NATIONAL OPEN UNIVERSITY OF NIGERIA

COURSE CODE: BFN 779

COURSE TITLE: PUBLIC FINANCIAL MANAGEMENT

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INTRODUCTION

The course "Public Financial Management" has been designed to expose you to the fundamentals of public financial management. It teaches you financial management in the public sector. It exposes you to the rudiments of public financial management.

Course Aim

The aim of the course is to acquaint you with the basic financial management principles, approaches and processes.

Course Objectives

At the end of this course, you should be able to:

*Discuss the fundamentals of public financial management
*How public finance is raised and expenditure controlled
* Principles of financial reporting
* Budget management and value for money.

Module 1

Unit 1: Fundamentals of public financial management
Unit 2: How public finance is raised and expenditure controlled (Fiscal policy and, monetary policy.
Unit 3: Budget
Unit4: Principal of financial reporting
Unit 5: Budget management and value for money.

Module 2
Government Revenue and Expenditure

Unit 1: Government Accounting
Unit 2: Government (public) Revenue
Unit 3: Government (public) Expenditure

Module 3
Budgeting and Public Sector

Unit 1: Budgeting and reasons for government budgeting
Unit 2: Budget preparation in government
Unit 3: Budgetary processes in the public sector
Unit4: Appropriation in the public sector

Module 4
Audit and Control of Public Funds

Unit 1: Public Debt and Management
Unit 2: National Debt and Management

Unit 3: Government Enterprises
Unit4: Multi-National Institutions

Basics of Public Financial Management- conceptual Explication

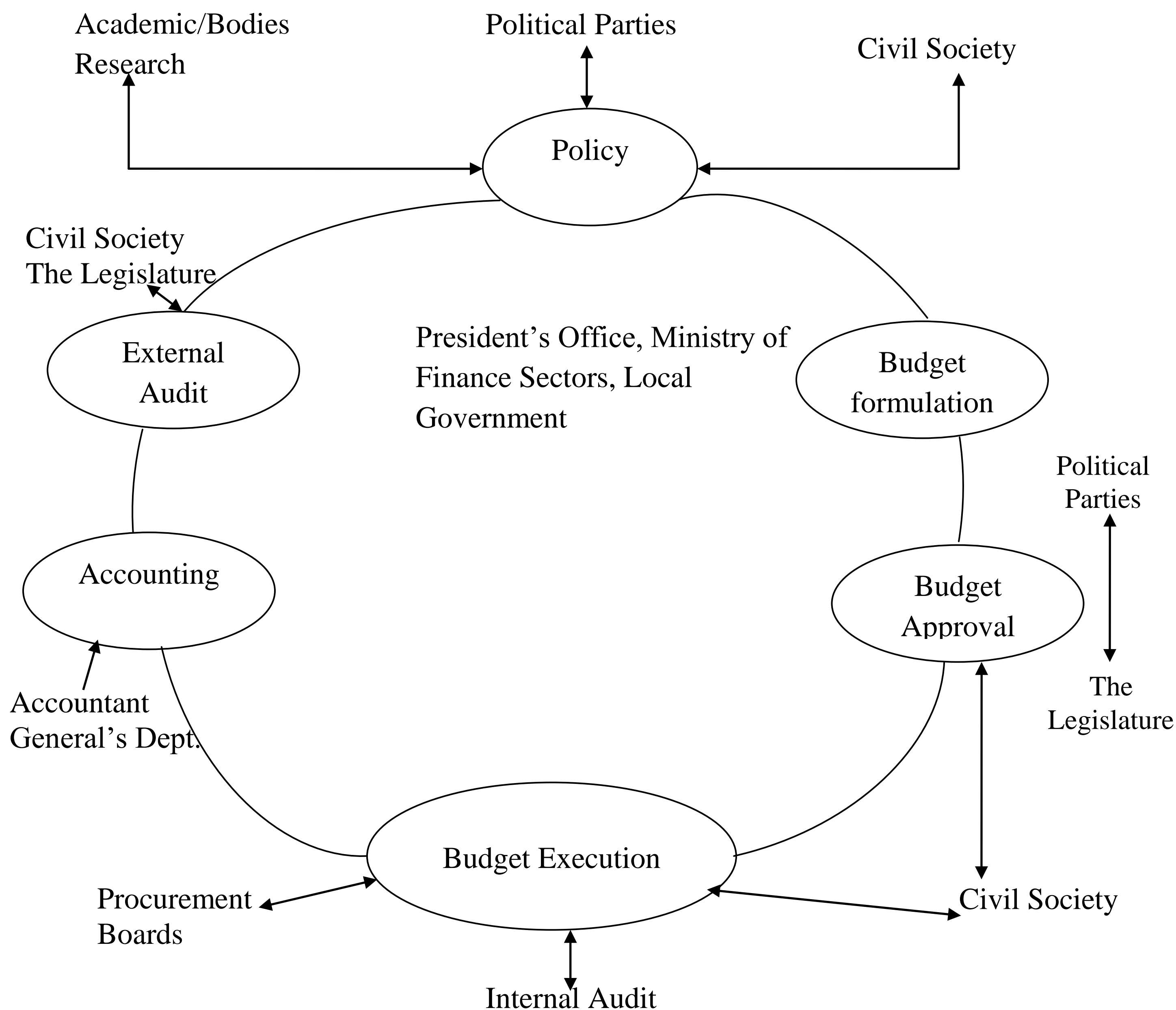
Finance is the livewire of every organization, without which the life of organizations will come to a halt. Adequate funding and management are vital to an organization for survival and sustainability. This takes us to the definition of public financial management. Public financial management has been variously defined as judicious management of the flow of resources in an organization. It is an indispensible tool in the management of any organization because, if the funds are not judiciously managed, the organization may not likely thrive. However, a plethora of literature (Edam, 2001; Ola and Effrony; 2008; Agu; 2002; Andrew, 2011) see Public Financial Management, (PFM) as the management of flows of money or financial resources through an organization, whether it is a company, school, bank or government agency.

Basics of Public Financial Management

Conceptual Explication

Public financial management has been variously described as cluster of core financial activities. It is an indispensable tool in the management of a nation's resources because; it is mainly involved with resource mobilization and expenditure-management in the public sector. Edam (2001), Agu (2002), see public financial management as the flow of money or financial resources through an organization. It concerns itself with the actual flow of money or financial resources as well as claims against money in a more judicious way. Lawson (2015) defines Public Financial Management (PFM) as set of laws, rules, system and processes used by sovereign nations and sub-national governments to mobilize revenue, allocate public funds, undertake public spending, and account for funds and audit results. According to Lawson, PFM encourages a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation (See Figure 1). The essence of PFM is to ensure accountability which by implication involves effective and transparent operation

Figure 1: The PFM Cycle and the Key factors involved, Adopted from Lawson (2015)



SELF-ASSESSMENT TEST

Define public financial management.

PFM is the mobilization of revenues and allocation of resources for the various activities, expenditure, accounting and judicious management of public funds, be it federal, state or local government. PFM is not new though many may view it as new. Similarly, most public servants

may have encountered many of the concepts and processes in the course of their professional lives. PFM deals with the income and expenditure of government which by extension is the budget. Many public servants may have been involved in budget preparation, approval, and execution, accounting and audit functions of a nation, during a particular financial year. Budget is an estimate and not the actual result. It may be surplus, deficit or balanced budget. In most cases, a deficit budget is obtained in developing nations because the estimate which is the budget is mostly more than the actual result. Government may plan to realize N10m from petroleum in 2016 but the global oil crisis may affect revenue generation. The income derived may be far below the budgeted income. This will affect the expenditure pattern of the country adversely. The life blood of any system is the flow and judicious management of resources. However, the system of public financial management rests on design and reform over the years.

Finance as course of study is defined as the study of how money is managed and the actual process of acquiring needed funds (Kurt, 2012). Individuals, families, businesses and government entities need money to operate/function effectively and also to thrive. To acquire money, one has to pursue sound investments (it could be in the form of banking, investment in bonds, stocks, finance of projects, etc) and to ensure judicious and equitable use of the resources.

An effective public financial management aids in effective mobilization of resources, equitable allocation, and distribution of income and judicious management of resources to achieve organizational goals. An effective PFM is an essential aspect of the institutional framework for an effective state.

SELF-ASSESSMENT EXERCISE

In your own words, explain the concept of public financial management.

3.2 Scope of Public Financial Management

The main objective of financial management is to arrange sufficient finance for meeting short term and long-term needs. The main work of the financial manager is acquisition/mobilization of resources geared towards attainment of short term and long term needs. In all organizations, public financial management is very important. The reason is because money/finance is the livewire of every organization. Bearing this in mind the financial manager's scope includes:

(1) Estimation of financial requirements: The first and foremost duty of the financial manager is to estimate the resources required on the short term and long term. His estimates should be based on sound financial principles which will further lead to stability/equilibrium. The funds so estimated should be adequate to cover all expenditures to avoid extravagant spending and the business of the organization coming to a halt.

(2) Capital Structures: The financial manager decides on the quantum of fund to mobilize and then how and where to spend these resources to achieve efficiency and effectiveness. He has to decide on the type of securities to invest in and the kind of debts and funds to use in financing these securities. It is a wise decision to finance fixed assets through long term debts. If one decides to raise funds, then the cost of raising such funds is very important. If

the cost of raising funds to sponsor a project is viewed to be high, then such sources may not be useful as the enterprise/organization runs for profit motive. Therefore, the financial manager should check the various options available and choose the least cost terms. Longer funds should be employed to finance working capital. In addition, to use overdrafts and cash credits for meeting working capital needs may not be suitable.

(3) Selecting the Sources of Funds: This is the next step after preparing a capital structure. He has to decide on the sources of finance to embark on in order to finance the project. The various sources include share capital, debentures, financial institutions, commercial banks, public deposit, finance houses, etc. Short term projects could be financed through bank loans, public deposits and financial institutions while long term projects may be financed through share capital and debentures or public deposits. The factors that would determine the sources of funding are the need, purpose, object and cost involved.

(4) Pattern of Investment: Procurement and use of funds are very vital and related to investment pattern. It is the duty of the financial manager to decide on the assets to procure, depending on the available resources and the priority needs of the organization. There are categories of expenditures and assets (fixed and current assets). The financial manager should select the pattern of investment in relation to the cost of funding. For instance, funds have to be spent first on fixed assets and then an appropriate portion will be retained for working capital.

(5) Proper Cash Management: Proper cash management must be embarked upon by the finance manager. He has to assess the various cash needs at different times and then make arrangements for cash backing. Cash may be required to:

* purchase raw materials
* make payments to creditors
* meet wage bills
* meet day to day expenses.

The usual sources of cash many be (a) cash sales (b) collection of debts (c) short term or through arrangements with banks. He should be very careful and prudent in his management to avoid shortage or idle cash. Idle cash indicates improper use of resources while shortage of cash will damage the credit worthiness of the enterprise. A better approach will be to have a cash flow statement proposed regularly.

(6) Implementing Financial Controls: It is the duty of the finance manager to use the various control techniques to evaluate the performance of the organization in various areas and take corrective measures when needed. This guarantees an effective system of financial management. The various control techniques widely used in organizations including public sector organizations are Return on Investment (ROI), Budgetary Control (BC), and Breakeven Analysis (BEA), Cost control (CC), Ratio Analysis (RA), Cost and Internal Audit (CIA). ROI is the best control device to evaluate performance of various financial policies.

Judicious Utilization of Surpluses

This is an important factor in financial management. There is the need for policies on judicious use of surpluses in organization, for maintenance of growth of the organization. A Finance manager should set in motion, plans on how to put the little/surplus funds into work for expansion and diversification plans and also to ensure that shareholders interests are protected. A balance sheet should show funds for paying dividends and retained earnings for financing expansion plans, etc.

Aims/Objectives of Public Financial Management

The aims/objectives of public financial management cannot be over-emphasized. A sound public financial management is critical to the achievement of the aims of the public sector through its role in enhancing the quality of public service outcomes; etc. Public financial management improves the management of the flow of resources through government and its agencies. ACCA identified four key objectives of effective public financial management.

***Aggregate Financial Management:** a state by right acquires revenue from natural resources under its control, ensures prompt collection of taxes, borrows and embarks on other revenue collection due to it. These resources are than allocated according to priority to the different sectors in the state as agreed by the stakeholders. Public financial management, in spite of the judicious allocation and control functions, also aids government in setting future priorities and ensuring fiscal sustainability.

*** Operational Management:** if financial management is well operated, it has a positive impact on short term and long term decision-making, performance management, strategic planning and management of public services. According to ACCA some operational aspects that are directly affected through financial management are;

Asset Acquisition and Disposal: the acquisition and disposal of capital assets are some of the key decisions in the management of financial resources because they involve huge capital outflow. Therefore, in an efficient financial system, alternative options are explored to finance capital assets in such a way that liquidity is maintained in the successful pursuit of long term objectives.

***Treasury Management:** one of the aims of public financial management is operational management which can be achieved through sound treasury management, which balances the value maximization objectives of the government with the need to maintain liquidity for the discharge of institutional liabilities.

***Review and Performance Evaluation:** when review is undertaken and performance evaluated, it aids in identifying and understanding previous mistakes and the taking of corrective measures in the future.

Reporting to Stakeholders

Public financial management shows how the financial managers of the public sector discharge their financial management responsibilities. The Finance manager prepares and publishes annual audited financial statements in entities' annual reports. The financial statement presents a true and fair view of the financial performance, position and cash flows of entities. It is believed that the timely finalization of the financial statement and the expressed opinion of an independent auditor are important indicators of the effectiveness of an entity's financial management performance. Sound financial management shows that the entity is using public funds efficiently to provide value for money.

1. **Governance:** Good governance refers to the best possible processes for making and implementing correct decisions. The characteristics of good governance are accountability transparency, rule of law, responsiveness, equity and inclusiveness, effectiveness, efficiency and participatory administration. A good public financial management provides clear and unambiguous information needed to carry out the activities of the organization. Sound public financial management is inextricably linked with the anti-fraud and anti-corruption structures of an organization.

Fiduciary Risk Management

Fiduciary risk management is needed to check anticipated and unanticipated risks that public entities face while pursuing their objectives. Ongoing monitoring of progress versus goal, aids in timely correction of errors and identification of problem areas and future risks.

SELF-ASSESSMENT EXERCISE

Briefly discuss the objectives of public financial management in government organizations.

Public financial management has many objectives but we will be limited to the following four fundamental objectives.

*Public financial management maintains aggregate fiscal discipline. A sound public financial management ensures that aggregate levels of tax collection and public spending are consistent with targets for the fiscal deficit, and do not generate unsustainable levels of public borrowing.
*In addition, a sound PFM ensures that resources are allocated according to priorities to achieve allocation efficiency.
* Furthermore, a good PFM ensures that operational efficiency is achieved and the critical objective of a good PFM is to obtain maximum value for money in the delivery of services.
* Again a sound PFM is transparent, accountable, responsive, efficient, effective, publicly assessable and applies democratic checks and balances.

Conclusion

Public financial management is concerned with the management and control of the flow of income and expenditure of public funds. However, policies of government influence the goal of public financial management in all government activities.

Summary

In this unit, we have defined and discussed public financial management, the scope and objectives.

TUTOR-MARKED ASSIGNMENT

(i) Define public financial management
(ii) Briefly discuss the scope of public financial management

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Unit 2
Fiscal Policy
Contents

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Fiscal Policy
3.2 Objectives of Fiscal Policy
3.3 Tools of Fiscal Policy

Introduction

In this unit, we shall discuss fiscal policy, the objectives and the instruments of fiscal policy. We shall see how government uses the powers of taxation and public expenditure to achieve set objectives. Fiscal policy is a strategy the government uses to influence the level of economic activity in the country. It is the sister strategy to monetary policy. The fiscal year of a country is 12 calendar months, that is one year; from 1st January -31st December (or as applicable). In this unit, you will learn about this policy, the objectives and major instruments.

2.0 Objectives

At the end of this unit, students should be able to understand:

- The contents of fiscal policy.
- Identify the objectives of fiscal policy.
- Discuss the major instruments employed in fiscal policy.
- Discuss allocation of functions to tiers of government.

3.0 Main Contents

3.1 Fiscal Policy

Abba (2009) sees fiscal policy as the application of the measures of instrument of financial control-programmes through taxation, public expenditure and revenue, as enunciated in the annual budgets of the government, to achieve some set of national economic objectives. Anyafo (1996) defined fiscal policy as the use of the powers of taxation, public expenditure and other financial programmes contained in the annual budget by government, to achieve the set objectives. Fiscal policy is the means by which the government of a country adjusts its spending levels and tax rates to monitor and influence a nation's economy. Fiscal policy according to Heakal (2017) is based on the theories of British economist, John Maynard Keynes, also known as Keynesian economics. The essence of the theory is that government can use the fiscal policy instruments to influence macro-economic productivity levels and public spending. The aim is to curb inflation, reduce unemployment and maintain a healthy value for money.

SELF-ASSESSMENT EXERCISE

Fiscal policy is said to be based on the theories of the British Economist, John Maynard Keynes. Discuss.

Objectives of Fiscal Policy

The fundamental objectives of fiscal policy are:

- Moderation of national resource allocation and maintenance of price level stability in the system to meet greater public wants.
- Redistribution of income and wealth between one group and another as against shifting it from the public sector to the private sector.
- To creates full employment in a period of unemployment.
- To accelerate the level of economic development
- To catalyze capital formation and growth.
- To encourage investment.
- All these objectives are achieved through the use of fiscal policy.

Tools/Major Instruments of Fiscal Policy

Major tools used by the Central Bank of Nigeria to achieve the objectives of fiscal policy are as follows:

- **Taxation:** This is a powerful instrument of fiscal policy in the hands of public authorities. Taxes can be used by government to control the economy. This could be done by reproving, increasing, or decreasing tax on imports/exports, income, sales, purchase or consumption of certain goods. If government wants to discourage the consumption of certain goods considered to be harmful, taxes on the goods may be increased to discourage consumption of such goods. Government on the other hand, can use taxes to stabilize the economy by removing taxes on goods during inflation. In a developing economy, inflation is a permanent phenomenon where there is a tendency towards rise in prices due to expanding trend of public expenditure. Rise in income may lead to aggregate demand exceeding aggregate supply. As a result, the price of these goods may increase. In such a situation, government can employ the use of taxation to reduce the prices of these goods. It is a known fact that a rise in prices of goods raises demand for more wages which in turn gives rise to repeated wage-price spirals. If this situation is not controlled, it may turn into hyper inflation. An increase in tax reduces savings and investment while decrease in tax leads to increased savings, investments and higher productivity.
- **Import Control:** This is an instrument of fiscal policy which government may employ to restrict the inflow of foreign goods into the country. Presently, government used this tool to restrict the importation of certain goods. The importation of Belgium tires was discouraged when it was discovered that the country has been seen as a dumping ground for such goods. In like manner, many items were restricted in the country using the instrument of import control to restrict inflow of the foreign goods which necessitated capital flight out of the country. This can be done to encourage the growth of infant industries and accelerate economic growth.
- **Outright Ban on Imputation of Goods**. Government can also ban outright importation of certain goods into the country to encourage young industries and prevent dumping of poor quality goods on the country. Presently the government of Muhammad Buhari has banned the

outright importation of many goods, in other to encourage young industries and accelerate the pace of economic growth. It was discovered that most of the goods consumed in the country were foreign products and this has led to poor economic growth and dependence/reliance on foreign countries for national survival. This instrument was used to eliminate the importation of many of such goods.

- **Import License and Tariffs:** This is another powerful instrument of fiscal policy which may be employed to encourage or discourage foreign trade in certain goods. For instance, in the 2015 budget, 41 items were banned by the federal government from being imported into the country.
- **Price Control:** This instrument could also be used to control economic oscillation in the country. Successive governments have placed/used price control on prices of certain goods to control inflation.

Types of Fiscal Policy

There are two types of fiscal policy:

- **Expansionary and Contractionary:** Expansionary fiscal policy: This is widely used because it stimulates economic growth. The philosophy here is that government wants to pump more money into circulation so government either spends more or cuts taxes or both simultaneously. The idea is that more money is being pumped into circulation to enable the consumers spend more money. That jump starts demand which keeps businesses running at optimal levels and further adding new jobs to the economy. This type is most critical at the contraction phase of the business cycle, which is when voters are clamoring for relief from a recession. There have been debates on which one to employ - cut taxes or spend more. But advocates of demand side economics are of the opinion that additional spending is more effective than tax cuts. Example includes public works project, unemployment benefits, and food stamp. Expansionary fiscal policy is usually impossible for state and local governments because they are mandated to keep a balanced budget: During recession, they must cut spending to match lower tax revenues if they haven't created a surplus. Fortunately, federal government has no such constraints, so it can use expansionary policy when needed. Unfortunately, it also means that congresses create budget deficits even during economic booms. This may be in spite of a national debt ceiling. The result is that debt to GDP ratio will exceed hundred percent.
- **Contractionary fiscal policy:** This is rarely used because it slows economic growth. It can be used to stamp out inflation because the long term impact of inflation can damage the standard of living as much as a recession. Here taxes are increased and spending is cut. However, it is not widely used but very effective in preventing inflation.

SELF-ASSESSMENT EXERCISE

Briefly discuss the types of fiscal policy

There are two types of fiscal policy- contractionary and expansionary fiscal policy. In the expansionary fiscal policy, government either spends more or cut taxes, or employs both at the

same time. The aim is to enable consumers spend more money that jumpstarts demand and keeps businesses running and adds more jobs to the economy. It is most critical at the contraction phase of the business cycle. There has been a debate about which one to employ but advocates of demand-side are of the opinion that additional spending is more effective than tax cuts. Contractionary fiscal policy is the second type and mostly impossible for state and local governments. It is the reverse of expansionary fiscal policy. However, contractionary fiscal policy is rarely used because it slows down the rate of growth.

