRIP is managed by a Project Management Unit (PMU) based in Abuja. State Technical Units (STUs) are directed and monitored by the PMU in their delivery of assistance to selected state and local government authorities and CSOs in Cross River, Osun, Jigawa, Anambra, Kano and Yobe.

According to the Financing Agreement between the European Commission and the Federal Republic of Nigeria, the Programme plans to achieve two results:

(i) Transparent budgeting processes that take account of past experience, reflect the political priorities identified through political debate, and serve as a binding guide to their implementation, using the prudently estimated resources available; and

(ii) Citizens who through Civil Society Organisations can participate effectively in the budget process, highlighting cases of corruption and business crime.

Nigeria's poor growth performance has been attributed to some observed weaknesses in her public finance management system. There is wide agreement that effective institutions and system of public financial management (PFM) have a critical role to play in supporting implementation of policies of national development and poverty reduction.

A major weakness in Nigeria's PFM system is the inadequate budget formulation, expenditure prioritization and expenditure control which invariably manifest itself in poor finances of core public services.

A second major weakness is the absence of accountability mechanisms, resulting in large scale corruption and misuse of public funds within the budget execution process.

A review of public financial management performance by the World Bank (May 2007) in four Nigerian States (Bauchi, Cross River, Enugu and Kaduna) confirmed that the public financial management performance of Nigerian states is very weak and in need of urgent reform. The Report further stressed that though there might be exceptional cases of good performance, but overall, these cases constitute a small proportion to have any appreciable impact on economic development and poverty reduction agenda.

A good PFM system is essential for aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. An open and orderly PFM system is critical for the achievement of the three budget outcomes:

- Aggregate fiscal discipline.
- Strategic prioritization of need and policies.
- Efficient service delivery and value for money.

A consultancy input is required to assess the present situation and highlight weaknesses of the PFM system in Anambra state using the Public Expenditure and Financial Accountability (PEFA 2005) – Performance Measurement Framework (see www.pefa.org). A PEFA-type assessment forms the basis of a PFM Reform Plan. A PFM Reform Plan must be driven by the state government. The assignment is to conduct a PEFA self-assessment as a consultative process with state government officials taking a lead role.

PEFA Methodology: The PFM Performance Measurement Framework is an integrated Monitoring Framework that allows measurement of PFM performance over time. It has been developed by the PEFA partners, in collaboration with the OECD/DAC Joint Venture on PFM as a tool that would provide reliable information on the performance of PFM systems, processes and institutions over time.

The PFM Performance Measurement Framework identifies six critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, monitored and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by executive are operating.

There are 28 set of high-level indicators against which the six core dimensions of PFM performance are assessed. The set of high-level indicators focuses on the operational performance of the key elements of the PFM systems, processes and institutions, and captures the key PFM elements that are considered critical for the achievement of sound public financial management. The indicator-based analysis is used to develop an integrated assessment of the PFM weaknesses on the three levels of budgetary outcome.

The selected 28 indicators for the state's PFM system are structured into three categories.

