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Budget Reform – Prioritisation of Capital Projects in Nigeria

Executive Summary

- Nigeria's public investment levels are at historic lows, with government expenditure providing little benefit for the Nigerian people. Falling oil prices have also only served to increase the strain on the Federal Budget.
- With a finite annual capital budget, Nigeria requires a more consistent and transparent approach towards prioritizing projects and programmes to ensure greater value for money and greater impact.
- Previous administrations attempted each year to include new projects into the capital budget without having properly appraised them. This spreads the available resources more thinly across an increasing number of projects, lengthens project timelines, and increases costs of contractors and overall expenditure. Ultimately this leads to an increased number of incomplete projects nationwide that provide no benefit to the Nigerian people.
- Efforts by successive governments in Nigeria to tilt the capital/recurrent expenditure split to reflect the need for more investment in infrastructure have not yielded the desired results. Many projects have been poorly implemented, whilst others have not been properly prepared, appraised and prioritised.
- NIAF provided expert technical assistance working with the Office of the Chief Economic Adviser to the President (OCEAP) to develop:
 1. A project prioritisation template for project selection for inclusion in the annual capital budget of Nigeria.
 2. A manual to operationalise the project selection template and act as a 'how to' guide.
- The NIAF led intervention successfully developed the template and the manual and obtained approval for its usage from the Nigerian Federal Executive Council (FEC). Furthermore, NIAF is leading the institutionalisation of the Template across all MDAs.

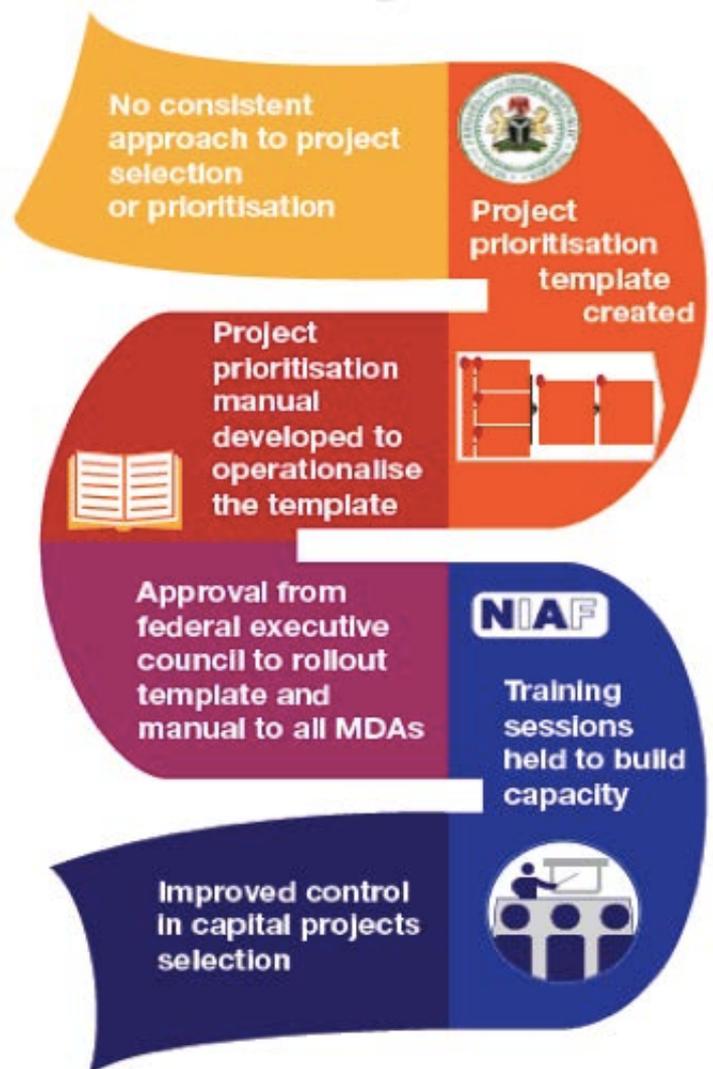
The Challenges

- Over 2000 capital projects are moribund; yet continue to receive annual budgetary allocations. This was identified by a review of on-going capital projects by the Presidential Action Committee on Projects (PACP).
- Weak fiscal discipline fostered by fluctuations in public expenditure, inefficiencies in the annual budgeting process, and weak budgetary oversight.
- While real national output has grown faster than many other countries around the globe, there has been no noticeable improvement in the quality of life of the larger population of Nigerian citizens.

- A lack of real budgetary improvement “champions” to build and maintain momentum has resulted in the ineffectiveness of previous donor support programmes.
- Lack of adequate capacity means traditional reform approaches would be superficial and, to be successful, need to be deepened and institutionalized.
- Overall, a pro-cyclical expenditure pattern coupled with poor management of oil earnings has resulted in low growth, persistent fiscal deficits, and an increase in national debt.

The NIAF Approach

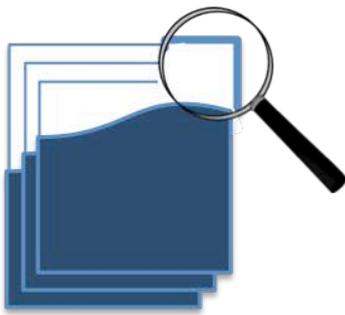
- NIAF spearheaded the design of a simple, transparent and rule-based template that identifies, prioritizes and ranks proposed capital projects. This template improves budgetary planning and execution and will assist government Ministries, Departments, and Agencies (MDAs) in focusing limited resources into funding priority projects. With the proper utilization of this template, projects with the greatest economic and social returns for the country are prioritised. NIAF assembled an expert team that developed the Project Prioritisation Template and Operational Manual for the OCEAP.
- Then initiated engagement with 7 pilot MDAs and a training programme was organised which focused on:
 1. Explaining the application, implementation and operation of the Template, and
 2. Validating the Manual that had been developed to explain the key concepts contained in the Template.
- Internal champions were appointed to drive and maintain the momentum generated from the training programme.
- NIAF has also organised further training programmes with regular capacity building sessions to institutionalise this knowledge in key MDAs and continues to receive additional requests for capacity building from several other MDAs.
- Codifying projects in uniform templates will increase the integrity of and adherence to the federal budget processes. It will no longer be possible to load the budget with 'shell' proposals; nor will it be possible to obtain annual allocations for projects that fail to meet implementation milestones.



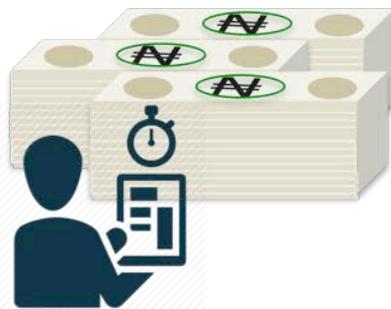
Through these NIAF interventions, there are over \$1 billion in documented savings identified through specific project reviews. Continuous interaction with the MDAs identified NIAF’s contribution to an improved budgeting process. This work was especially timely in view of the near collapse of fiscal revenue following sharp reductions in oil earnings.

The Outcomes

- Established a robust and defined approach to project costing and selection
- Developed leading practice project selection template and manual to operationalise aforementioned approach



New appraisal and screening techniques able to rank project priorities across sectors by scoring project performance against key indicators: RoR, fiscal impact, employment impact and environment impact



- Over \$1 billion in documented savings identified through specific project reviews
- Systems being introduced will enable the federal government to track performance of the capital budget
- Improved fiscal control of annual capital budget
- Increased accountability for project selection process and the capital budgeting process