SELF-ASSESSMENT EXERCISE

- Briefly discuss the objectives of fiscal policy.

4.0 Conclusion

In this unit, we have discussed the importance of fiscal policy to a country. The employment of the instruments of fiscal policy would aid the stabilization of an economy, facilitate economic growth, unemployment reduction and price level stability. Moreover, it can be employed to discourage the consumption of goods considered harmful to the economy.

5.0 Summary

In this unit, we considered fiscal policy, the aims/objectives, the types of fiscal policy and the instruments/tools of fiscal policy in a developing economy.

6.0 Tutor-Marked Assignment

(i) Briefly discuss the objectives of fiscal policy.

(ii) What measures can government take to stabilize the economy and encourage/promote economic growth?

7.0 REFERENCES/FURTHER READINGS

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Unit 3: Monetary Policy

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1.0 Introduction

In this unit, we shall consider monetary policy. Monetary policy has been defined as macro-economic laid down policy by a country's monetary authority that is the central bank, for the management of money-supply and interest rates, to achieve macro-economic objectives, like inflation, consumption, growth and liquidity.

2.0 Objectives

At the end of this unit, students should be able to:

- define monetary policy
- discuss objectives of monetary policy
- identify the instruments of monetary policy

3.0 Main Content

3.1 Monetary Policy

According to Abba (2009) monetary policy is the action by a country's monetary authorities which seeks to alter the volume of money-supply for the purpose of stabilizing aggregate output, employment and price level. Government would increase money supply during recession to stimulate spending and conversely restrict money supply during inflation to constrain or restrain spending. Monetary policy is how central banks manage liquidity to create economic growth. How central banks manage how much money the country has (credit, cash, checks and money market mutual funds) to create a balanced economy. It is a tool the CBN uses to manipulate the economy to strike a balance. Monetary policy establishes a link between demand and supply for money and other economic variables such as savings, investment, output, income, general price level, employment, consumption etc. Monetary policy also employs the use of non-monetary measures. The idea behind the use of monetary policy is to strike equilibrium where there will

not be too much money or little money. Central banks institute and manage the economy by controlling the supply of money through the instruments of monetary policy.

SELF-ASSESSMENT EXERCISE

What is monetary policy?

3.2 Objectives of Monetary Policy

The fundamental objectives of monetary policy in Nigeria are to achieve:

- full employment
- price level stability
- rapid economic growth
- balance of payment equilibrium

In line with the aforementioned objectives, monetary policy measures will be strictly applied to achieve success and reinvigorate the system. Monetary policy, if well implemented in any country, especially developing countries, will reposition the economy, no matter the debilitating condition of that economy. Unfortunately, this policy has been neglected in Nigeria for some years and the end results are abject poverty, corruption, an unstable economy and hyper unemployment. Nigerian governments lack the commitment to implement policies. The essence of monetary policy is to control the volume of money in circulation which invariably leads to stabilization of the economy. This objective is possible when government ensures that the instruments are adequately used. In other words, the success of the monetary policy is dependent on the application of the instruments put in place to achieve the various objectives. If these instruments are not properly used, then the effort Nigerian leaders are making is simply cosmetic. Moreover, monetary policy is used to influence these ultimate objectives because it is assumed that there is a relationship between the other real variables and the monetary variable. This is valid for a highly monetary economy. If the economy is highly monetary, then the efficacy of monetary policy is restricted. Furthermore, monetary policy is effective when the economy is characterized by well developed money and financial markets like in the developed economies of the world. In such a situation, an intentional change in monetary variable may likely influence the movement of many other variables in the monetary sector.

SELF-ASSESSMENT EXERCISE

Briefly discuss the objectives of monetary policy in a developing economy

.

3.3 Approaches to Monetary Policy

There are two acceptable approaches to monetary policy utilization:

* The Expansionary monetary policy
* The Contractionary monetary policy.

***Expansionary Monetary Policy:** As noted earlier, monetary and fiscal policies are strategic 'sisters' government uses to influence and steer the economy to achieve set objectives. Expansionary monetary policy exists when monetary authorities use its tools to stimulate the economy. Expansionary monetary policy increases the total supply of money in the economy more rapidly than usual. It is used mainly during the period of unemployment in a recession to combat unemployment. Government can lower interest rates in the hope that easy access to credit will entice businesses into expanding the scope of their operations. This would ultimately increase demand for all goods and services in an economy and by extension boosts growth as measured by Gross Domestic Product (GDP). Expansionary monetary policy has the tendency of diminishing the value of the currency, thereby diminishing the exchange rate. The Nigeria government can employ this measure because the country is in a comatose condition. Nigeria is regarded as the giant of Africa and at the same time suffering from a net-position of abject poverty, unemployment and the like. This is paradoxical.

Contractionary monetary policy: This is the opposite of expansionary monetary policy. It slows down the rate of growth on the money supply. The contractionary monetary policy is used in the United States when the Federal Reserve slows down economic growth to prevent inflation. The essence of contractionary monetary policy is used to reduce the quantity of money in circulation and it is used during inflation. Government reduces the quantity of money in circulation to reduce excess liquidity which ultimately reduces inflation. Unfortunately, has not worked in Nigeria in 2017. The money in circulation was reduced, interest rate on treasury bills increased (to entice people to buy), interest on fixed deposits reduced; yet the country continued to experience inflation.

3.4 Monetary Policy Instruments and its Workability

Such Instruments mean those tools which the monetary authorities or the Central Bank employ(s) to achieve the goals of monetary policy. The CBN does this on behalf of the federal government in both developed and developing nations. The aim of these instruments is to be used to achieve set down objectives; therefore they are designed to control the volume of money and credit in the economy. The instruments of monetary policy are two - quantitative and qualitative.

Quantitative instruments are:

*Open Market Operations (OMO)
*Bank Rate (BR)
*Legal Reserve Ratio (LRR)
*Lending Rate

- **OMO:** This is the most frequently used of the quantitative instruments. It involves the buying and selling of government securities. It is the buying and selling of government bonds, treasury bills and other securities from the open market to individuals. Omo is

used to combat inflation and deflation. The essence of Omo is to stabilize the market for government securities and to wipe out shortage of money in the money market, influence the terms and the structure of the interest rate and stabilize the market for government securities. For example, the country Nigeria is experiencing inflation; government in a bid to combat inflation increased the interest rate on treasury bills to 17% to entice people to buy. This invariably reduces the quantity of money in circulation thereby reducing inflation. In like manner, during a deflationary period, government can also buy such bills and pay for it thereby injecting more money into the system. Under Omo, there is a continuous buying and selling of securities, to correct inflation and deflation. However, there are some limitations that affect Omo, such as underdeveloped securities market, excess reserves with commercial banks, indebtedness of commercial banks, etc.

- **Bank Rate Policy:** This is a powerful tool of the monetary policy. It is the rate of interest at which the CBN lends money to commercial banks. It influences the rate of other lendings in the economy. The quantity of money in circulation can be controlled by either increasing or decreasing interest rates. If the government wants to reduce the quantity of money in circulation, CBN can increase the interest rates to commercial banks. Assuming it is increased to 20%, it means commercial banks will spend more to the Central Bank thereby reducing the quantity of money in circulation. Central Banks also determine the rate at which the Commercial Banks can lend to investors. If the bank rate is reduced, borrowing will be easy and cheaper and this will boost credit creation. Consequently, any change in bank rate is associated with changes in the lending rate and in the market rate of interest. The efficiency of the bank rate as a tool of monetary policy will depend to a large extent on existing banking network.

- **Legal Reserve Ratio:** Some authors call it variation in the reserve ratio. Commercial Banks are required to keep a certain percentage of their money with the central bank. Some of these cash reserves are their total assets in form of cash. Commercial Banks also keep certain cash apart from the statutorily required cash with CBN to maintain liquidity and control credit in an economy. These reserve ratios are Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). The CRR is some percentage of the CB's net demand and time deposit liabilities while SLR refers to some percentage of reserves to be maintained in the form of gold or foreign securities. In Nigeria, the CB is required to keep 30% of CRR with Central Bank. 20-25% of SLR with CBN. Any changes in the reserve bring about a change in Commercial Bank reserve positions. The workability is that government increases the LRR (CRR & SLR) during inflation to reduce the purchasing power and credit creation. While it lowers LRR during recession or depression to increase the purchasing power of money.

Qualitative Instrument or Selective Tools: The qualitative or selective tools are those instruments which are not strictly directed towards the quantity of credit. They are

discriminatory between different uses of credit. The tools are discriminatory. The following are the selective tools.

***Moral Suasion:** The CBN may appeal to the commercial banks to comply with the rules of the game religiously, to enable the bank achieve set objectives. It assists in restraining credits during inflationary periods. Under this tool, the CBN may issue directives, guidelines and suggestions to commercial banks, as regards credit-supply reduction for speculative purpose.

***Margin Requirements:** Margin requirement is the percentage of marginable securities that an investor must pay for with his/her own cash. As qualitative monetary policy instrument it refers the percentage of loan given to a borrower for the purpose of his business in relation to his own funds. Therefore, a change in a margin implies a change in the loan size. This method is used to encourage credit supply to the needy sector and discourage other non-necessary sectors. Government can decrease the margin for needy sectors and increase same for non-needy sectors. If government feels that the agricultural sector for instance needs more money, to actualize its aim, she can reduce her margin to enable agric-related loan beneficiaries collect more money.

***Consumer Credit Regulation:** In this case, the credit supply to consumers is regulated through hire purchase and installment sale of consumer goods regulation. It is a method whereby all the nitty-gritty (down payment, installment amount, loan duration, etc) are fixed in advance. It helps to check inflation and credit needs of a country.

* **Publicity:** The CBN creates awareness by publishing various reports and being categorical about their state of affairs. The published information can help Commercial Banks to direct credit supply to the desired sector.

* **Credit Rationing:** The Credit Rationing is a measure undertaken by the central bank to limit or deny the supply of credit based on the investor’s creditworthiness and an increased loan demand. In other words, a situation where the central bank denies credit to the borrowers who want funds and are willing to pay a higher interest rate is called a credit rationing. This situation arises because of market imperfection or market failure as in spite of a demand for funds at a current rate the lender is not either willing to loan more funds or increase the interest rates. Credit rationing is often applied in the situations where there is a shortage of institutional credit available for the business sector, the big and financially strong institutes try to capture a larger portion of the institutional credit. As a result of which, the priority sector often the weaker, but essential industries are deprived of necessary funds, mainly because the bank credit is given to the non-priority sectors. In order to control this situation, the central bank resorts to credit rationing measures.

* **Control through Directives:** CBN controls the CBs through frequent directives which invariably would help the CBs in framing their lending policies. Directives are given regularly to enable CBs for key into government's agenda and assists for instance in allaying fears on CBs as far as lending loans to speculative sectors are concerned.

***Direct Action:** CBN may impose an action against a CB if CBs are not adhering to the directives of CBN. The CBN may refuse to rediscount the bills and securities of the CB. CBN may also refuse credit supply to those banks whose borrowings are in excess of their capital. Again, it can ban any CB which refuses to adhere to the directives of CBN or those banks which work against critical CBN policies.

The Conduct of Monetary Policy in Nigeria

The objectives of monetary policy in Nigeria over the years have remained the attainment of internal and external balance of payments. To achieve the objectives of monetary policy there were two major phases instituted before and after 1986. The first phase emphasized on direct monetary control while the second phase stressed on market mechanisms. The employment of any of the tools of monetary policy was dependent on governments' agenda and the state of the economy. For instance, in 2014, monetary policy focused on price stability and exchange rate stability. The CBN in a bid to achieve these objectives sustained its tight policy stance with a view to ensuring that electioneering spending did not result in upsurge in inflation. Headline inflation remained within single digits and fluctuates between 7.7 and 8.5 percent. The exchange rate experienced significant pressure due to the combined effect of the decline in the prices of clothing, footwear, and transport components.

The declining oil prices, the US federal tapering, depletion of the foreign exchange reserves and the absence of fiscal buffers all affected the exchange rate. As a result CBN moved the exchange rate from N155/US$1 to N168 US$1 and widened the band around the midpoint from +/-3 percent to +/-5 percent. Throughout 2014, the financial market was generally stable because of the various instruments of monetary policy employed which included monetary policy rate, and other intervening instruments such as Omo, CRR, Discount window Operations (DWO) and foreign exchange regulations, Net Open Position (NOP) limit though significant fluctuations were observed in 2014, but the employment of these aforementioned instruments quelled the crisis.

Omo was principally used to mop up or inject liquidity into the system as a strategy for monetary management by the Bank. Omo auction increased over the corresponding period of 2013 as a result of injections/ inflow of liquidity arising from matured bonds of the FGN and NTBs as well as AMCON bonds in the period under review. CRR was used to compliment Omo. CRR was used to manage liquidity in the system to smoothen the liquidity cycle and reduce pressure on the exchange rate. The country enjoyed a stable economy in 2014 because of the

combined effects of the various measures employed. Therefore, the measure to employ is dependent on what government sets out to achieve and the prevailing situation.

Conclusion

4.0. In this unit, we define monetary policy as an instrument used by government to manage and control the flow of money in an economy in order to achieve stable economic growth.

5.0. Summary

We have x-rayed some of the tools of the public financial management - the monetary policy and fiscal policy. We discovered that proper implementation of monetary and fiscal policies will lead to stable economic growth, full employment and balance of payments equilibrium, etc.

6.0 Tutor-Market Assessment

Discuss the various monetary policy instruments to be employed in achieving the set goals of governments.

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Unit 4- TAXATION

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1.0 Introduction
2.0 Objectives
3.0 Main content

3.1. Tax - sources of Government revenue

3.2. Classification of taxes

3.3. Principles of taxation

3.4. The concepts of tax impact, tax incidence and tax shifting

3.5. Tax evasion and tax avoidance

1.0 INTRODUCTION

In this unit, we shall acquaint ourselves with the rudiments of taxation. The various classifications of taxes, principles, concept, impact and incidence of tax would be revealed. The base of financial management is revenue generation and tax is the most important source of income to government in most countries.

2.0 OBJECTIVE

At the end of the lecture, you should be able to:
* Define taxation
* Identify the various classifications of taxes
* Identify the principles, concept of tax impact, tax incidence and tax shifting
*Explain tax evasion

3.0 Main content

3.1 Tax: Taxation can simply be defined as a compulsory transfer of money or payment from private individual, institution or group to the government [Abba, 2009]. In Nigeria, the second most important source of income apart from oil revenue is tax. It is a compulsory contribution from a person to the Government. A tax is viewed as a compulsory levy and as such anyone who defaults is liable to punishment. According to Jondahl, a tax is a compulsory payment of money by persons, corporations, organizations or business [tax payers] to support services which are provided by the Government. A tax policy represents key resource allocation between the public and private sectors in a country. It is usually imposed on individuals and entities that make up a country. The management of tax system in Nigeria is associated with serious implications

because Nigeria is governed by a federal system and its fiscal operation adheres to the same principles.

According to Odusola [2006] the government's fiscal policy is based on a three-tiered structure divided among the federal, state and local governments, each of which has different tax jurisdiction. As at 2002, all three levels of government share about 40 different taxes and levies. The Nigeria tax system is lopsided and dominated by oil revenue. The most impressive tax is under the control of the federal government while the lowest tiers are responsible for the less buoyant ones. The federal government taxes corporate bodies while the state and local governments tax individuals.

Phillip [1997] notes that in 1995, the breakdown of total tax and levy collected from the three tiers were 96.4% for the federal, 3.2% for the state and 0.4% for the local government. The prolonged military rule that ignored constitutional provisions was the major element that contributed to this development for about forty years; the country depended heavily on resources derived from primary products. For instance, between 1960/1970 revenue accruing from agricultural products dominated the structure while revenue from other sources was considered residual. But with the oil boom in 1973-74, the country's major resources changed from agricultural products to oil. The agricultural products were therefore neglected with its attendant benefits. Oil revenues dominated Nigeria's revenue accrual structure and its share in federally collected revenue rose from 26.3 percent in 1970 to 81.8 percent, 72.6percent and 76.3percent in 1979, 1989 and 1999 respectively.

For the past twenty years, 70% of the country's revenue resources have been realized from oil indicating that traditional tax revenue has never assumed a strong role in the economy's management of fiscal policy. In most developed countries, taxation is the fulcrum and main leverage that sustains them but in Nigeria, the reverse is the case. In Nigeria, fiscal management has transited from one primary product based revenue to another and this makes the economy susceptible to fluctuations in the international oil marker. The Nigeria tax system is basically structured as a tool for revenue collection.

SELF-ASSESSMENT EXERCISE
Define taxation

3.2 Classification of taxes

Taxes have been variously classified into direct and indirect taxes.

***Direct tax**: A direct tax is a tax in which the payer of the tax bears the burden. In direct tax, there is a direct contact between the payer and the tax levying public authority. Examples of direct taxes are taxes on income, property of a deceased person, gains tax, petroleum profit tax, etc. Below are further illustrations on direct taxes.

* Income tax: This is tax levied on income of individuals. In Nigeria, the progressive tax system is in operation. The higher the income, the higher the tax. The income tax in Nigeria is based on 10%.minimum rate. For one to arrive at the taxable income, certain allowances are tax free and

deducted from the gross income. Some of such free allowances are based on marital status, the number of dependent children, dependant relatives, etc [Ekpung. 2004].

* Surtax; this is a steeply progressive tax over and above the normal tax. It is imposed on high income earners over and above the normal income tax.

*Corporation tax; which can also be called corporate tax or company tax: This is tax levied on income of companies. It is charged on gross profit after deduction of all costs but the rate may be at a flat percentage.

*Capital gains tax; This a tax imposed on increase in value of capital assets such as land, houses, stocks and shares.

*Estate duty or Death duty; this refers to tax on the asset of a deceased person.

Stamp duties; airport taxes, etc are other forms of direct taxes.

Advantages of Direct Tax

*Equitability: Direct tax is based on the principle of ability to pay and as such it is equitable and conforms to one principle of social justice.

*Certainty: the amount to pay in tax is certain. However, because the tax payer knows the amount to pay in tax, it therefore makes it possible to estimate revenue to be realized from tax.

*Economical: Direct taxes are economical to collect because additional economic expenses are not involved. The income tax is deducted at source.
*Flexibility: It is very easy to adjust according to the needs of the government.

*Civil Consciousness: You are aware you are paying the tax.

Disadvantages of Direct Tax

*Disincentive to hard work: You are taxed based on your income and this discourages you from working hard to make more money.

*Tax evasion: Increase in tax level encourages tax payer to evade tax. Tax payers who are dishonest find means of manipulating the tax they pay.

*Unpopular and inconvenient: Direct tax seems unpopular and inconvenient. This is because it is deducted at source and as such the tax payer feels the pinch.

*Imperfection in tax assessment: A lot of imperfection exists in tax assessment. Usually, in working out the tax to be paid by farmers, foodstuffs consumed by them are not taxed and in most cases farmers do not pay tax but dividend of customers are taxed twice, first at the company and again at the individual level.

*Tax avoidance: In direct taxes, only employed people pay at source because it is deducted from their salaries. Unemployed people in most cases do not pay tax.

Bottle neck caused by road network and poor communication: This has made collection of direct taxes difficult in most areas where the social network is bad. Tax assessors find it difficult to travel to some of these areas.

*Discourages foreign investments: If the tax level is high, it discourages investors from outside the country. It also leads to capital flight and underdevelopment.

INDIRECT TAX

*Indirect tax is a tax levied on goods and services hence the indirectness. In most cases, especially in developing countries, the burden of indirect tax falls on the final consumer. Examples of indirect taxes are: excise duties, custom duties, value added tax (VAT), export duties, petroleum profit tax, etc. Import duties are imposed on goods and services coming into the country. The burden of the tax falls on the final consumer and as such only those who patronize these goods bear the burden of the tax.

* Export duties: taxes imposed on goods and services exported outside the country.

* Excise duties: taxes imposed on production of locally made goods. Not all locally manufactured goods but certain goods. They are imposed as specific duties that cost so much naira on quantity produced.

*Sales tax: Taxes imposed on certain items. Government in a bid to discourage the consumption of harmful and ostentatious goods may increase taxes on them. It serves as a means to redistribute income. The final consumers bear the burden of taxes on these goods. At times, the burden is shared between the seller and the consumer, although it depends on the nature of the goods.

*Value added tax: Tax imposed on each stage of production and distribution on the increment in value resulting from processing at each stage.

Merits of Indirect Tax

*Convenience: It is Convenient to pay since the tax is built into the price of the goods. You pay without feeling the pitch.

*Discourages Consumption of Harmful Goods. Taxes on harmful goods are usually high and the aim is to discourage the consumption of such goods.

*Favors Countries with large subsistence and barter system: Countries with large subsistence and barter system are favored by this type of tax system.

*Tax evasion and avoidance: It is difficult to evade and avoid tax in indirect tax. You can only avoid tax by denying yourself the consumption of such product.

*Correction of balance of payment account: It can be used to manage balance of payments account by the employment of tax to reduce importation or non-export duties to encourage exportation.

*Flexibility: Indirect tax is flexible and as such regarded as versatile and selective policy tool.

*It is a powerful tool of economic policy

Demerits of Indirect Tax

* Consumers suffer: In indirect tax, consumers bear the burden of taxes in most cases depending on the elasticity of demand and supply of such goods.

*Lack of civil consciousness

*Distortion in resource allocation: Indirect taxes can lead to distortion in resource allocation by diverting consumption and productive resources to non-tax goods.

*Tendency to generate inflation: Government in a bid to discourage the consumption of some goods may increase taxes on these goods which invariably lead to increase in the price of these goods. Also increase in import duties and excise duties have the tendency of increasing price of goods and services. This may lead to inflation. However, we should note that the extent of influence of tax on goods and services is dependent on the elasticity of demand and supply of these goods.

Uncertainty: taxes on commodities with elastic demand are uncertain because the quantity demanded of the product will be affected as a result of increase in price caused by the imposition of tax.