A. PFM system out-turns: these capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.

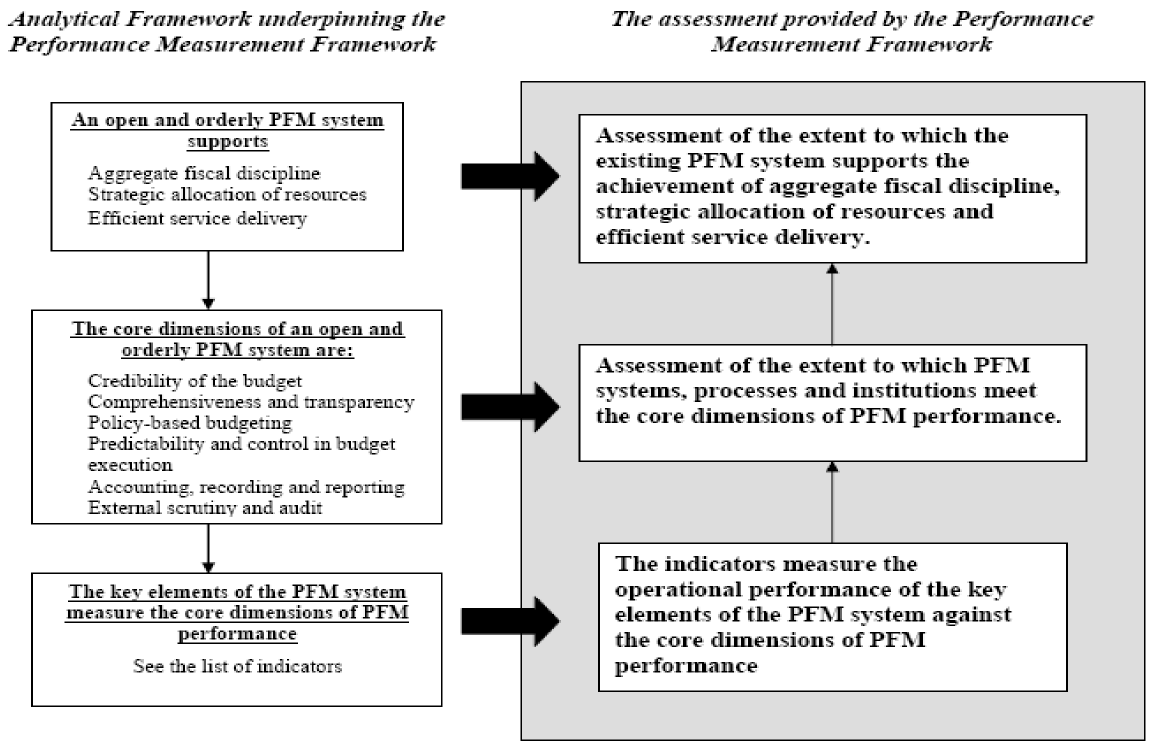
B. Cross-cutting features of the PFM system: these capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.

C. Budget Cycle: these capture the performance of the key system, processes and institutions within the budget cycle of the state government.

Each indicator seeks to measure performance of a key PFM element against a four point ordinal scale from A to D. Guidance has been developed on what performance would meet each score, for each of the indicators. The set of high-level indicators focuses on the basic qualities of a PFM system based on existing good international practices.

Finally, a Performance Report (PFM-PR) is prepared to provide an assessment of current PFM performance based on the indicator-led analysis and the likely impact of observed weakness on the three levels of budgetary outcomes.

The overall structure of the Performance Measurement Framework is summarized below:



2. DESCRIPTION OF THE ASSIGNMENT

2.1 Beneficiaries

The state government and her citizens through effective service delivery and poverty reduction occasioned by a sound PFM systems, processes and institutions.

2.2 Global Objectives

- To promote fiscal discipline and achieve sound public financial management.
- Achieve strategic allocation of resources.
- Provide effective service delivery and value for money during budget execution.
- Support implementation of development policies and poverty reduction.

2.3 Specific Objectives

- Assess the extent to which the existing PFM system supports the achievement of aggregate fiscal discipline, strategic allocation of resources and effective service delivery.
- Assess the extent to which PFM systems, processes and institutions meet the core dimensions of PFM performance. (See Annex 1).
- Use the high-level indicators to measure the operational performance of the key elements of the PFM system against the core dimensions of PFM performance. (See Annex 2).
- Compare and contrast the findings of Anambra study with the PEFA-type assessment carried out by the Word Bank in four Nigerian States – Bauchi, Cross River, Enugu and Kaduna (see World Bank Report No. 36496-NG). Draw lessons and provide possible next steps in form of priority directions for PFM reform in the State.
- Prepare a comprehensive PFM-Performance Report (PFM-PR) in accordance with PEFA methodology.

2.4 Requested Services

§ Undertake an in-depth study of the PEFA-PFM Performance Measurement Framework.
§ Identify PFM institutions in the state that would participate in the programme and hold a training/workshop sessions with the officials on the PEFA Performance Measurement Framework prior to the assignment proper, so as to enhance their participation in the PEFA-type assessment. The selected officials will form the state PEFA Team.
§ Prepare a brief economic analysis containing the economic and demographic structure of the state and recent financial reforms implemented and on-going in the state. The brief should also provide:
  - an overview of the budgetary outcomes in the state in the last three years with information on the main trends in fiscal performance, sectoral and economic allocation of resources and other relevant information as well as
  - a description of the legal and institutional environment within which PFM systems and institutions operate and other key features of the PFM system.