Increase in income inequalities: Indirect taxes are generally regressive in nature because the rich and the poor have to pay the same rate of indirect tax on certain commodities of mass consumption. This increases income disparity among the rich and the poor.

Uneconomical: in some cases, it fails to satisfy the economy. Cost of tax collection may be high in relation to the tax collected because of the resources spent in collection.

Regressive tax: The higher the income the lower the tax. This type of tax takes a higher percentage of income from low income earners than from high income earners. In regressive tax income rises. Examples of regressive taxes are sales tax, user fees and arguably property tax. For example, assuming Mr A earns #2000 per week and Mr B earns #320.00 per week and the two individuals each purchase #100 of groceries per week and pay N7 in tax on their groceries. Mr A

pays 35% of his income while Mr B pays 2.2% of his income. However, the tax rate is the same but the person with the lower income pays higher.

Furthermore, a lower income earner with an income of 6000 per annum pays 15% of his income on tax, while a high income earner who earns 20,000 per annum pays 5% of his income as tax. Such a tax is said to be regressive.

15/100× 6000/1=900

5/100×20000/1=1000

In comparison to what they earn, the small income earner pays higher in tax because the tax is regressive in nature.

Personal income tax: This is tax deducted at source by an employer as provided by the relevant sections of the Personal Income Tax Act (PITA), section 81 of PITA in Nigeria, as amended. It has a greater capability for producing more revenue than any other tax. The tax is deducted at source from salaries of workers. Increase in salary of a worker leads to increase in tax. Personal income tax is charged directly on the income of the individual. The rate of personal income tax is dependent on the amount of taxable income which the person is liable to be taxed on. To derive the taxable income of an individual = income-expenses and deduction = taxable income. There are two ways of paying for personal income tax:

Pay as you earn [PAYE]: In this method the employer deducts the tax at source.

Self assessment: This could be done by self employed person. You assess your tax and pay directly to the relevant tax authorities. Non-payment of personal income tax attracts a fine. Personal income tax laws stipulate that certain allowances and deductions are allowed in the calculation of taxable income. Taxable income is calculated thus: taxable income = assessable income –deduction-allowance

Personal income tax possess: Some unique advantages. It stands out as the most effective way of exempting the very poor from some of the burdens of taxation.

Different forms of direct taxes are: progressive, regressive and proportional.

Progressive tax: The higher the income, the higher the tax. The tax rate increases as the taxable amount increases. Progressive tax refers to the way the tax rate progresses from low to high, with the result that a tax payer's average tax rate is less than the person's marginal tax rate.

Features:

* Increases incentive for people to take low-paid jobs.

* Reduces inequality of income in the sense that it takes lower average levels of tax from low wage earners and takes more from higher earners.

* It is equitable: Equity demands that equals must be treated equally.

* Generates more revenue to the government.

* Increases aggregate demand.

* It is not inflationary.

*It discourages incentive to work because the higher the income the higher the tax rate.

PROPORTIONAL TAX SYSTEM

A proportional tax is referred to as a flat tax system. It assesses the same tax rate to tax payers regardless of income or wealth. It is meant to create equality between marginal tax rate and average tax rate paid. A fixed percentage is paid by everybody regardless of their income. Assuming that the rate is 10% it means that you pay 10% of your income. Example one who earns 20000 will pay 2000 while the person who earns 200000 will pay 20000. The tax rate is fixed.

Features:

*The same percentage of tax is levied on all tax payers.

*It is simple and easy to understand.

*The relative economic status of all tax payers remains unchanged

*It does not discourage incentive to work.

*It is against social equity.

Tax rate [%]

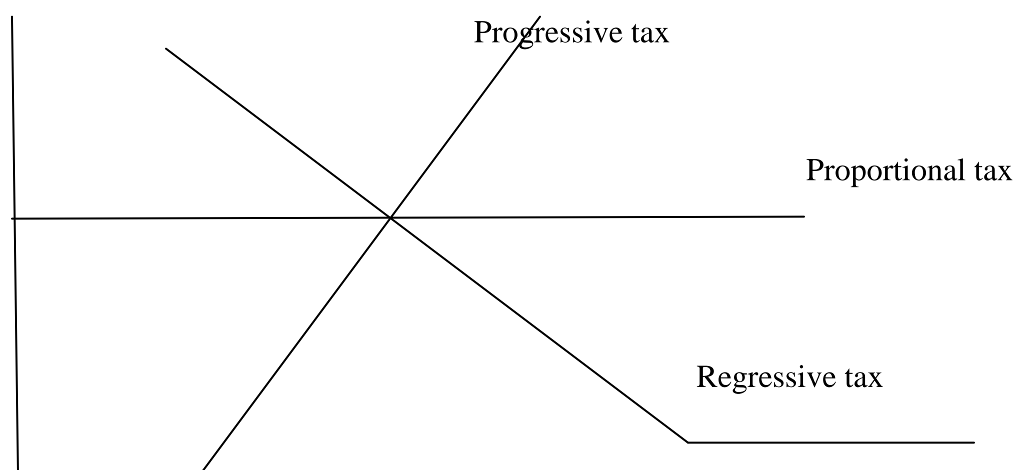


Figure I: graphical expression of the behavior of the forms of direct tax.

Adopted from Egbuna; 28

* Corporation income tax: This is tax levied on the profit of the company. Corporations are legal entities distinct from the owners. The business entity concept states that a company is quite distinct from the owner, once it is registered with the companies and allied matters office. It becomes a separate entity from its owners. Corporation tax may be referred to as company tax. The tax is generally taxed on net profits of the company. Taxes may be levied on corporations and on dividends when dividend is declared. In most cases, when the dividend is taxed, corporations may be required to withhold tax before the dividend is distributed. Resident companies are liable to CIT on their worldwide income while non-residents are subject to CIT on only their Nigeria source income. The rate is 30%, assessed on a proceeding year basis. That is, tax is charged on profit for the accounting year ending in the year proceeding assessment. Investment income is subject to withholding tax at source if it is paid by a Nigeria resident to a non-resident.

However, small companies in the manufacturing industry and wholly-owned indigenous companies whose turnover did not exceed one million Naira pay 20% CIT in the first five calendar years of operation.

PETROLEUM PROFIT TAX [PPT]

PPT is a tax levied on the income of companies involved in upstream petroleum operations in Nigeria, in lieu of CIT. The PPT rate varies as follows: 50% for petroleum operation under Production Sharing Contracts [PSC] with the Nigeria National Petroleum Corporation [NNPC], 65.7% for non Petroleum Sharing Contracts (PSC) operation including Joint ventures in the first five years, during which the company has not fully authorized all the pre-production capitalized expenditure, 85% for non PSC operations after the first five years.

***Tertiary Education Tax**

This is imposed on every Nigerian resident company at the rate of 2% of the assessable profit for each year of assessment. The tax is payable within 2 months of an assessment notice from the FIRS. Companies that pay PPT treat tertiary education tax as an allowable deduction. However, for other companies that do not pay PPT, the other appropriate deductions are made in arriving at taxable income. Non-resident companies and unincorporated entities are exempted from tertiary education tax.

***Minimum tax:** It is a tax payable by companies that do not have taxable profits for the year. Companies that have foreign equity capital of at least 25% are exempted from paying minimum tax. Minimum tax payable is calculated thus;

If the turnover of the company is #500,000 or below, minimum tax is the highest of

0.5% of gross profits

0.5% of net assets

0.25% of paid up capital or

0.25% of turnover of the company for the year

But, if the turnover is higher than N500,000.00, minimum tax will be the highest of the calculations listed above plus 0.125% of turnover in excess of #500,000.00

***Alternative Tax Distribution**

Tax on distribution occurs when a company pays a dividend in excess of its taxable profit. Such a company will be charged tax on the dividend paid as if the dividend is the taxable profit of the company for that year of assessment.

***Advance CIT on Interim Dividends**

Presently, the new leadership of FIRS has begun to enforce the payment of CIT on interim dividends. Companies that declare interim dividend are advised by law to deduct CIT at 30% of interim dividend paid. The advance CIT is creditable against the final CIT computed at the end of the year.

***Alternative Tax on Deemed Profit**

FIRS is required by law to assess and charge companies for tax on a fair and reasonable percentage of turnover under the following circumstances;

When the trade or business produces no assessable profit

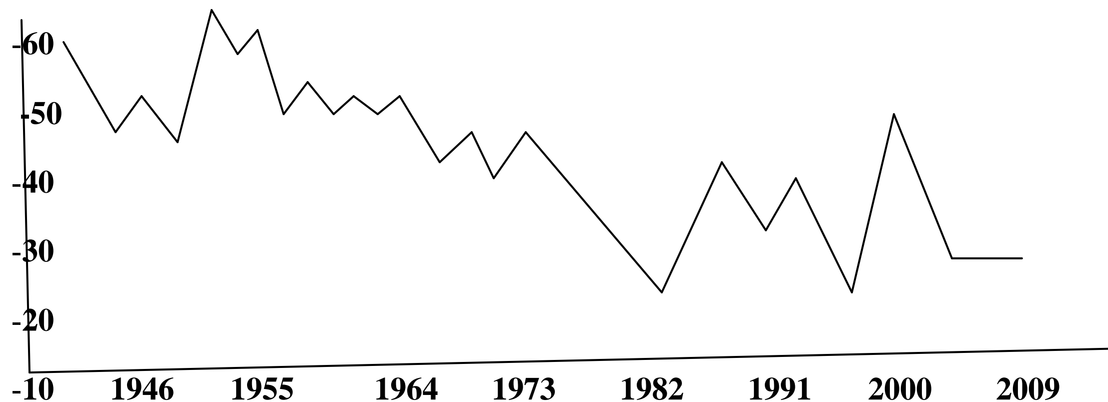
When assessable profit is produced by the trade and the profit is less than what might be expected to arise from that trade.

When the true amount of the assessable profit of the company cannot be ascertained

***Local Income Tax**

CIT is payable only to the Federal Government while income tax of the individual and unincorporated entities are collected by states and local governments. Local governments collect levies and rates.

Corporate Income Tax as a share of GDP 1946- 2009



Characteristic of Corporation tax

- It is levied on a legal entity separate from its owners.
- The legal entity is treated as a person with their rights and obligations.
- The stock is traded on a stock exchange.
- Ownership is represented by stock certificates.
- Unlimited life Span: the death of the stockholder or sale of stock does not limit the life of the corporation. As a legal entity it is expected to function for an indefinite period of time.
- Limited liability: the liability of the stockholders is limited to the amount each has invested in the corporation.
- Relative ease of transferring ownership: Stock can be transferred easily to a person who buys stock in the corporation and receives a stock certificate. The stockholder who desires to transfer stock does not require the approval of the other stockholder to sell the stock. Similarly, when one is buying he does not require the approval of the corporation before purchasing the stock.
- Ease of capital acquisition: It is easy for the corporation to acquire capital by selling stocks or bonds. The ease of transferring ownership and the limited liability status makes it easy for the corporation to acquire capital.

- Professional Management: Corporations are managed by professionals rooted in the art of managing investments.
- Government Regulations: The law regarding the issue and distribution of stocks are stipulated by government. Corporations adhere to the rules of the government in the issue and sale of stocks.

Tax Base

Tax base refers to all the receipts of the company over and above actual expenses after the appropriate deductions for depreciation, depletion and interests paid out on loans. No personal exemptions are allowed on the corporation.

***Principles of Taxation**

One of the easiest and most convenient way of making up for the ever increasing public expenditures in Nigeria and elsewhere is through taxation. Therefore, government of every country should ensure an equitable, efficient and effective tax system. However, the following principles guide a good tax system.

- Universality: In line with the principle of universality, the tax laws should ensure that there are no exemptions except in certain classes of income.
- Certainty: The amount to pay in tax must be determined with certainty as well as the time of payment. There should be no ambiguity. The time, how much to pay and where to pay should be made clear to the tax payer.
- Convenience: This principle states that the time of payment and mode of payment must be convenient to the tax payers.
- Economy: The system of collection must be economical. The cost of collection should not be more than the tax collected.
- Equity: Equity demands that equals must be treated equally. Everyone should be taxed according to ability to pay. Taxation should be progressive in nature.
- A good tax system should be simple to administer and should avoid ambiguous language that may lead to legal dispute.
- Flexibility: A good tax system should be willing to yield to the influence of others. It should not be rigid or obstinate.
- Productivity: A good tax system should be productive in the sense that it should be able to cover the expenditure of government which is the main objective of taxation.

Concept of Tax Impact, Tax Incidence and Tax Shifting

The 3 concepts are interwoven.

Tax impact

Tax impact refers to who bears the burden of the tax. The burden of taxation will vary except in the case of direct tax where the payer bears the burden directly. But in the case

of indirect tax, the impact can be shifted depending on the degree of tax shifting. Tax impact may be referred to as tax burden.

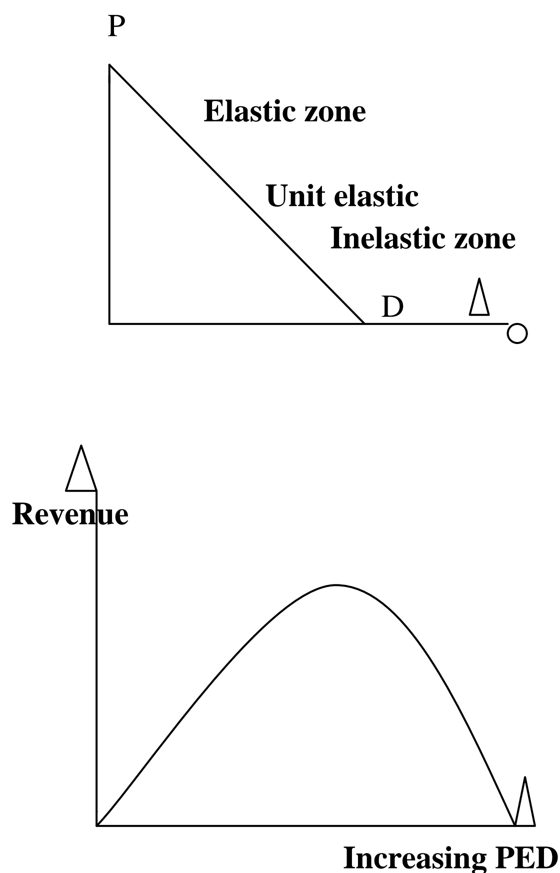
Tax incidence

Tax incidence on the other hand refers to who ultimately bears the burden of a tax and in what proportion. It refers to the final person who bears the burden of both direct and indirect taxes. This question is asked because the person who pays tax may not bear the final burden depending on the type of tax. The tax may be shifted to others and this brings us to tax shifting.

Tax shifting

The impact of a tax is said to be on the person who pays the tax and receives the initial burden but the incidence of the tax rests on the person who ultimately bears the money burden of the tax. If Mr A pays tax on his income, then the impact and incidence rests on him, it cannot be shifted. However, the burden of tax can be transferred to others through a process of shifting. The whole burden or part of the burden may be shifted to others. In this case, it is tax shifting. The process of shifting a burden of tax goes on as long as different persons who come into the chain are able to pass on the burden to others, till it ultimately falls on a person or group of persons that is the final consumers. Mr A buys goods, pays tax on them and sells these goods to Mr B. Mr B pays for these goods with the tax built into the price of the goods. Mr B sells to Mr C who is the final consumer. Mr C bears the final burden of the tax but it depends on the nature of the goods.

Tax impact talks about total magnitude of the influence of the tax while tax incidence refers to the one who finally bears the burden which depends on the process of tax shifting. Let us consider the factors that may determine the degree of tax shifting. One of the major factors that determine the degree of tax shifting is the price elasticity of demand for a given commodity either on the market for goods and services or in the market of factors of production.



PRICE ELASTICITY OF DEMAND (PED)

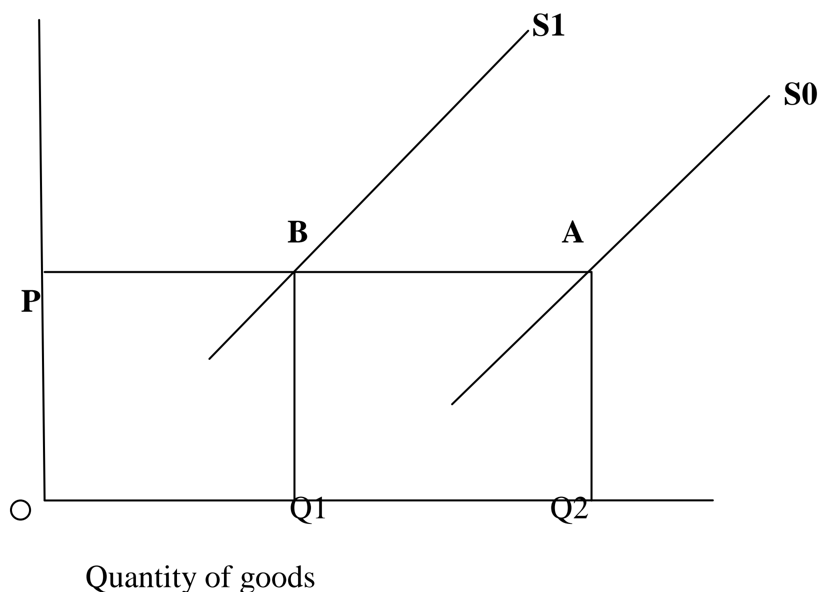
This shows the responsiveness or elasticity of the quantity demanded of a good or service to a change in its price. It explains/shows the relationship between price and quantity demanded. The degree of response of quantity demanded to a change in price can vary considerably depending on the elasticity of product demanded. If the quantity demanded changes proportionally then the values of PED=1 unit of elasticity but if less than 1= inelastic demand, if it is zero, it is perfectly inelastic and if infinite, it is perfectly elastic.

Perfectly Elasticity

The degree of responsiveness of the buyer to a slight unit change on the price is very high. It will be difficult for the seller of the commodity to shift the burden to the buyer and vice versa. For example, if a company produces orange in Enugu, the company sells the orange for N5.00 per orange. However, the company had some cash flow problems and the management decides to sell the orange N7 each. The demand for orange is perfectly elastic because there are many companies that produce orange in Enugu and compete for the lower price. When a company faces competition from a firm that produces the same products or similar goods and sells at a

lower price, then the demand for the product is perfectly elastic. Consumers can purchase many substitute goods that meet their needs or can switch over to other companies selling the products at low prices.

PERFECTLY ELASTIC DEMAND CURVE



Quantity of goods

The tax is on goods and services therefore, it will affect the supply curve. From the original supply curve S0, the equilibrium point is at point A; the price level is Po and the equilibrium quantity, Q. The revenue after price drops to 0Po Bo0q. The supply curve is shifted upward with the imposition of a tax to S1. The price level did not change and the equilibrium quantity dropped to Q1 with perfectly elastic demand curve. The full impact of tax is borne by the producer because the goods have close substitute, therefore, it cannot be transferred to the buyer in form of price increase. A slight increase in the price of the product will make the buyer to completely abandon the product.

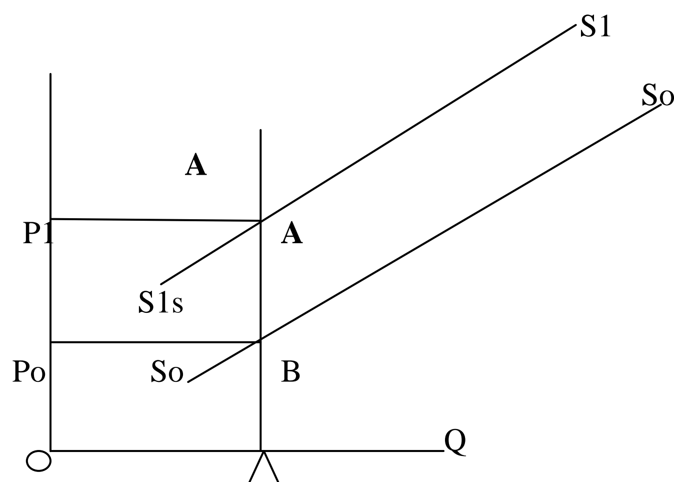
Price elasticity as mentioned earlier is the degree of quantity demanded to change in price.

$$\frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

PERFECTLY INELASTIC DEMAND

A product is said to be perfectly inelastic when a change in price has no effect on quantity demanded. When there is few or no substitute for goods, demand tends to be relatively inelastic.

A case of perfectly inelastic demand



From the table above, as a result of tax, initial supply curve So shifted to S1 and the initial equilibrium price Po increased to P1. This is because of the inelastic nature of the demand curve. The initial revenue is 0Po, A0o but with the tax, the revenue increased to 0P, B0o. The reason for the increase was because the tax was transferred fully to the consumer in form of price increase. The consumer bears the full impact of the tax because the goods have no close substitutes. Example of inelastic good is gasoline. There are other factors that determine the shifting of prices apart from price elasticity of demand.

- The market Structure: This can be defined as the number of firms producing identical goods and services in the market and the structure of the firm is determined by the basis of the competition prevailing in that market. Under a monopolistic competition, there is no competition and the firm’s curve is the same as the industry curve while in oligopoly, two or more firms dominate the market. There is no upper limit to the number of firms in an oligopoly but the number must be low to the extent that the action of one firm might significantly affect the others. However, in a monopoly where an industry is dominated by one corporation or one firm manufactures a product, the degree of responsiveness to price elasticity of demand will be perfectly inelastic because the product has no close substitute. In this case, there is no competition and this can lead to high cost for consumers, inferior products and services and corrupt behavior. In a perfect competitive market structure, where there are many buyers and sellers, the price reflects supply and demand. In this market, consumers have close substitute and increase in price of a commodity may lead to consumers switching over to the close substitute. In this case, the

incidence of tax may be shared between the buyer and seller or may be borne by the seller since the good has close substitute.

Types of Market Structure

Thus, the structure of the market affects how firms price and supply their goods and services, how they handle the exit and entry barriers, and how efficiently a firm carry out its business operations

The cost structure of the industry: If a firm is operating at a constant cost of production, it will be able to shift the full impact of taxation but if it is operating at an increasing cost of production, the full impact of taxation cannot be shifted by the full amount of tax. However, if the firm is operating at a decreasing cost of production, it will be able to raise the price of the goods more than the amount of tax.

The Type of Tax: We have two types - direct and indirect taxes. If it is direct, the impact cannot be shifted but if it is indirect, the full impact may be shifted.

Length of Time: If the length of time needed for adjustment is very short, it will be difficult to shift tax burden but if it is long, the producer could quietly transfer the burden of tax to the consumer.

SELF-ASSESSMENT EXERCISE

Briefly discuss the merits and demerits of direct tax and indirect tax

Briefly discuss the factors that determine the degree to which a tax is shifted.

Tax Evasion and Tax Avoidance

Tax Avoidance

Tax avoidance may simply be defined as a means or ways by which a taxpayer deliberately avoids his tax liability. This is done when the person takes advantage of the loopholes in the provisions of the tax law. It could also be seen as the intentional act of a tax payer to pay less than what he ought to pay to the tax authorities. It is illegal. Tax avoidance is defined by Aim and Martinez (2001) as the legal reduction in tax liabilities by practices that take full advantage of the tax code, such as income splitting, postponement of taxes and tax arbitrage across, incomes that face different treatments (Aim and Martinez, 2001; Eboziegbe, 2007). It also includes the use of strategies that allow for the legal minimization of taxes, but also for the search of strategies to exploit deficiencies or ambiguities in the law (known as aggressive tax planning strategies.

Tax Evasion

According to Nwachukwu (2006) tax evasion is the general term for efforts by individuals, firms, and other entities to evade tax by illegal means. It is a deliberate attempt by the taxpayer to misrepresent or conceal the true state of his affairs to the tax authorities to reduce his tax liability. The tax payer gives false information of the accounts or he may declare less income to enable him pay less in tax. It is an immoral act and breach of tax laws. According to Soyode and Kajola (2006), tax evasion is defined as a deliberate and willful practice of not disclosing full taxable income in order to pay less tax. An accounting convention known as conservatism states that accountants will prefer to understate their income rather than overstate it. The assumption is that tax will be paid based on the declared income.

Effects of Tax Evasion and Avoidance

Tax evasion and tax avoidance have undoubtedly adversely affected the government revenue generation capability and the economy as a whole. However, government has made various efforts to bridle these ugly practices of evasion and avoidance but all to no avail. Central among the effects of tax evasion and avoidance are;

*Reduction in government revenue
*Lack of adequate development
* Investment distortion in the form of the purchase of assets exempted from tax or undervalued for the purpose
* Erosion of moral values and the building up of inflationary pressures
*It creates unemployment.
* It pulls down the economy of the country

SELF-ASSESSMENT EXERCISE

Differentiate between tax evasion and tax avoidance

4.0. CONCLUSION

Tax is a compulsory levy by the government on the residents of the country. Tax avoidance and evasion are ugly practices that have contributed to too many ills in the economy and should be checked .Growth and development have been at a snail pace and this has continued to elude the economy of the country.

5.0 SUMMARY

In summary, we have discussed taxation and the importance of taxes. We have also x-rayed the types of tax, features of a good tax system. Emphasis was laid on corporation tax which is an important tax in the country. We also discussed tax evasion and tax avoidance and the effects on the economy.

6.0 Tutor-Marked Assignment

With practical illustration, discuss the factors that determine the degree to which a tax can be shifted

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MODULE 2 GOVERNMENT (PUBLIC) ACCOUNTING (REVENUE AND EXPENDITURE)

Unit 1 Government (Public) Accounting

Unit 2 Government (Public) Revenue

Unit 3 Government (Public) Expenditure

Unit 4 Fiscal Federalism and Resource Allocation in Nigeria

Unit 1 GOVERNMENT (PUBLIC) EXPENDITURE

CONTENTS

1.0 Introduction

2.0 Objectives

3.0 Main Content

3.1 Government (Public) Accounting – Conceptual Explication

3.2 Objectives of Government Accounting

3.3 Basis for Government Accounting

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

7.0 References/Further Reading

1.0 INTRODUCTION

This unit introduces you to the module 2 of this course, which is mainly concerned with government/public accounting. In the unit, we will define government accounting, state the objectives and the importance. We will also x-ray the activities of government that need financing.

2.0 Objectives

At the end of this unit, students should be in a position to:

*define government accounting

*state the objectives of government accounting

*discuss the basis of government accounting

3.0 MAIN CONTENT

3.1 Conceptual Explication- Government Accounting

We will define accounting before defining government accounting. Accounting is the practice and body of knowledge concerned primarily with:

*recording of transactions,

* keeping of financial records,

* performing internal audits,

* reporting and analyzing of financial information and making them available to management, and

* advising on taxation matters.

It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information for the purpose of decision making. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity. Accounting provides information on the resources available to a firm, the means employed to finance those resources, and the results achieved through their use (Business Dictionary, 2013). Government accounting on the other hand, is accounting for nonprofit-making organizations in which budgets and encumbrances form parts of the accounts, and assets are restricted for specified purposes. It is operated by government on behalf of the

public. The services offered are politically and collectively decided on the basis of what is needed rather than in response to market forces of supply and demand. Government accounting comprises accounting in the federal, state and local governments, including all the agencies of government**.** It is an instrument used to determine the financial stability of the economy.

SELF-ASSESSMENT EXCERCISE

Define government accounting and state its features.

3.2 Objectives of Government Accounting

* Provision of adequate information needed for accounting in the financial transactions of revenues and expenditures related to government organizations.

* To create awareness on excess expenditures and avoid the excess expenditures beyond the limit of the budget approved by the government.

* To give necessary information for the efficient and effective economic management of the financial resources of the government.

* To provide reliable financial data and information about the management of public funds.

* To prevent misappropriation of government funds and other resources by maintaining a systematic record of cash and store items.

* Ensure compliance and strict adherence to the established rules and regulations.

To provide necessary information needed by executives, in preparing different financial statements and reports.

* To provide historical and financial data of government revenues and expenditures for the preparation of the budget.

SELF-ASSESSMENT EXERCISE

Briefly discuss the objectives of government accounting.

Basis of Government Accounting

Abianga (2013) enumerates some of the basis for government accounting to include;

- It deals with the control and stewardship of receipts, payments and related activities in the public sector.

- The peculiar nature of social or government accounting transactions make it desirable and indeed mandatory to treat them in accordance with specific but cohesive and standardized measurement theories and rules like budgeting system and applicable procedures, fiscal accounting procedures, nature and sources of revenue, etc.
- The annual expenditure and revenue of government need to get formal approval before they are incurred and this necessitates budgeting to determine the structure of government accounting.
- Fund accounting is the method used to record and measure each component of accounting which governments deem necessary to demarcate and segregate into specific purpose compartments.
- A very peculiar nature of government accounting is that it is maintained on cash basis.\

Characteristics of Government Accounting

* Not Profit oriented: The nature and objective of an accounting system determine the method to employ and as such the objectives of government is to provide as much essential services as possible for the citizenry, hence the accounting system employed.

* Cash accounting: it employs mainly the use of cash accounting in which the receipts are recorded when cash is received while expenditures are recorded when cash is paid, irrespective of the accounting period in which the services are rendered.

* Accrual basis:

* Uses fund accounting rather than entity account: this is the main characteristics of government accounting.

SELF-ASSESSMENT EXERCISE

What are the characteristics of government accounting?

4.0 Conclusion.

Government accounting is the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government as a whole.

5.0. Summary

We have x-rayed government accounting, the objectives and the basis. We also looked at the distinguishing features of government accounting.

6.0. TUTOR-MARKED ASSIGNMENT

Identify the various objectives of government accounting

What are the features of government accounting?

7.0. REFERENCES/FURTHER READINGS

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UNIT 2 GOVERNMENT (PUBLIC) REVENUE

CONTENTS

1.0 . Introduction

2.0 . Objectives

3.0 . Main content

- **3.1 . Sources of Government Revenue**
- **3.2 . Oil Revenue**
- **3.3 . Non-Oil Revenue**

4.0 . Conclusion

5.0 . Summary

6.0 . Tutor-Marked Assignment

7.0 . References/further Reading

1.0 Introduction

In this unit, we will discuss the main sources of government revenue, which include oil and non oil revenues. The Constitution of the Federal Republic of Nigeria provides for the establishment of different sources of revenue for the federal, state and local governments. The main objective of government is to take care of her citizenry and it needs resources to achieve these objectives hence the provisions by the relevant authorities to this effect. We will categorize oil and non-oil revenues and emphasize their importance to the nation.

OBJECTIVES

At the end of this unit, you should be able to:

- Identify the sources of government revenue
- Differentiate between oil and non-oil revenues

3.0 MAIN CONTENT

3.1 Sources of Government Revenue

Government revenue is concerned with the way government raises income from the services rendered. The ways and means of raising money needed by governments - Federal, State and Local governments are stipulated in the 1999 Constitution. The funds from these sources are meant to be used in providing the needs of the citizenry, which is the main objective of government accounting. Government needs money to carry out her duties and for sustainability. However, in Nigeria, there are two major sources of government revenue - oil and non-oil revenue sources.

3.2. Oil Revenue

Before the discovery of oil in Nigeria, the agricultural sector was the mainstay of Nigeria's economy, contributing about 95% to her foreign exchange earnings, generating over 60% of her employment opportunities and approximately 56% to her gross domestic earnings (World Bank, 2013). The major exportable crops were cocoa, palm products, cotton, ground nut, timber and rubber, with these products contributing most of Nigeria's export, Agriculture was the leading growth sector of the Nigerian economy while oil export was very poor. Plethora of available literature on the Nigerian economy has it that Nigeria was primarily an agrarian economy, whose revenue generation was based on agriculture; statistics from the Federal Bureau of Statistic shows that between 1958 and 1969, the contribution of petroleum (GDP) at current factor was just 0.007 percent, while agriculture was the mainstay of the country's economy accounting for higher percentage of Gross Domestic Product (GDP). However, the discovery of oil at Oloibiri area of Bayelsa State in 1956 by Shell BP led to the relegation of agricultural products to the background, making oil the mainstay of the economy shortly after the Nigeria civil war. The oil

industry then began to play a prominent role in the economic life of the country. Ever since then, the petroleum industry has been seen as the engine that drives the economic wheel of Nigerian economy. The contribution of the oil industry has been enormous and can be viewed from the angle of employment generation, foreign exchange earnings, government revenue and gross domestic product. Oil provided approximately 90 percent of foreign exchange earnings and about 80 percent of federal revenue and contributes to the growth rate of Gross Domestic Product (GDP) of the Nigerian economy. The discovery of oil led to abandonment of other solid minerals and agriculture. Nigerians depend heavily on oil and here they are with the sharp fall in the price of oil in the global market since 2014 and the adverse effect on the economy.

The present administration of Mohammed Buhari has been on its feet to reinvigorate the lost glory of the economy but it seems bleak. The Nigerian state has for decades depended on one source of revenue and has failed to spread its eggs into different baskets in case there is a crash. Unfortunately, the country's fortune has been oscillating from one economic downturn to another as a result of the unexpected crash in the oil market. Below is an excerpt from Fin Intel magazine on the situation of the oil revenue-related situation in the country.

Nigeria has lost as much as N77.2 billion from oil revenue in one month as a result of continuous decline in the price of crude oil, according to data obtained from the Central Bank of Nigeria. Specifically, the CBN in its October 2014 Economic Report, highlighted that oil revenue for the month dropped by 14.11% from N547.2 billion to N470 billion recorded in a previous month. Likewise, non-oil revenue also declined by 3.9% or N11.1 billion from N284.6 billion in September 2014 to N273.5 billion in October. Consequently, gross federally-collected revenue depreciated by 10.6% or N88.2 billion from N831.8 billion in September to N743.6 billion in October.

Giving a breakdown of gross oil revenue components for October, the Apex Bank stated that crude oil/gas sales declined to N117.8 billion from N160.4 billion recorded in the previous month, while domestic crude oil/gas sale appreciated by N6 billion or 6.4% from N93.6 billion to N99.6 billion recorded in September. According to the Central Bank, Petroleum Profit Tax, PPT/Royalties also declined by N25.5 billion or 9.19% from N277.4 billion to N251.9 billion in October. . The CBN attributed the drop in the country's oil revenue to a decline in crude oil and gas exports-receipts due to the fall in the price of crude oil in the international market. The CBN said, "At N470.04 billion, gross oil receipts, which constituted 63.2% of the total revenue, was lower than both the monthly budget estimate and the preceding month by 21.3 and 14.1%, respectively. "The decline in oil receipts relative to the monthly budget estimate was certainly attributable to fall in receipts from crude oil and gas exports due to the fall in the price of crude oil in the international market.

"In continuation, the CBN disclosed that of the gross federally-collected revenue, about N457.12 billion less all deductions and transfers, was transferred to the Federation Account for allocation among the three tiers of government and the 13% Derivation Fund. According to the CBN report, the Federal Government received N217.77 billion; the states and local governments received N110.46 billion and N85.16 billion, respectively, while the balance of N43.73 billion was distributed to the oil-producing states as 13% Derivation Fund. "From the Value Added Tax (VAT) Pool Account, the Federal Government received N9.37 billion, while the state and local governments received N31.25 billion and N21.87 billion, respectively," the CBN disclosed. The CBN put Nigeria's crude oil production, including condensates and natural gas liquids, at an average of 2.0 million barrels per day (mbd) or 62 million barrels for the month. This, the CBN

said, was 0.05 mbd or 2.4% lower than the 2.05 mbd or 61.50 million barrels produced in the preceding month. The CBN said, "Crude oil export was estimated at 1.55 mbd or 48.05 million barrels for the month. This represented a decline of 3.1 per cent below the level recorded in the previous month. Deliveries to the refineries for domestic consumption remained at 0.45 mbd or 13.95 million barrels in the review month. At an estimated average of US$88.78 per barrel, the price of Nigeria's reference crude, the Bonny Light (37º API), fell by 9.9 per cent below the level in the preceding month." Interestingly, also, on 1st October 2017, these facts about Nigeria were presented.

Data below covers 2016

Population (million inhabitants)	177.072
Land area (1,000 sq km)	924
Population density (inhabitants per sq km)	192
GDP per capita ($)	2,262
GDP at market prices (million $)	400,571
Value of exports (million $)	34,704
Value of petroleum exports (million $)	27,788
Current account balance (million $)	2,722
Proven crude oil reserves (million barrels)	37,453
Proven natural gas reserves (billion cu. m.)	5,475.2

Crude oil production (1,000 b/d)	1,427.3
Marketed production of natural gas (million cu. m.)	42,562.4
Refinery capacity (1,000 b/cd)	446.0
Output of refined petroleum products (1,000 b/d)	53.5
Oil demand (1,000 b/d)	393.1
Crude oil exports (1,000 b/d)	1,738.0
Exports of petroleum products (1,000 b/d)	17.9
Natural gas exports (million cu. m.)	25,146.5

- b/d (barrels per day)
- cu. m. (cubic meters)
- b/cd (barrels per calendar day)

Source: Annual Statistical Bulletin 2017

One can therefore deduce that the mainstay of the economy from the available records is oil and the adverse effect of the drop in the price of oil is obvious and not hidden. The oil sources consist of royalties, petroleum profits, rents, earnings from direct sales of crude oil to domestic market by Nigeria National Petroleum Corporation (NNPC), gas flaring penalties, pipeline licenses, etc.

Non-oil Revenue

Non-oil revenue includes direct and indirect taxes.

Direct and indirect taxes have been dealt with in the previous module. Prior to the introduction of oil, non oil revenue formed the main stay of federally collected revenues. An average of 92% of the federally collected receipts was largely revenue from non-oil sources and the balance from oil sources. However, shortly after the civil war, the oil sources assumed the mainstay position of the economy as 20-30% receipts annually came from the non-oil sector to complement the oil

receipts which formed the mainstay of the economy. Government, in a bid to meet up with the goals of her existence also borrows from public through issuance of bonds, the newly found public private partnership, franchises, etc. Below is the structure of oil revenue in 2011.

Oil Revenue

▪ Crude Oil / Gas Exports	N2.287 trillion
▪ PPT and Royalties, etc.	N3.976.30 trillion
▪ Domestic Crude Oil Sales	N2.608.80 trillion
▪ Other Oil Revenue	N6.0
• **Less:**	
▪ Deductions 3/	4,863.60N
• **Oil Revenue (Net)**	N4.015 trillion
❑ **Non- Oil Revenue**	N2, 237 trillion
▪ Corporate Tax	N700 billion
▪ Customs & Excise Duties	N438.3 billion
▪ Value-Added Tax (VAT)	N649.5 billion
▪ FG Independent Revenue	N182.5 billion
▪ Education Tax	N101.7 billion
▪ Custom Levies	N156.8 billion
▪ Nat. Inf. Tech Dev. Fund (NITDF)	N8.6 billion
• **Less:**	
▪ Deductions 3/	N94.9 billion
• **Non- Oil Revenue (Net)**	2.143 trillion

Some of the independent revenue sources include:

- Fines
- Fees
- Rates
- Licenses
- Income from Government investment
- Public Loans.

Revenue Assignments of the various tiers of Government

Federal Government	State Government	Local Government
Company income and associated tax,	Personal Income Tax	
Petroleum and gas profits, mining rents and royalties	Capital gains tax, stamp duties on individuals governed by national legislation,	Tenement(Property) rates, Shops, Kiosk and Motor park fees, Entertainment Tax, Radio, Cart and Domestic Animal licenses,
Value Added Tax on Earnings and Sales. Rent on government property, Revenue from armed forces	Statutory grants, Statutory Appropriation from the federation account.	Marriage, Birth, and Death Registration, Cattle Tax, Sign board/Billboard licenses,
Capital gains tax, stamp duties on corporate entities, Import and Export duties / Fees, Miscellaneous.	Road or Vehicle license, Business registration fee, land tax, Internal loans and External loans, Capital grants from federal government, Total capital receipts, etc.	Statutory Allocation from both federal and State governments, Internal loans, Capital grants, Total capital Receipts, etc.

Source: International Monetary Fund Nigeria, Selected Issues and Statistical Approach

SELF-ASSESSMENT EXERCISE

Briefly discuss revenue assignments of the various tiers of government in Nigeria.

4. 0. CONCLUSION

This unit identified the various assignments of government in relation to the collection of revenue. Emphasis was laid on oil and non-oil revenues.

5.0. SUMMARY

We have briefly discussed the two major sources of government revenue which include oil and non oil revenue. We also discussed the various compositions of revenue assignments of the different tiers of government in Nigeria.

6.0. TUTOR-MARKED ASSIGNMENT

Identify the main sources of government revenue in Nigeria.

Differentiate oil revenue from non oil revenue.

7.0. REFERENCES/ FURTHER READING

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UNIT 3 GOVERNMENT (PUBLIC) EXPENDITURE)

CONTENTS

1.0 Introduction
2.0 Objectives
3.0 Main Content
3.1 Government Expenditure
3.2 Classification of Government Expenditure
3.3 Government expenditure and Gross Domestic Product
4.0 Conclusion
5.0 Summary
6.0 Tutor Marked Assignment
7.0 References/Further Readings

I.0. INTRODUCTION

In this unit, we will discuss the expenditure of governments which is a very vital aspect of government accounting. We have to study the unit closely for us to understand the different aspects of public expenditure. It is important to define the public sector as that part of the national economy in which economic and non-economic activities are under the control and general function of the government.

2.0. OBJECTIVES

At the end of the unit, you should be able to explain:
Government expenditure
Classify government expenditure
Link government expenditure to gross domestic product

3.0. MAIN CONTENT

3.1. **Government Expenditure**

- Government expenditure involves all the expenditures which the public sector incurs for its maintenance, for the benefit of the economy, external bodies and for other countries. It could also be seen as all government consumption, investments, and transfer payments. It is intended to create future benefits such as infrastructure, investments or research spending. It is an important management tool and if properly managed will help to steer the wheels of the economy towards achieving the aims and objectives of government accounting. The structure and size of government expenditure determine the pattern of growth in the economy. If government

manages her resources judiciously, through an efficient allocation to the various sectors of the economy, it will translate into an inclusive and sustainable growth pattern which would serve as a driver for eradicating poverty and inequality in the country. Economists classify government expenditure into three main types. Government purchases of goods and services for current use which is also referred to as government consumption. Government purchases of goods and services intended to create future benefits such as infrastructure investment or research spending which is referred to as government investment.

The federal government in its attempt to provide some public services nationwide often assumes more responsibilities than would ordinarily be the case under the federal constitution. Examples of these include provision of accommodation, mass transit, and boreholes for water supply, roads, etc. Inevitably, the functional responsibilities outweigh the available resources in line with the statutory allocation to cope with.

SELF-ASSESSMENT EXERCISE

What is government expenditure?

3.2. Constitutional Assignment of Major Government Expenditures in Nigeria

Federal Government	State Government	Local Government
Defence, External relations,	Education,	Primary Education,
Currency and coinage, banking and insurance, citizenship,	Health,	Markets,
Immigration,	State roads,	**Sew**age and Refuse
Police, Prison and Security Services,	Water Supply,	Disposal,
Mines and Minerals, Aviation,	Agriculture,	Cemeteries,
Posts and Telecommunications,	Housing,	Local Roads,
Railways, Federal Trunk Roads, Shipping and Inter-state Water Resources, Commercial and Industrial Monopolies,	Social Welfare.	Homes for the Destitute and the Infirm.

Minimum National
Educational Standard at all
levels.