§ Present the analysis of the findings of the indicator-led assessment of the core dimensions of PFM performance separating the present situation (what the situation is) differently from the status of reforms being undertaken by the state.
§ Analyze other state specific issues that impact on the state PFM performance but not fully captured by the indicators.
§ Discuss the overall efforts made by the state government to improve the PFM performance and a prognosis for the future of PFM reforms in the state.
§ Organize a consultative workshop with state government officials to discuss the main findings and the proposed recommendation and develop an Action Plan aiming at improving the PFM system in Anambra State.

2.5 Expected outputs

§ Workshop Report based on SRIP template.
§ A completed PEFA Assessment.
§ A comprehensive PFM-PR based on the template provided by PEFA in Public Financial Management Performance Measurement Framework.

3.0 EXPERT PROFILE

One senior short-term expert preferably with a higher degree in economics with specialization in public finance. Must possess not less than 15 years experience in public sector consulting and must have undertaken PER assignment at either the Federal and or State level. Familiarity with World Bank and other Donor agencies publications on Public Expenditure Measurement and in particular the

PEFA-PFM Performance Management Framework will be an advantage. Excellent computing, analytical and report writing skills will be required.

3.1 Working Language

English Language.

4.0 Location and Duration

- Anambra State
- 25 Calendar Days: 15 days in Anambra State.
  10 days to write the Report.

4.1 Work plan

Travel Time	Preparation	Pre-PEFA Inception Workshop	PEFA Assessment	Report Writing	Post PEFA Assessment (Consultative forum)	Total
1	1	1	12	8	1	25[121]

4.2 Approach

PEFA is a self-assessment tool and must be driven by the state government. Therefore, a consultative process approach will be adopted. A PEFA team from the Ministry of Economic Planning, Finance and Budget will be formed to drive the PEFA self-Assessment, but will be backstopped by the Consultant. The team will be responsible for data collection and collation.

5.0 Reporting

Submission of draft report 3 days after the completion of the assignment. The final reports will be required, after incorporating comments from the STU and the Stakeholders, 5 days after the receipt of these comments, and forwarded to SRIP, Anambra State Technical Unit, Government House, Enugu-Onitsha Expressway, Awka. The soft copy should be e-mailed to seni@sripnig.org.

Annex 1: PEFA – PFM High Level Performance Indicator Set

	A. PFM OUT-TURNS: Credibility of the budget
PI – 1	Aggregate expenditure out-turn compared to original approved budget
PI – 2	Composition of expenditure out-turn compared to original approved budget
PI – 3	Aggregate revenue out-turn compared to original approved budget
PI – 4	Stock and monitoring of expenditure payment arrears
	B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency
PI – 5	Classification of the budget
PI – 6	Comprehensiveness of the information included in the budget documentation
PI – 7	Extent of unreported government operations
PI – 8	Transparency of inter-governmental fiscal relations
PI – 9	Oversight of aggregate fiscal risk from other public sector entities
PI – 10	Public access to fiscal information
	C. BUDGET CYCLE

[121] Consultant's Note: EU-SRIP actually did not eventually draw up a contract for 25 days. It drew up a contract for only 20 person-days.

	C (i) Policy-Based Budgeting
PI – 11	Orderliness and participation in the annual budget process
PI – 12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	C (ii) Predictability and Control in Budget Execution
PI – 13	Transparency of taxpayer obligations and liabilities
PI – 14	Effectiveness of measures for taxpayer registration and tax assessment
PI – 15	Effectiveness in collection of tax payments
PI – 16	Predictability in the availability of funds for commitment of expenditures
PI – 17	Recording and management of cash balances, debt and guarantees
PI – 18	Effectiveness of payroll controls
PI – 19	Competition, value for money and controls in procurement
PI – 20	Effectiveness of internal controls for non-salary expenditure
PI – 21	Effectiveness of internal audit
	C (iii) Accounting, Recording and Reporting
PI – 22	Timeliness and regularity of accounts reconciliation
PI – 23	Availability of information on resources received by service delivery units
PI – 24	Quality and timeliness of in year budget reports
PI – 25	Quality and timeliness of annual financial statements
	C (iv) External Scrutiny and Audit
PI – 26	Scope, nature and follow up of external audit
PI – 27	Legislative scrutiny of the annual budget review
PI – 28	Legislative scrutiny of external audit reports
	D. DONOR PRACTICES
D – 1	Predictability of direct budget support
D – 2	Financial information provided by donors for budgeting and reporting on project and program aid
D – 3	Proportion of aid that is managed by use of national procedures