3.3 **Composition of Public Expenditure**

Public expenditure is categorized into recurrent expenditure and capital expenditure. Recurrent expenditure is money spent in the day to day running of the organization. It comprises administration (general administration, defence, internal security), Economic services (Agriculture, construction, transport, communication and others), Social and community services and transfers (Public debt charges or interests for both internal and external debts, pension and gratuities and others such as transfer to contingency fund and extra budgetary expenditures.

Recurrent expenditure serves the following purposes:

*it determines income and expenditure;
*facilitates policy making and planning,
* authorizing future expenditure,
* Providing the basis for controlling income and expenditure
*Setting standard for evaluating performance
*Motivating managers and employees and coordinating the activities of multipurpose departments and organizations.

Capital Expenditure on the other hand is money spent on acquiring long term assets, money spent on projects and also the means of providing finance for these assets. Money spent generally on major renovations and repairs to existing facilities and procurement of capital projects. Recurrent expenditures are used for different purposes. Capital expenditure confers benefit over several years and the argument is that the cost should be spread over several years. Therefore, using taxpayers' money to finance these projects of long term nature is not feasible and logical. It would be fair to borrow the amount required and then repay the interest over the many years period, thereby spreading the cost equitably over the future generation of taxpayers who will benefit from the capital project.

We should note that increase in government expenditure leads to increase in Gross Domestic Product (GDP). The marginal propensity to spend is accordingly high in Nigeria compared to marginal propensity to save. The increase in government revenue shortly after the civil war in Nigeria occasioned by the oil boom led to provision of social services as a means of spreading the oil wealth such as free education. In addition, government can embark on the provision of capital goods that are needed. Furthermore, bureaucracy in government has led to increase in the cost of services in public sector, when compared to their private counterparts and this has resulted to red-tapism in the system.

4.0. Conclusion

In this unit, we have identified the various responsibilities of the different tiers of government in Nigeria as enunciated in the Constitution of the Federal Republic of Nigeria and also the expenditure composition of government.

5.0 SUMMARY

We have succinctly discussed the composition of government expenditure. In the succeeding chapter, we will discuss fiscal federalism, resource allocation and government accounting.

6.0. Tutor-Marked Assignment

Discuss the composition of government expenditure. What is the effect of increase in government expenditure on GDP?

7.0. REFERENCES/FURTHER READINS

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Unit 4. FISCAL FEDERALISM, RESOURCE ALLOCATION AND GOVERNMENT ACCOUNTING IN NIGERIA

CONTENTS

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3.0. Main Content
3.1. Fiscal Federalism
3.2. Distribution of Revenue Allocation
3.3. Structure for Revenue Allocation from the Federation Account
4.0. Conclusion
5.0. Summary
6.0. Tutor-Marked Assignment
7.0. References/ Further Readings

1.0 INTRODUCTION

In this unit, we will discuss fiscal federalism and resource control. We will also discuss revenue allocation of a federal system of political administration with fundamental implications for the fiscal system and economic management of a country through revenue allocation formula.

OBJECTIVES

At the end of this unit, students should be able to:

- Discuss fiscal federalism
- Discuss revenue Allocation in Nigeria
- Discuss components of revenue allocation formula
- Identify the structure for revenue allocation from the federation account.

3.0 MAIN CONTENT

3.1 Fiscal Federalism

Fiscal federalism can be regarded as a political-economic arrangement whereby public revenue of a federation is shared among the levels of government. These levels are the centre, the federating states and local governments. Fiscal federalism is an issue in intergovernmental relations (IGR). Borrowing from the work of Ademolekun (1983:93), "Finance has emerged as the most critical issue in intergovernmental relations in every federation since the second world war". In some federations, the central government claims a disproportionate percentage of the nation's resources. In others, the component units get the lion share; yet in others the central government simply gives grant to the component units.

There are so many variations. In Nigeria, the financial resources available to the federal government exceed by far those available to the other tiers of government. This means that revenue sharing in the Nigerian federation is heavily skewed in favor of the federal government to the detriment of the states. So much political intrigues, maneuvers and camouflage have been employed to seal or whitewash the partial allocation of funds, development of facilities and social amenities to states and ethnic groups. Fiscal federalism being a dynamic phenomenon is to a great extent determined by the political mood of the people. Fiscal federalism had been a recurring issue of political tension in the history of Nigeria's federation. The debate over the Nigerian fiscal federalism had been consistent.

Nigeria is a country of diverse ethnic groups, with differential access to the nation's resources. As a result of the perceived injustice in the revenue allocation process, some of these groups are agitating for the control of the resources found in their various regions. This demand is particularly more vocal among the ethnic groups in the south- south section of the country because of the many years of deprivation, marginalization, agricultural dilapidation, land deprivation that had subjected them to health and environmental hazards (Sagay, 2001; Nwachukwu; 2001:236). This could be evidenced from inter ethnic intolerance which has become persistent since the return of civil democratic rule in 1999. The various Nigeria nationalities are accordingly agitating for autonomous existence as states whilst uniting with each other through a federal government and this agitation is as a result of inadequate arrangement for resource control. Mode of resource control can be regarded as fiscal federalism. Resources are wealth. The main types of resources are men, material and money; therefore state revenue arising from federalism is a resource. The reason for the agitation is that the current formulae for the distribution of the nation's wealth are inequitable hence the agitation.

SELF-ASSESSMENT EXERCISE: Discuss briefly the concept of fiscal federalism.

3.1.2 Revenue Allocation in Nigeria

Resource disbursement is a fundamental fiscal issue in the practice of Nigeria federalism. This is largely so as the nation has federating units with their respective constitutional responsibilities to execute. The Federal, States and Local Governments which constitute the three tiers of government in Nigeria are each given tax-raising powers. The responsibility of disbursing the funds accrued in the common pool account is the exclusive preserve of the federal government.

But the disbursement of revenue to the three tiers of government in Nigeria has been a subject of hot debate because of the political nature of the exercise. Many commissions/committees have been set-up at different times in the Nigeria national history and were saddled with the responsibility of examining various fiscal issues and recommending the best principles and formulae for sharing national revenues, to meet with the challenges of the time. Some of these Commissions/Committees include; the Phillipson Commission (1946), the Hicks-Phillipson Commission (1951), The Chicks Commission (1968), The Raisman Commission (1958), The Binns Commission (1964), The Dina Interim Committee (1968), the Aboyade Technical Committee (1977), the Okigbo Commission (1980), the Revenue Mobilization Allocation and Fiscal Commission (1989) and various military decrees (revisions) particularly 1970, 1971, 1992, etc.

It is worthy to note that all the Commissions/Committees listed above were ad-hoc in nature except the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) which was established as a constitutionally legal and permanent entity to deal with fiscal matters on a more regular basis as the need arises. The RMAFC was formed as a result of the inconsistencies in sticking to extant revenue allocation arrangements and the persistent cry for equitable redistribution of revenue. The various principles recommended by the Commissions/Committees of revenue allocation in Nigeria shall be studied presenrly. The summary of the recommendations of the various revenue allocation commissions/committees in Nigeria shows the following fourteen principles of revenue sharing (of the national cake):

(i) Basic needs
(ii) Minimum Material Standards
(iii) Balanced Development
(iv) Derivation
(v) Equality of Access to Development Opportunities
(vi) Independent Revenue/Tax efforts
(vii) Absorptive Capacity
(viii) Fiscal Efficiency
(ix) Minimum responsibility of Government
(x) Population

(xi) Social Development Factor

(xii) Equality of States

(xiii) Landmass and Terrain

(xiv) Internal Revenue Generation Effort.

The above principles have continued to serve as the yardstick for revenue allocation up to this day.

Components of Revenue Allocation Formula in Nigeria

The Vertical and Horizontal Formulae: Basically, there are two components of the revenue allocation formula used for the disbursement of funds from the Federation Account: Vertical Allocation Formula (VAF) and Horizontal Allocation Formula (HAF)

The Vertical Allocation Formula: This formula shows the percentage allocated to the three tiers of government i.e. federal, states and local governments. This formula is applied vertically to the total volume of disbursable revenue in the Federation Account at a particular point in time. The VAF allows every tier of government to know what is due to it; the Federal Government on one hand and the 36 States and 774 Local Governments on the other (Bashir, 2008:3)

Vertical Formula

The structure of allocation to the three tiers of government are presented below

Beneficiary	Percentage
Federal Government	46.00%
State Governments (including FCT)	33.00%
Local Govts (Area councils inclusive)	21.00%
Total	100%

Horizontal Formula: The formula is applicable to States and Local Governments only. It provides the basis for sharing of the volume of revenue already allocated en bloc to the 36 States and 774 Local Governments.

S/N	Principle of allocation	Percentage
1	Equality	45.00
2	Population	25.60
3	Population Density	1.45

4	Internal revenue generation effort	8.31
5	Land mass	5.35
6	Terrain	5.35
7	Rural road/Inland waterways	1.21
8	Portable Water	1.50
9	Education	3.00
10	Health	3.00
	Total	100.00

Revenue sharing Formulae in Nigeria

Year	Beneficiaries	Formula (%)
1999-2000	Federal Government	54.68
	States	24.72
	Local Councils	20.60
		100.00
2001	Federal	41.30
	States	31.00
	Local Councils	16.00
	Special funds	11.70
		100.00
2002	Federal	56.00
	States	24.00
	Local councils	20.00
		100.00
2003-2006	Federal	52.68
	States	24.72
	Local Councils	20.60
		100.00
2007	Federal	52.68
	States	26.72
	Local councils	20.60
		100.00

Source: Abianga, 2013

Through the application of the principles of horizontal allocation formula, the allocation due to each State or Local Government is determined. Thus, it can conveniently be concluded that the vertical allocation formula is for inter-tier sharing between the three tiers of government while the horizontal allocation formula is for intra-tier sharing amongst the 36 States and the 774 Local Governments in Nigeria (Bashir, 2008:3)

Table 4.2: **Proposed Revenue Sharing Formula by RMAFC**

Year	**Beneficiary**	**Formula (%)**
2001	Federal	41.30
	States	31.00
	Local councils	16.00
	Special funds	11.70
		100.00
2003	Federal	46.63
	States	33.00
	Local councils	20.37
		100.00
2004	Federal	41.30
	States	20.50
	Federal capital territory	6.50
	Local councils	20.00
	Special funds	11.70
		100.00
2007	Federal government	47.19
	States	31.10
	Local Councils	15.21
	Special Funds:	
	General ecology Fund	1.50
	Solid Mineral fund	1.70
	National Reserve Fund	1.50
	Agricultural Devt. Fund	1.75
		100.00

State Creation and the dichotomy of Revenue Allocation in Nigeria

As at 1983, Nigeria had a 19 states structure. However, between 1987- 1996, some additional 17 states were created, making it a 36 states structure and the federal capital territory. During this period, there was increased development in the oil sector and this led to increase in revenue profile of states. Oil accounted for more than 90% of the nation's revenue sources. For example, from 1980-1986, Kaduna State's share of revenue to all the states, averaged 5.7% annually. Katsina State was created out of the old Kaduna State and this led to their combined revenue sharing which rose to 2.8% from 1992-1995. In the 80's, Bendel State's lowest share was 5.9%. The percentage allocation after the bifurcation of the state into Delta and Edo was still 5.9%. This was a far cry from the figures of 1980 when it was Bendel state only. The analysis has shown the injustice that state creation brought and the disparity which existed in the allocation in favor of some areas in the country.

A typical example is that from 1982-1984, the Northern Region (all the 19 states) received an average of 48.4% statutory allocation, 49% from 1987-89 and 51.7% from 1992-1995. Whilst the Western Region (all states in the West) fluctuated between 17.5% and 19% and the average was 15.4% from1993-1995. Similarly, the allocation for the Eastern Region varied when it had 21.4% on the average while the mid western Region (Edo and Delta declined significantly from 1992-1994. The reasons for the disparity in the distribution of revenue allocation are; landmass, terrain and equality of states which attracted 10% and 40% weight respectively. The implication is that states that witnessed greater balkanization receive more from the federation account. Land mass favored Northern states more than the states in the other regions.

An **Examination of the Budget Allocation from 1994 -1998**

However, another aspect of the unfortunate circumstance that we must address is the regional imbalance in our budget allocations.

From the Federation Account (Nmillion)

	1994	1995	1996	1997	1998
S/N	4633.4	5962	6546.9	8751.6	10.206.3
SE	3300.3	4715.2	5179.5	5513.7	7,508.6
SS	44123	7284.7	6945	8557.7	10860
NW	4819.9	605	6671.1	8002.8	10,611.8
NE	5409.8	7171.1	8003.5	9493.8	12,038.6
NC	5292.3	5814.7	7343.2	8468.5	11,771.6
FCT	1,149.7	1,375.8	928.9	1968.1	2544.4

From VAT

	1994	1995	1996	1997	1998
S/N	1332.6	1628.5	3047	2059.4	3967.2
SE	556.8	745.2	1210.2	1493.8	2001.2
SS	723	998.7	1,791.4	2134.6	2,568.5
NW	697.1	631.2	1640.1	1891.3	2,216.1
NE	822.4	987.7	1.825.9	2037,9	2,514.3
NC	838.8	1040.1	1774.3	2304.1	2,590.4
FCT	58.1	73.5	90.6	138.3	163.3

From Internal Generation

S/N	245.2	135.3	436.3	287.6	3631.7
SE	165.	344	484.2	158.4	1,525.1
SS	231.4	277.9	2,436.9	414.9	3,054.1
NW	6.0	259.0	607.4	161.7	4915.0
NE	727.8	1,013.5	529.6	405.3	4,526.5
NC	3172	669.0	1779.3	37	5,717.0
FCT	2,573.4	-	-	2,250	-

From Grants and others

	1994	1995	1996	1997	1998
S/N	245.2	135.3	436.3	287.6	3631.7
SE	165.1	344	484.2	158.4	1,525.1
SS	231.4	277.9	2,436.9	414.9	3,054.1
NW	6.0	259.0	607.4	161.7	4915.0
NE	727.8	1,013.5	529.6	405.3	4,526.5
NC	3172	669.0	1779.3	37	5,717.0
FCT	2,573.4	-	-	2,250	-

Source: Compiled by the Author

The figures above show that the states of the northern region generate less revenue when compared to their southern counterparts but get more from the federation account and grants. This could be part of the reason for the agitation for resource control by the south-south states.

4.0 CONCLUSION

In this unit, the distribution of revenue has been x-rayed and the injustices meted to the other regions apart from the Northern region discussed. The unit also discussed state creation and the dichotomy of revenue allocation in Nigeria arising therefrom.

5.0. SUMMARY

In this unit also, we attempted to expose students to fiscal federalism in Nigeria and other issues on resource allocation in the country. We also looked at the imbalances in the country as far as revenue allocation is concerned.

6.0 TUTOR-MARKED ASSIGNMENT

Identify the components of revenue allocation in Nigeria. Discuss the proposed revenue sharing formula by RMAFC

7.0 REFERENCES/FURTHER READINGS

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MODULE 3 BUDGETING IN THE PUBLIC SECTOR

Unit 1 Budgeting in the Public Sector

Unit 2 Budgetary Control in the Public Sector

Unit 3 Appropriation in the Public Sector

Unit 4 Project Management in the Public Sector

Unit 1 BUDGETING IN THE PUBLIC SECTOR

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1.0 Introduction

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3.0 Main Content

3.1 Budget definition

3.2 Basis for budgeting

3.3 Objectives of Budgeting

3.3. The Influence of Keynes

3.4 Types of Budgets

4.0 Conclusion

5.0 Summary

6.0 Tutor Marked Assignment

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INTRODUCTION

In this unit, we shall try to explain budget and lay emphasis on its application in the public sector administration, especially as it affects developing countries like Nigeria. A Budget is the most single important policy document of governments whereby policy objectives are reconciled and implemented in concrete terms. It is important to underscore the point that government budget is usually associated with purpose or goal oriented action rather than disparate behavior.

.2.0 OBJECTIVES

At the end of this unit, you should be able to:

- Define budget
- Explain the basis for budgeting
- Identify objectives and types of budgeting

- State the procedure for budgeting in the public sector

0.0 MAIN CONTENT

0.1 Budget Definition

0.2 Government budget is lexically understood as a legal document that is often passed by legislature and approved by the chief executive or president. For example, only certain types of revenue may be imposed and collected. It is the systematic design of and plan for all the estimates of income and expenditure of government with the ultimate intention of directing, coordinating and controlling the monetary commitments of the state towards the attainment of their goals and objectives, covering a specific period of time, usually a financial year (Agu,2003). Government budget emerged in response to public demands. Budget exists in all facets of life and applied by the users differently. The fundamental issue in budget is that it has as its factors, plan, time, and economic objectives redefined in financial terms.

SELF ASSESSMENT EXERCISE

Define budget.

0.3 : Basis for Budgeting

Government budget has an economic, political and technical basis, unlike pure economic budget. It is not entirely designed to allocate scarce resources for the best economic use. It also has a political basis wherein different interests push and pull, in an attempt to obtain benefits and avoid burdens. This is the inherent problem in government budgeting. However, the budget usually intends to address the goals of government but in most cases, it lacks fund and political undertone which affects its implementation. For instance, the 2010 budget in Nigeria placed greater emphasis on projects and programmes aimed at achieving the goals set in the Millennium Development Goals (MDG) and the Nigeria vision 20:20. As such, the 2010 budget, according to Okoagu, scaled up spending to the priority sectors in other to ensure the completion of key projects and the actualization of government's efforts at addressing the pressing needs of Nigerians. However, implementation of the budget in the second quarter of 2010 was challenging on several fronts particularly as revenue receipts from both oil and non-oil sources were significantly below their projected estimates.

Objectives of Budgeting

Budgeting is an important tool of accountability in the governmental system and other organizations. Budgeting serves the following the purposes:

*Realizing the aims and objectives of government: the full implementation of the purpose of the budget in government and all public organization will contribute towards realizing the aims and objectives of government.

*Control mechanism: It serves as a control mechanism over revenue and expenditure items.

*Coordination: it coordinates the efforts of line managers to ensure they achieve the objectives of their departments together with the overall objectives of the organization. This forms the pillar for public accountability.

* Demands performance evaluation: the preparation of the budget and the actual results with the estimates provide the bases for managerial evaluation and thus enhances accountability.

* Serves as a document of financial guidelines: It serves as a document of financial guidelines for operation and as a result, administrators use it in policy making. With the budget, administrators can make policies because they have their receipts in advance and on that basis can prepare the estimates and make policies.

*Planning: It helps managers to articulate goals, objectives and programmes of the organization. This to a large extent promotes accountability. In a family, the housewife prepares her bills based on her income likewise in government organizations plans are based on the anticipated income. There is an adage that says that you cannot give what you do not have.

*Communication: the budget communicates decisions taken to all the relevant authorities.

* Productivity: A good budget well implemented leads to efficiency. A good budget should be able to fulfill the foregoing objectives

3.3.1 The influence of Keynes

Keynes in the wake of the great depression of the 1930s aired his opinion on government spending in managing an economy by stimulating demand when resources were underutilized and unemployment was high. The opinion/thought of Keynes created the notion of budgetary policy as an instrument by which a country can execute macroeconomic policy.

SELF ASSESSMENT EXERCISE: Briefly discuss the objectives of budgeting.

• A Budget is a plan expressed in quantitative and usually monetary terms, covering a specific

period of time, usually one year.

• Budgeting is the process of estimating the availability of resources and then allocating them to various activities according to a pre-determined priority.

• Budgets act as instruments of control and act as a benchmark to evaluate the progress of various departments.

3.3. Types of Budgeting

Performance Budgeting

Performance budgeting reflects the goal/objectives of the organization and spells out its performance targets. The targets set out are to be achieved through a strategy and unit costs are associated with the strategy and allocations are accordingly made for achievement of the objectives. A performance budget indicates the direction of the funds spent and how it is expected to give outputs and ultimately the outcomes. The constraint of performance budgeting is that it is not easy to arrive at standard unit costs, especially in social programmes, which require a multi-pronged approach.

Zero-Based Budgeting (ZBB)

• ZBB is a type of budgeting system in which the government policies and programmes are retired every financial year and new projects presented in the succeeding year. The aim of ZBB is to justify the entire budget from scratch. It means starting new, presenting a fresh budget. ZBB is done to overhaul the functioning of the government departments so that productivity can be increased and wastage can be minimized. And scarce government resources can be deployed efficiently. Therefore, ZBB is followed for rationalization of expenditure. The concept of ZBB was introduced in the 1970s. As the name suggests, in the process every budgeting cycle starts from scratch. It is a complete departure from incremental budgeting and it has evolved to take care of the flaws in traditional budgeting. Under the ZBB, a close and critical examination is made of the existing government programmes, projects and other activities, to ensure that funds are made available to high priority items, by eliminating outdated programmes and reducing funds to the low priority items. Governmental programmes and projects are appraised every year

as if they are new and funding for the existing items is not continued merely because a part of the project cost has already been incurred.

Programme Budgeting

Programme budgeting aims at a system in which expenditure would be planned and controlled by the objective. The basic building block of the system was classification of expenditure into programmes, which meant objective-oriented classification so that programmes with common objectives are considered together.

Programme and Performance Budgeting System (PPBS)

PPBS is programme oriented as opposed to organization oriented management approach. PPBS tries to examine needs over a medium to long term period. What actually distinguished it from other budgeting system is its programme-oriented approach. In PPBS, the objectives of the organization must be defined in measurable and specific terms. Programmes must be determined and the possible alternatives that would be applied to achieve the objective outlined. Major issues to be resolved in the formulation and development of programmes are identified

*Programmes are re-examined continuously, which results into relating anticipated costs and outcome, to determine needs for changes in stated programmes and objectives

*Analyzing programmes and projects and their alternatives in terms of probable outcomes and both direct and indirect costs.

*PPBS is designed to open up debates on making choices in terms of what to do, how much to do and when to do.

Many governments today use the “programme budgeting” label for their performance budgeting system. As pointed out by Marc Robertson, the contemporary influence of the basic programme budgeting idea is much wider than the continuing use of the label. It is defined in terms of its core elements as mentioned above. Programme budgeting is an element of many contemporary budgeting systems which aim at linking funding and results.

Outcome Budget

The outcome budget is a progress card on what various ministries and departments have done with the outlay announced in the annual budget. It is a performance measurement tool that helps

in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness. The outcome budget is likely to comprise scheme or project-wise outlays for all central ministries, departments and organizations during the financial year listed against corresponding outcomes (measurable physical targets) to be achieved during the year. It measures the development outcomes of all government programmes. The outcome budget, however, will not necessarily include information on targets already achieved. It is a method of monitoring flow of funds, implementation of schemes and the actual results of the usage of the money.

Gender Budgeting

Gender budgeting is an exercise to translate the stated gender commitments of the government into budgetary commitments, involving special initiatives for empowering women and examination of the utilization of resources allocated for women and the impact of public expenditure and policies of the government on women.

Balanced and Unbalanced Budgets

Balanced Budget

.A balanced budget is when the receipts of government is equal to government expenditure.

Merits of the balanced budget

*Government does not indulge in wasteful expenditure.

* Interference in economic functioning of the system is totally avoided by the government generally.

*Financial stability is ensured with balanced budget.

* However, a balanced budget is not an achievement of the government when economy is in a state of depression for at that time, government is expected to increase its expenditure with a view to increasing aggregate demand.

Demerits of a Balanced Budget

* A balanced budget does not offer any solution to the problem of unemployment during depression.

*. A balanced budget is not helpful to the growth and development programmes of the less developed countries.

Unbalanced Budgeting

An unbalanced budget is that budget in which receipts and expenditure of the government are not equal. In this, two cases concerning surplus budget and deficit budget arise. In surplus budget, government revenue exceeds government expenditures. While in the case of deficit budget, government expenditures are greater than government receipts.

Merits of a Deficit Budget

* It helps in addressing the problem of unemployment during depressions.

* It is conducive for growth and development in less developed countries

* It works towards social welfare of the people.

Demerits of the Deficit Budget

* It encourages wasteful expenditure by the government.

* It results into less revenue realization in comparison to the expenditure

* It increases the debt burden of government.

4.0. CONCLUSION

In public sector budgeting, availability of funds is uppermost because the budget has to be financed with the available resources. Budgets are mere projections given in view of expected change, which may or may not materialize, especially during inflation.

5.0. SUMMARY

In this unit, we examined budgeting, basis for budgeting and objectives of budgeting. We also examined the different types of budgets in the public sector.

6.0. TUTOR-MARKED ASSIGNMENT

Explain the basis of budgeting. Briefly discuss the types of budgeting

7.0. REEFERENCES/FURTHER READINGS

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UNIT 2 BUDGETARY CONTROL IN THE PUBLIC SECTOR

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3.2. Budgetary Control in the Public Sector
3.3. Objectives of Budgetary Control
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1.0 INTRODUCTION

In this unit, we shall explore budget in the public sector and budgetary control as tools for ensuring public accountability in the public sector. Control is performance reports which provide feedback by comparing results to actual.

2,0 OBJECTIVES

At the end of this unit, you should be able to:

* explain government budget
* define budgetary control
* discuss budgetary objectives in government sector

3.0 MAIN CONTENT

3.1 Government Budget

A plan stating government intentions and policies expressed in financial terms with details of the anticipated receipts and expenditure of government under various classifications usually for one year is known as government budget.

- It shows the anticipated income of government from relevant sources of income of government and how the funds will be used to achieve set objectives.
- It is a financial plan of government made up of detailed estimates of expenditure, and revenues for the year(s).
- It is a technical tool for controlling expenditure, for managing agencies and for planning programmes
- In government budgeting, a lot of resources are channeled to their respective votes in line with government's decisions.
- **SELF ASSESSMENT EXERCISE**
- In a simple language, define government budgeting.

In budgeting, we have two essential aspects of budget framework - capital and recurrent expenditure

***Capital expenditure:** it refers to money spent on long-term projects and other business expenditures, such as the cost of equipment, land, and vehicles. Capital budgets are directed towards proposed expenditure. Examples of capital expenditures are; money spent in construction of good roads, electricity, boreholes, etc. Capital projects are expected to be useful, productive, and self paying expenditures. Money spent on these projects if properly managed will be recovered plus a neat profit.

Recurrent expenditure on the other hand refers to regular and ongoing expenses which occur daily, monthly, semi-monthly, quarterly, semi-annually or annually. This involves expenses like overheads, salaries, cost of raw materials, traveling, entertainment, miscellaneous expenses, among others, expenditures incurred in the day to day running of the organization.

In budgeting, it is required of an economy to embark on more capital expenditure relative to recurrent expenditure especially a developing economy like Nigeria that needs more of productive investments.

The economic policy of a nation can only be translated into reality through the budget and it is a tool for ensuring public accountability and transparency.

3.2 Budgetary Control in the Public Sector

Budget and Budgetary control: The provision of the public sector law regarding public sector estimates should be examined. For instance, if it is local government which is also public organization, the law regarding local government estimates should be examined with emphasis

on the Revised Financial Memoranda. The law provides that every department of the local government should prepare a detailed estimate of its revenue and expenditure for the next financial year in accordance with any directive made in that regard by the executive committee. The estimate should be submitted to the executive committee who shall consider it to ensure that it is not inconsistent with the general budgetary measures adopted by the local government and the state, for the succeeding financial year. If the estimate is found to be inconsistent, the executive committee may give the relevant new directives to the government department concerned. Consequently, the executive after studying the estimate and finding it consistent should then submit the estimate to the local government council who shall consider the estimate and approve it with or without modifications. The financial estimate of the local government when prepared in line with the law should have the following objectives.

***Provision of financial plan:** the estimate is deemed to be a statement of the objectives of the local government in financial terms for the financial year concerned and is in effect the local government working plan for the year. The activities of the local government must be conducted within the framework prescribed by the estimate.

* **The budget provides legal authority for incurring expenditure**: The formal approval of the estimate in accordance with the provisions of the law is a legal sanction for the expenditure envisaged by the estimates. Any kobo spent must be covered by a provision in the annual or supplementary estimates.

* **Provision of mechanism for adequate controls:** it provides a mechanism for ensuring that adequate control is maintained over expenditure and revenue. The budget is a useful guide and assists in the control of all the receipts and expenditures. The local government accounting system is directly related to the heads and subheads of the estimates. Therefore, if any subhead is seen to be greater than the approved estimate, then the arrangement should be made either to obtain a supplementary authorization or to contain expenditure within the expenditure limit as approved by the estimate.

* **Establishment of the financial position of the local government:** the estimate helps to establish the financial position of the local government. It does this by revealing the revenue and expenditure of local government at the beginning and end of the appropriation year.

* **Costing and cost control**: This is not given adequate attention in many public sector organizations. The nitty gritties of cost and control are always relegated to the background. For instance, cost and maintenance standards, cost reduction drive, and time inventory are seldom put in use. There is need for extensive costing and appropriate procedures.

- **Internal audit:** This phase is the audit of the accounts produced during the execution phase. It has received proper attention in organizations in terms of its location, organization, empowerment, resource allocation, staffing and performance.

SELF ASSESSMENT EXERCISE

Briefly discuss budgetary control in the public sector.

The Concept of Budgetary Control

Budgetary control on the other hand is a system of scientifically planning ahead and a means of control in which the actual state of affairs is compared to the plan so that appropriate action may be taken with regards to many deviations before it is too late. Accounting and Financial Management define control as performance reports which provide feedback by comparing results to actual. It highlights deviation from plans. Control is action taken to compel events to conform to plan. The essence of control is action to correct divergences. The efforts of executives are therefore concentrated on the significant deviations from expected results. The information gathered highlights the area mostly in need of investigation. Control is a vital part of management and administrative process.

3.3 Objectives of Budgetary Control

The following are the objectives of budgetary control:

- Plan: budgeting provides a detailed plan of action of the organization usually one year. The essence of budgetary control is to ensure that plans do not deviate or where deviations are observed, then budgetary control plays a vital role of ensuring that action conforms to plan.
- Organization: Managers coordinate the affairs of the organization based on the budget. The budget helps to ensure that the objectives of the organization are harmonized with the objectives

of its constituents so that results could be achieved. Control comes into play when there is observed divergences in the objectives of the organization and that of the constituent units.

- Communication: The budget which is a financial plan of operation serves as a communicative device. It helps to communicate the financial plan of the organization to all those involved. The approved budget is distributed to the different ministries for their information and necessary action.
- Acts as a Control device: The budget acts as a control device. It ensures that plans conform to action and it helps the organization to achieve the aims and objectives of the organization. Control comes through variance analysis and reporting.
- Motivation: It motivates the workers in the organization and they feel delighted trying to make plans conform to action and by extension achieve the aims and objectives of the organization.

Problems of Government budgeting

*** Lack of budgetary control**: government budgeting lacks the necessary control that will aid in achieving the approved estimates and making other aspects of the organization effective and efficient. Budgeting is a practice that could be called a technique for ensuring a more effective check in the organization. Unfortunately, budget estimates are mere projections given in view of expected change which may or may not materialize, especially during inflation. In most cases, the actual prices are higher than the expected price and this is one of the problems of budgeting.

* **Inadequate standard:** Most government organizations do not use adequate methods to set standards and as result the standard set may not be visible and the result may not be achieved.

* **Unqualified Personnel:** The type and caliber of personnel employed may not be qualified and honest. This hinders rational decision making and makes the organization ineffective.

*** Principle of rule of lapse:** This is a defect and it could lead to reckless spending especially towards the end of the financial year and in actual fact really does.

***Single line system:** Government budget is in a single line system where expenditure is really itemized under single unit heads and subheads. The disbursing officer is expected to religiously execute the budget provisions. However, in most cases he does not comply with the rules of the budget and this hinders accountability.

Advantages of Budgetary Control

Budgetary control has become an important tool of an organization to control costs and to maximize profits.

Some of the advantages of budgetary control are:

*The goals, policies and plans of the organization are defined using budgetary control.

*The essence of the budgetary control is to compel organizations to work towards achieving the aims and objectives of the budget.

*The organization ensures that plans conform to action and by extension helps to secure better coordination among various departments

*It ensures that performance is at par with target but where it is below expectation, it aids management in finding out the reason

*Activities are monitored to ensure compliance. This helps in reducing or minimizing wasteful expenditures

*It is a very strong tool in the area of cost control and profit maximization

*It is a communication device in the sense that it communicates the policies of the organization to all those concerned.

*If there are adverse variations in the actual and estimates, it helps management to take immediate and appropriate action to correct the variations.

*It provides basis for establishment of incentives.

*Budgetary control enables delegation of authority

Disadvantages of Budgetary Control

*****Under inflationary conditions, preparation of the budget becomes an uphill task.

* Budget is supposed to take place in all organizations but the cost of preparing it scares small business organizations.

Budget is an anticipated estimate for a year; hence it is usually uncertain and as a result distorts the utility of the budgetary control system.

It is just an instrument used by management but not a substitute for management.

The cooperation and support of top level managers are of utmost importance as it will fail without them. If the top level manager tries to impose the budget on the middle and lower levels managers, it may lead to frustration and lack of commitment.

There are inherent problems in the system when budgets are applied mechanically and rigidly.

It can create competition for resources and politics and causes perceptions of unfairness.

Functions of Budgetary Control

It reduces losses to barest minimum.

It makes management and key functionaries involved to adhere to rules.

It helps management to identify variations on time if any and take corrective measures.

It increases efficiency whilst revealing inefficiency.

It helps organizations to achieve the stated objectives if it complies with the set rules.

4.0 CONCLUSION

The need for budgetary control cannot be overemphasized as it helps management take action that would make plans to conform to the set objectives. In the process of control, variations are identified and necessary measures taken to correct the divergences. Without budgetary control, management will plan to fail, success can only be achieved where there are monitoring and cooperation of all those involved.

5.0 SUMMARY

We have attempted to define budgetary control, objectives of budgetary control, problems of budgetary control, the advantages and disadvantages. We also identified the functions of budgetary control in the public sector.

6.0 TUTOR-MARKED ASSIGNMENT

Briefly discuss the objectives and problems of government budgeting.

Identify the essential features of budgetary control.

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UNIT 3. APPROPRIATION IN THE PUBLIC SECTOR

CONTENTS

1. Introduction

2. Objective

3. Main Content

3.1. Appropriation – Budgeting Process

3.2. Authorizations - Budgetary Process in a Democratic Development

3.3. Control - Legal and Institutional Framework of the Budget Making Process

4.0. Conclusion

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7.0. References/ further Readings

1.0. Introduction

In this unit, we shall endeavor to look at appropriation, authorization and control of budget in a democratic setting. We shall pay attention to the legal and institutional frameworks.

2.0. OBJECTIVES

At the end of the unit, you should be able to:

* Explain appropriation and budgeting process.

* Discuss authorization and the budget making process in Nigeria.

* Discuss the legal and institutional frameworks of the budget in Nigeria.

3.0. MAIN CONTENT

3.1 Appropriation Bill - Budgeting process

The budgeting process is a method to improve operations. It is a continuous effort by government or those involved to specify what should be done to achieve the set objectives. The budget serves as a legal instrument used with the aim of obtaining the most productive and profitable use of the company's resources and it is a sub-process within the political process. The budgeting process of every country is closely linked to its political process and thus forms part of its political style. A budget process is the process adopted by governments to create and approve a budget. However, the process of budgeting cuts cross all political settings both in developed

and developing nations. Budgeting involves a lot of lobbying at all levels .In Nigeria, it is called politics of government budgeting which cuts across the different spheres involved in budgeting. The politics starts from the formulation stage up to the approval stage. It is at the approval stage that the budget presentation may be required to be defended by the executives. A lot of lobbying and politicking is necessary to get the budget approved but all these should be not be shrouded in secrecy. A typical example is the case of a former minister of education who made efforts to get the budget of his ministry approved without including important projects. He did not understand the politics well and the sledge hammer fell on him and he was sacked.

Another case in point was an honorable member who revealed how his fellow legislators were padding budget with fictitious projects and constituency programs. He was suspended for a year for revealing this wicked act. Lobbying characterizes the Nigerian budgeting system at both the states and federal government levels and for this reason; Aaron Wildavsky termed it the "politics of the budgetary process". There are certain principles that guide the budgetary process which include:

*Spender: in every country, there are those who advocate for increased government expenditure. They argue for raising more revenue and increase in the allocation to ministries and agencies.

*Savers: in every political system there are guardians of government treasury. They often support measures to scale down government expenditures. They guard the government treasury in such a way as to conserve money for contingencies.

*Complexity: in every budgetary process, there are some paddings which are presumed necessary to cushion off unexpected contingency events. Participants in the budgetary processes are overwhelmed by sheer complexity because many variables intrude in their work. For instance, introduction of projects like Universal Basic Education involves a complex calculation process which ought to identify various needs which have claim on public expenditure and decide what is feasible and practicable.

*Incrementalism: No country starts a fiscal year on a clean state that is zero based budgeting. Most countries budgeting system is always on incremental bases.

* Comprehensiveness: The microeconomic and macroeconomic policies of government are considered and this by implication makes the budget comprehensive.

* Exclusiveness: The budget is tied with financial matters not trivial issues.

*Unity: In preparation of the budget, it should be expressed in gross terms.

* Annually: This requires that the budget be presented each year.

Factors that Influence the Behavior of the Participants in the Budgetary Process

***Political environment:** participants in the budgetary process operate in an environment that imposes severe constraints on what they can do and they face usual overt political factors which involve group pressures, relationship between honorable members of the assembly and their constituency, political party's conflict, executive-legislative co-operation and rivalry, inter ministerial disputes and the like.

*Calculation Factor: By calculation, we mean the series of related factors (manifestly including perceptions of influence relationships) which the participants take into account in determining the choice of competitive alternatives.

The Complexity Factor: Budgeting seems to be complex because of the complexity nature of modern life. Problems of comparison among different programmes that have different values for different people arise in the budgetary process. It takes the form of making decision as to the needs of the country. For instance, how many highways are needed as compared to recreation facilities, national defence, schools and so on down the range of governmental functions?

*Fair share and Base Factor: Fair share and base factors characterize the thoughts of participants in the budgetary process. For example, a ministry does not increase her budget irrationally. The request of the ministry must be borne out of experience of what should be the fair share of the ministry's allocation. Fair share reflects a convergence of expectation on what the ministry will get while the base factor refers to the general expectation among the participants that the programme will be carried on at close to the current level of expenditures but it does not necessarily include all activities.

*Deciding how much to ask for: All the projects required by ministries may not be attended to because of limited resources. Ministries therefore find themselves in a tight corner of deciding what to ask for considering the importance of the project. They are faced with the thorny problem of which project should come first because all the projects will not be authorized.

*Deciding how much to spend: ministries are not only faced with the thorny problem of how much to ask for but also the problem of how much to spend considering the available resources and the projects at hand**.**

SELF-ASESSMENT EXERCISE

Explain the factors that influence the behavior of the participant in the budgetary process.

3.2 Authorizations - Budgetary Process in a Democratic Development

The what, how, where and by whom public resources are obtained and utilized are enshrined in the Constitution of the Federal Republic of Nigeria and are elaborated in specific Acts of Parliament and enforced and reinforced through secondary (delegated) legislation. It is the duty of the Minister of Finance to issue such supplementary legislations in the form of directives or regulations emanating from the executive branch of government for effectiveness and efficiency in government business. We should note that the constitution of most Anglophone countries in Africa including Nigeria stipulates as follows:

- All funds related to government should be collected under the authority of National Assembly and paid into one consolidated fund. The funds for public expenditure are disbursed from it.
- All expenditures must be authorized by the parliament.
- Expenditures should be strictly tied to the purpose for which it was authorized
- Expenditures approved and spent out of consolidated funds must be accounted for before the parliament.
- The office of the Accountant General must operate independently of the executive arm of government.

3.3 **Control - Legal and Institutional framework of Budget Making Process**

The following points are relevant.

- Budget is constitutionally prepared on annual basis by the executives while the legislature gives approval.
- The Constitution of the Federal Republic of Nigeria (section 81 of the 1999 Constitution) empowers the President of Nigeria to prepare and present annual budgets of revenue and expenditure to the National Assembly for approval.
- The President should initiate budget policies and send same to the Ministry of Budget and Planning for consolidation
- Guidelines are sent to the ministries involved for the preparation of the budget.

- The needs of the ministries are articulated and sent to the Ministry of Budget and Planning for further review, revision and modification by the draft estimates committee. Once this exercise is completed, it will be sent to the President who sends same to the National Assembly for consideration and approval.
- Approval of the budget documents therefore undergoes three phases of action, namely- ministerial, executive and legislative actions.

SELF-ASSESSMENT EXERCISE

Briefly discuss the role of the executive in the budgetary process.

Budget Preparation in a Democratic Setting

The Financial Services Department prepares worksheets to assist departmental heads in the preparation of departmental budget estimates. In the public sector, the president-in-council articulates the government objectives in terms of economic, social and other welfare parameters. A call circular will be sent to the various departments asking them to articulate the needs of their departments in line with the budget guidelines and submit an advance proposal of their estimates for the forthcoming financial year. The administrator calls for a meeting of managers and they present and discuss plans for the following year's projected level of activity. The managers can work with the financial services department or work alone, to prepare an estimate for the department's coming year. The completed budgets are presented by the managers to their executive officers for review and approval and justification of the budget request may be required in writing. In most cases, the managers talks with their administrative officers about budget requirements. Adjustments to the budget submission may be required as a result of this phase in the process. Typically, the budget cycles occur in four phases. It is a complete set of events occurring in the same sequence every year and culminating in the approved budgets.

- The first phase requires policy planning and resource analysis including revenue estimation.
- In the second phase, policy is formulated, and budget formation is negotiated and planned.
- The policy which is formulated is executed in the third phase
- The fourth phase encompasses the entire budget process; this phase is the phase of auditing and evaluation.

The different phases are treated in detail:

Phase one - the budget formulation: The President-in-Council articulates the objectives of government in terms of economic, social and other welfare parameters. The budget planning

ministry sends a call circular inviting the various ministries to send in their estimates for the forthcoming year, according to the budget guidelines. The various ministries would convey meetings of the various units for them to articulate the needs of their departments based on the agenda of government in power. The ministries shall key in to the agenda of the government because they are working towards achieving a common purpose. In addition, the resources available are limited hence the ministries are constrained by the limited resources. The implication is that the needs of the ministries shall be in order of preference and the approved priorities and activities should be translated into expenditure formats

The estimates are collated and reviewed and are finalized by the President of the country and then submitted to the legislature in form of the annual appropriation act .The submission may be in form of a budget speech supplemented by analyses and statements containing details of revenue, expenditure and debt including an assessment of the anticipated impact of the budget on the economy of the country. Included in the statement are details of government operations of the budget year for the past and current years.

Phase two - Budget Authorization: This phase comprises review and modification (as may become necessary) of the budget proposals by the legislature. The appropriation bill is then considered following the constitutional guidelines. The Joint Finance Committee of the National Assembly harmonizes action on the budget proposal before legislative approval. After careful scrutiny, the appropriations are then approved by the legislative body in the form of (i) a General Appropriations Law which covers most of the expenditures of the government

(ii) Supplementary Appropriation Laws passed from time to time and (iii) Certain Automatic Appropriations intended for specific purposes The President is constitutionally required by law to approve the Appropriation Act.

Phase Three - Budget Execution. This phase encompasses setting the ball rolling to get the job done. The President-in-Council having received the approved budget, funds will be released for the accomplishment of the set objective. The reason for the entire cycle is achieved here. Specifically, it covers the various operational aspects of budgeting such as the establishment of obligation authority ceilings, the evaluation of work and financial plans for

individual activities, the continuing review of government fiscal position, the regulations of fund release, the implementation of each payment release and other related activities.