Source: Public Financial Management Performance Measurement Framework, PEFA Secretariat, World Bank, Washington, June 2005

Annex 2: Draft List of Evidence and Data Required for PEFA

	A. PFM OUT-TURNS: Credibility of the budget
PI – 1	Last 3 years approved budget Last 3 years actual expenditure
PI – 2	Last 3 years approved budget Last 3 years actual expenditure
PI – 3	Last 3 years approved budget Last 3 years actual revenue
PI – 4	Stock of expenditure payment arrears (obligations incurred for which payment has not been made)
	B. KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency
PI – 5	Chart of accounts / budget classification Last three years budget document
PI – 6	Chart of accounts / budget classification Last three years budget document
PI – 7	In year budget execution reports for the last three years
PI – 8	Laws and rules (published and approved) concerning financial transfers (Federal, State and Local government)
PI – 9	Fiscal reports and audited accounts from Autonomous Government Agencies and Public

	Enterprises, and sub-state (Local) governments
PI – 10	Evidence of budget documentation availability to the public (websites, notices, newspapers, document sales etc.) Documentation to include budget, execution reports, year end statements, audit reports, contract awards etc.
	C. BUDGET CYCLE
	C (i) Policy-Based Budgeting
PI – 11	Published budget calendar Evidence of political involvement in budget process (EXCO) Budget approval dates from Legislature for the last three years Budget call circulars
PI – 12	Multi-year fiscal forecasts of revenue, expenditure and debt from the last three years Budget ceilings imposed on MDAs Debt sustainability analysis (external and internal) Sector strategies / J-SEEDS
	C (ii) Predictability and Control in Budget Execution
PI – 13 **PI – 14** **PI – 15**	Legislation and procedures for all taxes Evidence that tax liability information is available to tax payers Tax appeals administrative procedures Taxpayer registration database Tax revenue in last two fiscal years Tax debt collection data
PI – 16	Annual cash flow forecasts and monthly / quarterly updates Quarterly commitment ceilings provided to MDAs
PI – 17	Records of domestic and foreign debt Quartely debt management reports (covering debt service, stock and operations) Weekly / monthly cash / bank calculations and consolidations
PI – 18	Personnel database Payroll Payroll audits and staff surveys
PI – 19	Evidence of the use of open competition for the award of contracts Procurement complaints mechanism (legislation)
PI – 20	Internal control rules and procedures governing non salary transactions for goods, services, casual labour, staff allowances etc.

PI – 21	Internal audit reports Internal audit schedule Evidence of management response to internal audit findings
	C (iii) Accounting, Recording and Reporting
PI – 22	Monthly bank reconciliations for all bank accounts Monthly reconciliations of suspense accounts and advances
PI – 23	Routine data / accounts providing reliable information that service delivery units (education, health etc) receive resources in cash or kind Public Expenditure Tracking Surveys
PI – 24	In year budget reports
PI – 25	Annual financial statements
	C (iv) External Scrutiny and Audit
PI – 26	External audit reports for State Legislature Annual audit reports for all entities of State Government
PI – 27	Legislative reviews of budget Budget laws Budget review timetable Rules for in-year budget amendment
PI – 28	Reports of legislative hearings on findings of audit reports Recommendations issued by the legislature Evidence of implementation of legislative recommendations
	D. DONOR PRACTICES
D – 1	Direct budget support forecasts from donors for the last three years Direct budget support actual inflows (by quarter) for the last three years
D – 2	Donor project budget estimates Donor project actual disbursement (by quarter)
D – 3	Procedures for banking, authorisation, procurement, accounting, disbursement and reporting for donor funds

Note: Last three years may be taken to be 2004, 2005, and 2006