Phase four - Accountability: The accounts produced during the execution shall be examined by an independent auditor to report unwholesome deviations in respect of the approved estimates. He has to air an unbiased opinion as to the truth and fairness of the accounts produced. If the categories in place in the budget relate specifically to the incomes and expenditures, which is the case when a traditional budget is in operation as it is in most of the states in Nigeria, the audit can lead to judicial proceedings against officials suspected of dishonest spending. If the budget on the other hand, includes quantified programme budgets, then the audit can judge efficiency and effectiveness.

The challenges confronting the legislature in performing the budgeting process function

Some of the challenges confronting legislature in performing the budgeting process function as discussed by Rotimi et al are listed below. The parliament is constrained in executing their budgetary functions in several ways, thus making them ineffective sometimes.

The Legislature and Budgeting Information

The legislature's inability to access independent information on budget performance is a big challenge confronting the legislature. This challenge therefore makes it critical for the legislature to effectively oversee financial management of the government putting in mind that such information on finances of government on legislative and financial proposals are important inputs to the legislative process. Unlike the developed countries, this information in developing countries seems to be supplied to the legislature by the executive branch of government therefore making it a straight jacketed system. The developed economies rarely experience this teething challenge. For instance, Lowenberg and Patterson (1979) stated that "American legislators have access to information, publications of executive agencies and reports from private sources, all of which aid legislative research work of the staff in Congress". This however is a strategy that offers timely and reliable access to independent budget information. "It is a strategy in the sense that it is the parliamentary opposition that has the greatest incentives to strengthen parliament's capacities for independent budget analysis"

Timing and the Legislature's Budgetary Function

The legislatures / legislators have crowded schedules that they hardly have time and this is a notable challenge. Considering the cumbersome and tasking parliamentary procedures and other bills which the legislators may have to pass, their schedules result into debate that most times lead to endless adjournments and recesses to enable legislators visit their constituencies, such that little time is therefore available to them to thoroughly scrutinize appropriation bills (budget draft) and other proposals as they would wish to do it. "Most times they end up doing inadequate and partial scrutiny of the bills which could be disastrous to the interest of the electorates as a result of poor consultation due to time constraints (Fajengbesi, 2004).

Experience and Legislative Budgeting

Experience is very essential for any parliament to thrive well especially on appropriation bills and other financial matters. Axiomatically, experience is the best teacher. The emerging and many developing economies who had suffered incessant coup d'état and prolonged military rule may lack experienced legislators that could effectively handle appropriation bills like the developed economies. Experienced legislators who have handled and participated severally in the scrutiny of proposal budgets or who have served in different standing committees, including the finance and appropriation committees, are better placed to make useful and intelligent suggestions, leading to the amendment, approval or rejection of the fiscal and monetary policies in the budget proposal than the first timers (Taiwo and Fajengbesi, 2004).

Public Financial Control Authorities in Nigeria

The Constitution of the Federal Republic of Nigeria is a very important tool as far as financial matters are concerned. It embodies all the rules and regulations guiding the Nigerian government. All finance-related matters are provided for in the constitution and it is an instrument of public accountability because the provisions on the acquisition, disbursement and control of funds are embedded in it. The constitution if adhered to strictly safeguards the assets of the country and secures as far as possible the accuracy and reliability of the accounting records of the country. It is an indispensable tool of public financial control hence other tools of public financial controls are derived from it.

The President, Governors or Local Government Chairmen

Section 5 subsection 1-5 of the 1999 Constitution vests executive powers on the President and his counterparts in the other tiers of government. The Constitution confers on them the power to consent and assent in any public financial transaction. The implication is that they are responsible for all financial matters and will be held liable of any financial recklessness of the country, their states and localities, respectively.

The Legislators

They make the law of the nation and as such the legislature is regarded as the formal law-making body. The yearly budgets are approved by them hence it is in their power to tinker with the budget. They may reduce or add or delete completely especially if the project is not in line with government's agenda. The legislature must approve the budget before it can become legal and disbursable. They also have power over supplementary estimates and have power over custody and withdrawal of public funds.

The Minister of Finance

He issues the financial regulations from time to time and it shall be in accordance with existing laws and policies of government. The financial regulations issued apply to all federal public service entities which comprise ministries, extra-ministerial offices and other arms of government. The Minister of Finance disburses and provides control over funds in other ministries. He has the power to advise the government on public financial matters. The constitution vests in him the power to coordinate the finances of the country and all other finance -related issues.

Accountant-General of the Federation

The Accountant General of the Federation is the head of the federal government accounting services and the treasury. He has the responsibility for providing adequate accounting systems and controls in the ministries, extra-ministerial offices and other arms of government, amongst other duties (S.106)

Auditor-General of the Federation

The Auditor-General for the Federation is the officer responsible under the Constitution of the federation for the audit and report on the audited accounts of the federation including the accounts of all persons and bodies established by law who are entrusted with the collection, receipt, custody, issue or payment of federal public moneys or with the receipt, custody, securities, stores or other property of the government of the federation. The Auditor-General has

the powers to examine and ascertain in such a manner as he may deem fit, the accuracy of the accounts relating to public funds and property, and shall ascertain whether in his opinion all public monies received have been fully accounted for, and proper books of accounts kept, amongst a litany of other weighty duties (S. 108).

Accounting Officer

The term “Accounting Officer” means the Permanent Secretary of a Ministry or Head of Extra Ministerial Office and other arms of government who is in full control of and is responsible for human, material and financial resources which are critical inputs in the management of an organization (S.111).

The Budget Officer

This is an important significant control authority. Refer to the previous unit for discussion on the budget.

The Permanent Secretaries

These are career officers in the civil service who rose to the rank as a result of their long years of service and responsibility in the civil service. As a result of their wealth of experience, they make better decisions which serve as guides in the running of the various organizations.

The Central Bank of Nigeria (CBN)

CBN is the apex body that manages the resources of the country. It is the custodian of the country’s resources and a watchdog over the treasury of the country. They are saddled with the printing of notes, and well known for its dual role of serving as bank of the government and bankers to other banks. Its other main responsibility is foreign exchange transactions and can raise alarm if need be as the watchdog of the country’s resources.

CONCLUSION

We have x-rayed the politics of government budgeting and also the conditions that influence participants in the budgetary process. Budgeting, a very important economic tool if manipulated negatively by those in authority would result into comatose conditions for the economy. Rules and laws guiding the preparation and execution of the budget should be applied for governments to realize their objectives.

SUMMARY

In this unit, we discussed appropriation, authorization and control of the budgetary process in Nigeria.

TUTOR-MARKED ASSIGNMENT

In a nutshell discuss the budget making process in Nigeria.

Briefly discuss the various public financial controls in Nigeria.

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UNIT 4 PROJECT MANAGEMENT IN THE PUBLIC SECTOR

CONTENTS

1. Introduction

2. Objectives

3. Main Content

3.1. Project Management

3.2. Network in Project Management

3.3. Project Planning / Management using Networks

4.0. Conclusion

5.0. Summary

6.0. Tutor Marked Assignment

7.0. References/Further Readings

1.0 INTRODUCTION

In this unit, we shall discuss how projects are managed in the public sector. The objectives of the private sector are different from that of the public sector and hence the management of projects in these organizations differs. The aim of the private sector is profit maximization while that of the public is citizen-centered. In this unit, we shall focus on project management in government organizations.

2.0 OBJECTIVES

At the end of this unit, you should be able to:

Explain project management.

Identify the objectives of networks in project management

MAIN CONTENT

Project Management

The ever-growing demand for government services and the complexity of today's public policy challenges make capable project management a critical skill for public sector professionals. Presently, ever since the 21st century, government agencies and related companies have resorted to the integrated, matrixed, team-based approaches for projects such as the development and implementation of government-wide policies, change initiatives, programs, and the monitoring

of agency performance. Professionals charged with the responsibility of managing important projects within the challenging public sector environment will find the acquisition of skills and principles embedded in new project management designs of immense value. However, one of the challenges confronting big organization is how to manage big project that consists of a number of inter-related activities. The problems are encountered during the planning, scheduling and control stages, especially when the project-activities have to be carried out in a specified technological sequence with the assistant of Program Evaluation and Review Techniques (PERT) and Critical Path method (CPM). We should note the following:

*Public sector which is controlled by the government thrives on good project management.

*Public sector managers have to be very judicious in their spending because their operations are funded by the tax payers.

*Taxpayers' money is at stake and as such the deployment of all the necessary project management tools, professionals, and critical principles into project management is of utmost importance.

What is Project management?

Before answering this question, we should first define a project. A project is temporary in that it has a defined beginning, defined scope and resources and an end in time. What distinguishes a project is that it is not a set of actions to be followed regularly, but it is specifically designed to accomplish a singular goal. So a project team often includes people who don't usually work together – sometimes from different organizations and across multiple geographies. The construction of roads, reticulation of pipe borne water, development of software for an improved business process, etc must be under the supervision of skilled personnel to achieve an expected result.

Project management: this is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements. Since the mid twentieth century, project management assumed a different dimension and its application has continued to be on the upsurge in the business world.

Four Basic Elements of Project Management

The four elements of a project shall be managed simultaneously by the project manager. Fortunately, the elements are interrelated and as such should be managed effectively for the organization to achieve its set objectives. The four basic elements are: resources, time, cost, and scope. Let us briefly look at these elements.

Resources

Effective management of the assigned resources of the organization by the managers is of utmost importance. This implies that all the resources assigned for the project to see the light of the day shall be adequately managed to ensure task accomplishment. The resources in most organizations include labor hours, labor subcontract, vendors, and all the necessary equipment for the actualization of the project.

Time and Schedule

Management of time in project management is a critical skill for successful project managers. Problems may arise in the form of bloated project budgets because of lack of good time management approaches. Thank God for the new technology that was introduced with a lot of beneficial packages. Embedded in this new technology is software for management of timeline or project schedule. The projects have to be broken down into a number of tasks, duration of the project, the required resources and the orders to follow.

Costs

In most cases, project managers are assessed on their ability to complete a project within the time frame stipulated. The costs include estimated cost, actual cost and variability. Contingency cost takes into account influence of weather, suppliers and redesign allowances.

How the 80/20 Rule can help a project managers? The 80/20 Rule means that in anything a few (20 percent) are vital and many (80 percent) are trivial. Successful Project Managers know that 20 percent of the work (the first 10 percent and the last 10 percent) consumes 80 percent of your time and resources.

Scope

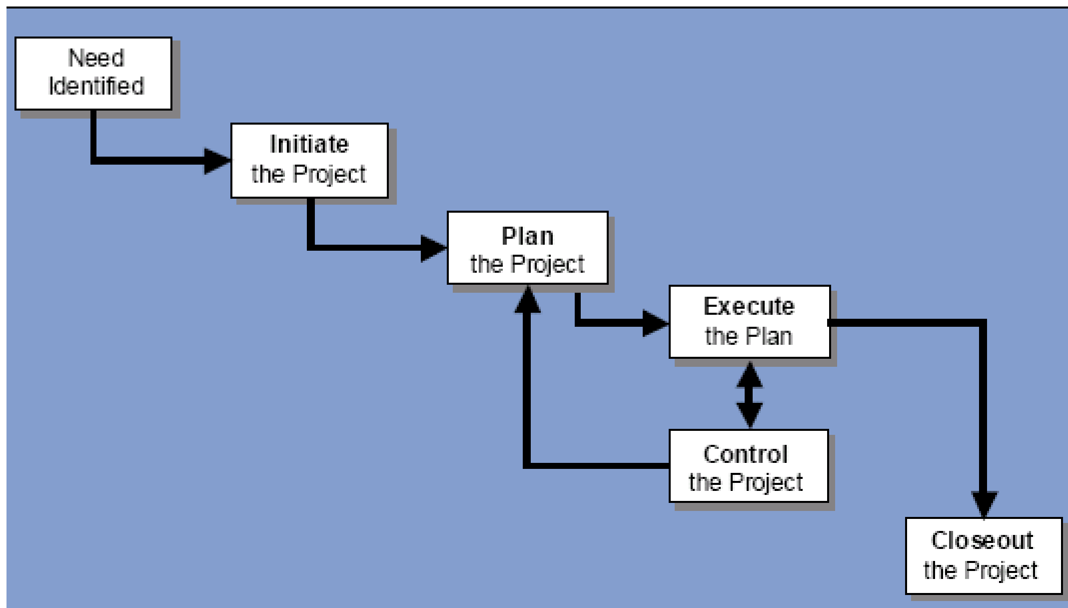
Management of the area intended to cover is also important. The targeted areas to be covered by management have to be carefully identified. Here time is of essence.

Project Management Life Cycle

The process flow of project management processes is shown in the Figure below. The various elements of project management life cycle are :

a) Need identification

b) Initiation
c) Planning
d) Executing
e) Controlling
f) Closing out



Process Flow of a Project Management Process

a) Need Identification

In any project, the bold step taken by project development cycle is to identify components of the projects. This may be done both internally and externally. Internal identification for instance takes place when the energy manager identifies a package of energy saving opportunities during the day-to-day energy management activities, or from facility audits while external identification of energy savings can take place through systematic energy audits undertaken by a reputable energy auditor or energy service company. Certain criteria are necessary in screening projects:

Initiation: At this stage, the project is conceived and introduced. It is the basic process that should be activated to get the project started. If you fail at this stage, it is difficult to succeed because at this stage you should consider corporate claimants –, the workers of the project, users of the project, and those who have anything to do with the project. All the various interest groups shall be covered.

Plan: This can be regarded as a blueprint by the group on the project activities that will be performed and the means and methods to adopt to realize organizational goals. The group at this stage has to analyze previous data which would help them in taking current decisions. It is the most critical stage in project management.

Executing: this is an important stage in project management life cycle hence the requirement for the group to adhere strictly to the detailed plans to achieve result. All the project team members and all necessary resources required to carry out the projects should be ready to carry out the detailed plan. In short, it means coordinating and managing the project resources while executing the project plan, performing the planned project activities, and ensuring they are completed efficiently.

e) Controlling: the group has to be guided in their operations to achieve the set objectives. The implication of monitoring groups as they perform is to correct deviations, by monitoring and measuring progress regularly, identifying variances from plan, and taking corrective actions. The work is regulated in the process of control, to be in line with the organizational objectives.

f) Closing: this is the last phase in project management. Project closeout is performed after all defined project objectives have been met and the customer has formally accepted the project's deliverables and end product or, in some instances, when a project has been cancelled or terminated early. Although, project closeout is a routine process, it is an important one. By properly completing the project closeout, organizations can benefit from lessons learned and information compiled.

These phases interact with each other during the project life-cycle. During the executing process most of the group's budget is expended. Therefore if you plan without putting into practice your plans, it is as good as not planning.

Project Management Processes

Project Execution Process Group: Put Your Plan to Work
Rupen Sharma, PMP • edited by: Michele McDonough • updated: 10/4/2013

As you can see from the diagram above, there are a number of processes to follow in the executing process group. These processes belong to several knowledge areas ranging from project integration management to project human resource management. Project stakeholder management provides a brief of each process in the executing process group.

Direct and Manage Project Work
The Direct and Manage Project Work process belongs to the Project Integration Management knowledge area. Some outputs of this process are deliverables, work performance data, and change requests. Some activities in this process include managing risks, performing activities to accomplish project objectives, and managing sellers and suppliers.

Perform Quality Assurance

The Perform Quality Assurance process belongs to the Project Quality Management knowledge area. This process involves auditing of quality requirements and quality control measurements. The process essentially makes sure that the quality standards and operational definitions are being used during project execution. As you might expect, some outputs of this process are change requests and updates to the project management plans and project documents.

Acquire, Develop and Manage Project Team
All these processes are part of the project human resources management knowledge area. The key outputs of these processes are:

Acquire Project Team: typical outputs include assigning staff and creating resource calendars. Negotiations and acquisitions are part of this process.

Develop Project Team: typical outputs also include conducting performance assessments. All development related activities, such as training and team-building, are performed in this process segment.

Manage Project Team: Typical outputs include updates to the project management plans and other project documents. Project performance appraisals and conflict resolution are part of this process stage.

Conduct Procurements
This process is part of the Project Procurement Management knowledge area. Key activities in this project stage include selecting a seller, awarding a contract, and signing an agreement. Key inputs to this process are the make-or-buy decision, the source selection criteria, the seller proposals, and the procurement statement of work.

Manage Stakeholder Engagement
This process is part of the Project Stakeholder Management knowledge area. It involves managing stakeholder expectations, stakeholder needs, and addressing issues in the project life-cycle. Key outputs of this process segment are the issue log and change requests.

Key Points for the Executing Process Group
As listed above, the executing process group has several processes. These processes enable the completion of the work defined in the project management plan. During project execution, the project plans may change depending on the issue logs and change requests. The process in this process group can trigger processes in other process groups. Most of the project budget is used in this execution process group.

According to Project Management Institute (2017), project management draws on the following areas

*Integration

*Scope

*Time

*Cost

*Quality

*Procurement

*Human resources

*Communication

*Risk management

*Stakeholder management

Project management is shaped by the goals, resources and schedule of each project and this makes it to be focused. The value of that focus is proved by the rapid, worldwide growth of project management which is recognized as a strategic organizational competence, as a career path and as a subject for training and education.

Challenges of Project Management

The workings of project management in today's public sector are confronted with a number of challenges and trends. Public sector is characterized by the presence of elected officials and project management involves many stakeholders from other disciplines. These elected officials in most cases do not have the interest of the masses at heart and may not do much to move the organization forward. However, project managers must endeavor to keep essential government initiatives on track with the changing trend. We should note that the manager has to work with stakeholders from other organizations which in most cases affect his will at work; the points below are some of the challenges faced by project managers in today's public sector

***Managing Multiple Stakeholders:** as noted earlier, the project manager works with many stakeholders from other agencies to achieve the aims and objectives of the organization. A lot of negotiations, communication, leadership skills and conflict resolution skills are employed to arrive at a consensus

***Political Landscape:** the need to adapt to the political landscape confronts project management. The political instability in most developing countries leads to abandonment of old projects. The change in leadership affects continuity of projects despite the belief that government is a continuum. Project managers in most cases find it difficult to adapt to the current political landscapes. This to a great extent hampers project management.

***Local Politics:** one of the challenges faced by project managers and teams is the ability to understand local politics. A lot of politicking is involved in projects right from inception to

completion. Project managers are therefore faced with the responsibility of understanding the local politics they should play to enable them achieve their goals. Directives, policies, procedures and statutes may affect projects.

* **Public Scrutiny:** public projects actually involve a lot of people, that is the general public and as a result, are scrutinized by many, because of the great deal of interest involved. The implication is that there should be transparency and accountability in the handling of projects.

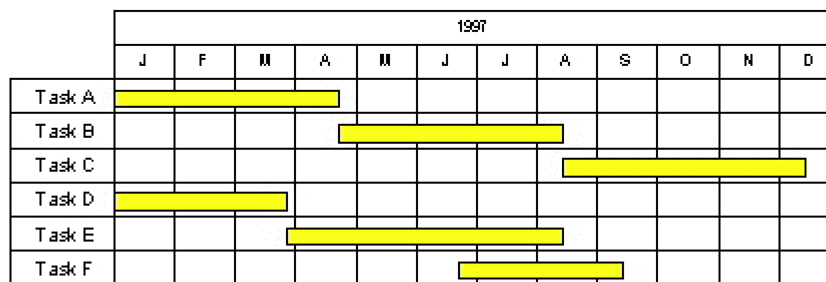
Pay Cut: in the public sector, the take home package is better than in the private sector but the salary package for public sectors is impressive especially in developing nations. The project managers are therefore not often "paid" and this can contribute to frequent turnover of skilled personnel.

Project Planning Techniques

The three basic project planning techniques are Gantt chart, CPM and PERT. They all monitor progress and costs against resource budgets.

Gantt Chart

Gantt charts are also called Bar charts. The use of Gantt charts started during the industrial revolution of the late 1800's. An early industrial engineer named Henry Gantt developed these charts to improve factory efficiency.



Grant Chart

Gantt chart is now commonly used for scheduling the tasks and tracking the progress of energy management projects. Gantt charts are developed using bars to represent each task. The length of the bar shows how long the task is expected to take to complete. Duration is easily shown on Gantt charts. Sequence is not well shown on Gantt Charts.

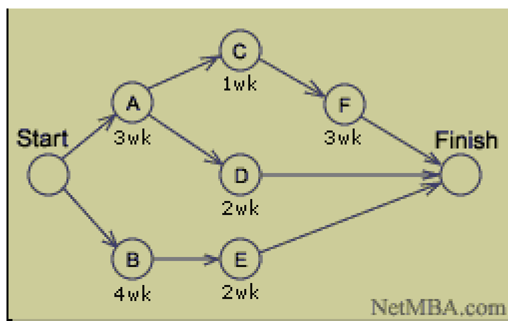
If, for example, the start of Task C depends on both Activity B and Activity E, then any delay to Task E will also delay Task C. We just don't have enough information on the Gantt chart to know this information.

CPM - Critical Path Method

DuPont developed the Critical Path Method (CPM) designed to address the challenges of shutting down chemical plants for maintenance and then restarting the plants once the maintenance had been completed.

Complex projects, like in the above example require a series of activities, some of which must be performed sequentially and others that can be performed in parallel with other activities. This collection of series and parallel tasks can be modeled as a network.

CPM models the activities and events of a project as a network. Activities are shown as nodes on the network and events that signify the beginning or ending of activities are shown as arcs or lines between the nodes. The Figure below shows an example of a CPM network diagram:



CPM network diagram

Bureau of Energy Efficiency, 1617. Project Management

Steps in CPM Project Planning

1. Specify the individual activities.
2. Determine the sequence of those activities.
3. Draw a network diagram.
4. Estimate the completion time for each activity.
5. Identify the critical path (longest path through the network)
6. Update the CPM diagram as the project progresses.

1. **Specify the individual activities**

All the activities in the project are listed. This list can be used as the basis for adding sequence and duration information in later steps.

2. **Determine the sequence of the activities**

Some activities are dependent on the completion of other activities. A list of the immediate predecessors of each activity is useful for constructing the CPM network diagram.

3. Draw the Network Diagram

Once the activities and their sequences have been defined, the CPM diagram can be drawn. CPM originally was developed as an *activity on node* network.

4. Estimate activity completion time

The time required to complete each activity can be estimated using past experience. CPM does not take into account variation in the completion time.

5. Identify the Critical Path

The critical path is the longest-duration path through the network. The significance of the critical path is that the activities that lie on it cannot be delayed without delaying the project. Because of its impact on the entire project, critical path analysis is an important aspect of project planning.

The critical path can be identified by determining the following four parameters for each activity:

ES - earliest start time: the earliest time at which the activity can start given that its precedent activities must be completed first.

EF - earliest finish time, equal to the earliest start time for the activity plus the time required completing the activity.

LF - latest finish time: the latest time at which the activity can be completed without delaying the project.

LS - latest start time, equal to the latest finish time minus the time required to complete the activity.

The *slack time* for an activity is the time between its earliest and latest start time, or between its earliest and latest finish time. Slack is the amount of time that an activity can be delayed past its earliest start or earliest finish time without delaying the project.

The critical path is the path through the project network in which none of the activities have slack, that is, the path for which ES=LS and EF=LF for all activities in the path. A delay in the critical path delays the project. Similarly, to accelerate the project it is necessary to reduce the total time required for the activities in the critical path.

Update CPM diagram

As the project progresses, the actual task completion times will be known and the network diagram can be updated to include this information. A new critical path may emerge, and structural changes may be made in the network if project requirements change.

CPM Benefits

- A graphic view of the project is provided.
- Time required to complete the project is predicted.
- The critical activities for maintaining the schedule are shown.

CPM Limitations

While CPM is easy to understand and use, it does not consider the time variations that can have an impact on the completion time of a complex project. CPM was developed for complex but fairly routine projects with minimum uncertainty in the project completion times. For less routine projects there is more uncertainty in the completion times, and this uncertainty limits its usefulness.

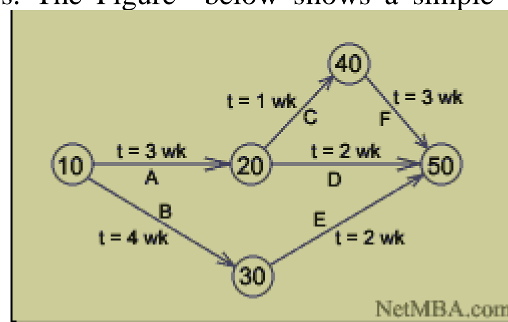
PERT

The Program Evaluation and Review Technique (PERT) is a network model that allows for randomness in activity completion times. PERT was developed in the late 1950's for the U.S. Navy's Polaris project having thousands of contractors. It has the potential to reduce both the time and cost required to complete a project.

The Network Diagram

In a project, an activity is a task that must be performed and an event is a milestone marking the completion of one or more activities. Before an activity can begin, all of its predecessor activities must be completed. Project network models represent activities and milestones by arcs and nodes.

PERT is typically represented as an *activity on arc* network, in which the activities are represented on the lines and milestones on the nodes. The Figure below shows a simple example of a PERT diagram.



The milestones generally are numbered so that the ending node of an activity has a higher number than the beginning node. Incrementing the numbers by 10 allows for new ones to be

inserted without modifying the numbering of the entire diagram. The activities in the above diagram are labeled with letters along with the expected time required to complete the activity.

Steps in the PERT Planning Process

PERT planning involves the following steps:

1 Identifying the specific activities and milestones.

2. Determining the proper sequence of the activities.

3. Constructing a network diagram.

4. Estimating the time required for each activity.

5. Determining the *critical path*.

6. Updating the PERT chart as the project progresses.

1. Identifying activities and milestones

The activities are the tasks required to complete the project. The milestones are the events marking the beginning and end of one or more activities.

2. Determining the proper sequence of the activities

This step may be combined with the activity identification step since the activity sequence is known for some tasks. Other tasks may require more analysis to determine the exact order in which they must be performed.

3. Constructing the Network Diagram

Using the activity sequence information, a network diagram can be drawn showing the sequence of the serial and parallel activities.

4. Estimating activity times

Weeks are a commonly used unit of time for activity completion, but any consistent unit of time can be used.

A distinguishing feature of PERT is its ability to deal with uncertainty in activity completion times. For each activity, the model usually includes three time estimates:

• *Optimistic time (OT)* – this is the shortest time in which the activity can be completed.

- *Most likely time (MT)* - the completion time having the highest probability. This is different from expected time. Seasoned managers have an amazing way of estimating very close to actual data from prior estimation errors.

- *Pessimistic time* (PT) - the longest time required by the activity.

The expected time for each activity can be approximated using the following weighted average:

$$\text{Expected time} = (OT + 4 \times MT + PT) / 6$$

This expected time might be displayed on the network diagram.

Variance for each activity is given by:

$$[(PT - OT) / 6]^2$$

5. **Determining the Critical Path**

The critical path is determining the total time required for the project and it is determined by adding the times for the activities in each sequence and determining the longest path in the project.

The rate of the speed of activities outside the critical path does not alter the project time. Slack time is the amount of time that a non-critical path activity can be delayed without delaying the project. However, if the total time required for the project is not obvious, the following quantities for each activity may be determined - the earliest start time, earliest finish time, latest start time and latest finish time. These times are calculated using the expected time for the relevant activities. The ES and EF of each activity are determined by working forward through the network and determining the earliest time at which an activity can start and finish considering its predecessor activities.

The latest start and finish times are the latest times that an activity can start and finish without delaying the project. LS and LF are found by working backward through the network. The difference in the latest and earliest finish of each activity is that activity's slack. The critical path then is the path through the network in which none of the activities have slack.

The variance in the project completion time can be calculated by summing the variances in the completion times of the activities in the critical path. Given this variance, one can calculate the probability that the project will be completed by a certain date.

Since the critical path determines the completion date of the project, the project can be accelerated by adding the resources required to decrease the time for the activities in the critical path. Such a shortening of the project sometimes is referred to as *project crashing*.

6. Updating as project progresses

Make adjustments in the PERT chart as the project progresses. As the project unfolds, the estimated times can be replaced with actual times. In cases where there are delays, additional resources may be needed to stay on schedule and the PERT chart may be modified to reflect the new situation.

Benefits of PERT

PERT is useful because it provides the following information:

- Expected project completion time.
- Probability of completion before a specified date.
- The critical path activities that directly impact on the completion time.
- The activities that have slack time and that can lend resources to critical path activities.
- Activities start and end dates.

Limitations of PERT

The following are some of PERT's limitations:

- The activity time estimates are somewhat subjective and depend on judgment. In cases where there is little experience in performing an activity, the numbers may be only a guess. In other cases, if the person or group performing the activity estimates the time there may be bias in the estimate. The underestimation of the project completion time due to alternate paths becoming critical is perhaps the most serious.

Performance Monitoring

Performance review is done periodically soon after the completion of the project. The aim is to compare actual performance to projected performance. The need to report back on project cannot be over-emphasized because it assists in several ways. Some of the benefits of feedback include:
* knowing how realistic the assumptions underlying the project were.
* providing a documented wealth of experience that is highly valuable in decision making in future projects
* suggesting corrective action to be taken in the light of actual performance.
* Uncovering judgmental biases.
* It includes a desired caution among project sponsors.

Performance Indicators (PIs) are an effective way of communicating a project’s benefits, usually as part of a performance measuring and reporting process. These are available for a wide range of industries and allow a measure of energy performance to be assigned to a process against

which others can be judged. Depending on the nature of the project, savings are determined using engineering calculations, or through metering and monitoring, utility meter billing analysis, or computer simulations.

4.0. CONCLUSION

We discussed at length the use of network planning in project management, their limitations and benefits. We made extensive use of the work of bureau of energy efficiency.

5.0. SUMMARY

In this unit, we learnt about project management, phases of project management, basic network technology in project management, the benefits and limitations. We have also learned the usefulness of the basic network technology in management of projects.

6.0. TUTOR MARKED ASSIGNMENT

Identify the steps in PERT and CPM planning projects.

Discuss in details, the limitations of CPM and PERT network planning techniques

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MODULE 4 GOVERNMENT DEBT, ENTERPRISES and MULTINATIONALS

Unit 1. Government Debt

Unit 2. Debt Management

Unit 3. Government Enterprises

Unit 4. Multi-National Institutions.

Unit 1. Government (Public) Debts

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2.0. Objectives

3.0. Main Content

3.1. Public debt

3.2. Sources of Public Debt

3.3. Public Debt Management

4.0. Conclusion

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6.0. Tutor Marked Assignment

7.0. References/Further Readings

1.0. INTRODUCTION

In this unit, we will treat public debt, its meaning, objectives and classification of public debts. We will try to familiarize students with the issue of public debts.

2.0. Objectives

At the end of this unit, you should be able to:

*define public debt

*identify the objectives of public debt

*discuss the classification of public debts

3.0. MAIN CONTENT

3.1 Public Debt

Public debt is money owed by a government. This is an important source of government finances. Government of Nigeria has many sources of revenue which she uses to finance capital expenditure. However, if the revenue is not adequate to take care of the expenditures, government can resort to borrowing to enable her meet up with expenditures. Government borrows in times of economic crisis, war and other related issues. Presently, the global oil crisis made Nigeria to resort to borrowing internally (treasury bills, sale of bonds, etc) and externally (World Bank, IMF and their likes). The sale of treasury bills raises money for the government, but it will be repaid with interest. In 2017, because of recession in the economy, interest on treasury bills increased to 17% per annum. The aim is for the public to loan money to government with an attractive interest rate. It is worrisome and a point of concern that Nigeria's public debt has been increasing over the last five years. Below is a report of a recent research by FSDH

Amongst the countries FSDH monitored, Japan recorded the highest debt-to-GDP of 250.40%. This was followed by the United States of America (U.S) with 104.17%; France 96%, United Kingdom (UK) 89.30%; and Germany 68.30%. India and China have a debt-to-GDP of 69.50% and 42.90% respectively. South Africa and Venezuela have debt-to-GDP of 50.10% and 49.80% respectively. Available data from the Debt Management Office (DMO) shows that Nigeria's total debt stock as at March 2017 stood at N19.16trn, representing an increase of 10.37% from the December 2016 figure of N17.36trn. This also represents growth of 153.63% from N7.55trn in 2012. A breakdown of the debt stock shows that external debt accounted for 22.08% (N4.23trn), while domestic debt stock accounted for 77.92% (N14.93trn). The increase in the total debt is attributable to the following factors: the need to fund infrastructure and to supplement the declining government revenue. Many analysts have argued that the increase in government's appetite for borrowing has crowded out the private sector.

The proportion of domestic debt to total public debt dropped consistently between 2013 and 2017. On the average, the proportion of domestic debt to total debt was 85% between 2012 and 2015; but reduced to 78% between 2016 and 2017.The increase in external borrowing and the impact of exchange rate depreciation were the main reasons for the reduction in the

proportion of the domestic debt stock. The FGN has set what it believes to be an optimal domestic debt to external debt ratio at 60:40. At the current (external to domestic debt) level of 78:22, it appears that there is still room to increase the external debt component of the total debt stock.

The debt-to-GDP ratio in Nigeria as at December 2016 stood at 17.11%. This is far below the critical limit of 40% the FGN has set for the Nigerian economy. This means that, by this metric alone, there is substantial room for the government to increase its borrowing. However, the debt-to GDP ratio is not the only issue. The major stress point is the rising level of interest payment relative to government revenue. The ratio of interest payment-to-government revenue increased from 24.48% in 2012 to an estimated 35.32% in 2016. The FGN expects that this ratio will moderate slightly to 33.67% in 2017. The fact that interest payment is such a significant part of government revenue limits the revenue left for the government to undertake other developmental projects in the short-term. We expect this position to improve as government revenue increases as a result of the ongoing economic measures in the country to raise the level of revenue.

SELF-ASSESSMENT EXERCISE

With practical illustration, define public debt

3.2. Objectives of Public Debt

* Government borrows to meet budget deficit: when the government expenditure exceeds revenue realized for the year, it will result in budget deficit. To cushion the effect of the deficit, government resorts to borrowing to enable her meet the obligations.

* To meet the expenses of war and other extraordinary situations: Government also borrows to meet the expenses of war and to defray the cost of war and emergencies.

* To finance development activities. Financing of development activity is of utmost importance and in the priority list of government hence government borrows to undertake these activities despite the inherent problem associated with public debt. We should note the following:

*A country borrowing internally or externally has to repay what she has borrowed with interest and if it is externally, it has to be repaid in foreign exchange.

* If the country does not have sufficient stock of foreign exchange, she may be expected to export her goods to the creditor-country to offset the debt.

* The consumption of the debtor country is curtailed as she has to export adequate goods to meet the expenditure.

* It poses great burden on the country because of the reduction in consumption, it causes an inward shift.

SELF-ASSESSMENT EXERCISE
Explain the objectives of Public Debt

3.3. Classification / Types of Public Debt

Government loans are of different kinds, they may differ in respect of time of repayment, the purpose, conditions of repayment, method of covering liability. Thus the debt may be classified into the following types.

1. Productive and Unproductive debts

* **Productive Debt**:-
The essence of the debt is to use it for productive purposes. It is used in expenditures that are productive in the sense that they create economic advantage for the entire community. Example of productive debt is borrowing money to invest on income yielding investment like steel industry, public health, etc. Productive loans are self liquidating. Generally, such loans should be repaid within the lifetime of the investment.

Unproductive Debt: as the name implies, it does not create economic advantage to the entire community and such debts are not self liquidating as government has to borrow from elsewhere to repay the debt. Public debt used for war, famine relief, social services, etc is considered as unproductive debt. However, such expenditures are not always bad because they may lead to the well being of the community. But such loans are a net burden on the community since they are repaid generally through additional taxes.

Voluntary and Compulsory Debt: These loans are provided by the members of the public on voluntary basis. Most of the loans obtained by the government are voluntary in nature. The voluntary debt may be obtained in the form of market loans, bonds, etc.

Compulsory Debt

A compulsory debt is a rare phenomenon in modern public finance unless there are some special circumstances like war or crisis. The rate of interest on such loans may be low. Considering the

compulsion aspect; these loans are similar to tax, the only difference is that loans are repaid but tax is not.

Internal and External Debt ↓

Internal Debt

Internal debt refers to the funds borrowed by the government from various sources within the country. The various instruments of internal debt include market loans, bonds, treasury bills, ways and means advances, etc. Internal debt is repayable only in domestic currency. It implies a redistribution of income and wealth within the country and therefore it has no direct money burden.

External debt

External loans are raised from foreign countries or international institutions. These loans are repayable in foreign currencies. External loans help to take up various developmental programmes in developing and underdeveloped countries.

Short-Term, Medium-Term & Long-Term Debts ↓

Short-Term Debts

Short term debt is for a short time and is used to finance short term projects. This matures within duration of 3 to 9 months. Generally, the rate of interest is low.

Long-Term Debts

A long term debt has a maturity period of ten years or more. Generally, the rate of interest is high. Such loans are raised for developmental programmes and to meet other long term needs of public authorities.

Medium-Term Debts

The government may borrow funds for medium term needs. These funds can be used for development and non development activities. The period of medium term debt is normally for a period above one year and up to 5 years. One of the main forms of medium term debts is by way of market loans.

Redeemable and Irredeemable Debts

Redeemable debt

The debt which the government promises to pay off at some future date is called redeemable debts. Most of the debts are redeemable in nature. There is usually a certain maturity period for the debt. The government has to make arrangements to repay the principal and the interests on the due date.

Irredeemable debt

Such debts have no maturity periods. In this case, the government may pay the interest regularly, but the repayment date of the principal amount is not fixed. An irredeemable debt is also called a perpetual debt. Normally, the government does not resort to such borrowings.

Funded and Unfunded Debts

Funded Debts

A funded debt is repayable after a long period of time. The period may be 30 years or more. A funded debt has an obligation to pay some fixed sum of interest subject to an option to the government to repay the principal. The government may repay it even before the maturity if market conditions are favorable.

Unfunded Debts

Unfunded debts are incurred to meet temporary needs of the governments. In such debts, duration is comparatively short, say a year. The rate of interest on unfunded debt is very low. Unfunded debt has an obligation to pay at due date with interest.

4.0. CONCLUSION

We have x-rayed public debt and identified the objectives, the sources and classifications of public debt. We justified our beliefs on the issue of increasing public expenditure by the research conducted by FSDH

5.0. SUMMARY

In this unit, we made attempt to define public debt, budget deficit, the objectives and classification of public debts, to identify the sources of and justification for public debts. The debt-to-GDP in Nigeria as at December 2016 stood at 17.11%. This is far below the critical limit of 40% the FGN has set for the Nigerian economy. This means that, by this metric alone, there is substantial room for the government to increase its borrowing.

6.0 TUTOR-MARKED ASSIGNMENT

Identify problems of public debt

Discuss the types of public debt.

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UNIT 2 DEBT MANAGEMENT

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1.0 Introduction

2.0 Objectives

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3.1 Debt Management

3.2. Guidelines for Government Borrowing

3.3. Approaches used for Government Borrowing

4.0. Conclusion

5.0. Summary

6.0. Tutor marked Assignment

7.0. References/Further Readings

1.0. INTRODUCTION

In this unit, we will discuss public debt management. We will see the guidelines for government borrowing

2.0. OBJECTIVES

At the end of the unit, we would have defined debt management and discussed approaches to debt management

3.0 MAIN CONTENT

3.1 **Debt Management**

This is a major responsibility of the federal government and has necessitated the setting up of a department to interface on the matter with the federal ministry of finance and other agencies. Two major types of debts are:

Domestic and External Debts

Domestic debt: it is the duty of the CBN to manage the domestic debt of the federal government. CBN is entrusted with the issue and management of the federal government loans publicly issued in Nigeria upon such terms and conditions as may be required between the federal government and the Bank. Management of domestic debt involves:

*advising the government on the time to float debt instruments and terms of issue.

* playing the role of advertising for public subscription to the issue. The issue is publicly advertised by the CBN.

*when the issue is due, CBN collects the proceeds on behalf of the government. Supervises the issuance of certificates and warrants and maintains proper books of account in respects of receipts and disbursement.

*the bank pays interests and principal on due debts and manages the sinking fund setup to facilitate the information regarding the redemption.

*information regarding the position and implication of domestic debt is provided by the bank.

EXTERNAL DEBT MANAGEMENT

This is more intricate and requires careful planning. For government to get involved in external debt there is need for a conscious and carefully planned schedule of the acquisition, development and retirement of loan acquired for the purpose of developmental projects and then support the balance of payments, the requirements of external debts management are:

* the estimates of foreign exchange earnings.

* the sources of external finance.

* the projected returns from the investment.

*repayment schedule.

*the capacity of the country to service existing debts

* judgment of desirability of contracting further loans.

However, the management of external debt has varied from time to time since the early 1980s. Fortunately in 1988, comprehensive measures on how to manage external debts were set out with the following policy objectives.

* Government should evolve strategies that should increase foreign exchange earning thereby reducing external borrowing. Example of such strategy is exporting more foods than importing food.

*Set out the criteria for borrowing from external sources and determine the type of projects for which external loans may be obtained. Obtaining a loan will be mainly for productive expenditures.

* Mechanisms for servicing external debt of the public and private sectors and outline roles and responsibilities of the various organs of the state and federal governments as well as the private sectors in the management of external debt.

3.2 Guidelines for government borrowing

*Economic sector projects should have positive internal rate of returns as high as the cost of borrowing.

* For any projects to be supported with external loans there must be feasibility studies on how to acquire the loan, deployment and retirement schedule of the loan.

*Loan for private and public sector projects with quick returns on investment should be sourced from the international capital markets while loans for social services should be sourced from concessional financial institutions.

*Any borrowing by state governments / others should receive federal government approval to ensure conformity with national objectives i.e, ensuring that the borrowing conforms with national objectives.

*The proposal of the state government on borrowing should be submitted to the Federal Ministry of Finance and Economic Development and the CBN for consideration before they will be incorporated in the final public sector borrowing for the annual budget.

*State governments and their agencies should service their debts through the foreign exchange market [FEM] and inform the federal ministry of finance and economic development for record purposes. If they fail to service the debts, the naira equivalent will be deducted at source that is before the balances of their statutory allocations are released.

*If the federal government lends money to the state government, the federal ministry of finance and economic development would make due payments and deduct the full amounts at source.

* Private sector that is export oriented should service their debts from their export earnings while others should utilize the FEM facilities to service the debts.

SELF ASSESSMENT EXERCISE

Discuss the guidelines one should follow to embark on government borrowing.

3.3 APPROACHES USED TO REDUCE THE BURDEN OF EXTERNAL DEBT

*Embargo on new loans: the essence of embargo is to check the escalation of the level of total debt and minimize the problem of additional debt burden. The maximum levels of debt commitment for both the federal and state governments are fixed.

*Limit on debt service payment: this requires the setting aside of a proportion of export earnings to meet debt service obligations to allow for internal development. In this regard, the state governments were required in 1980 to spend no more than 10% of their total revenue on debt service payments. Based on the agreement with the Federal Ministry of Finance, a defaulting state government can be bailed out, although the amount in default would be deducted from the state's statutory allocation. In case of federal government, 30% of export earnings are allocated for debt servicing.

*Debt restructuring: this involves the conversion of an existing debt into another category of debt through refinancing, rescheduling, buyback, issuance of collateralized bonds and provision of new money.

*Refinancing of trade arrears: this is done by the procurement of a new loan by a dealer to pay off an existing debt, particularly short term trade debt. The new loan may be contracted from the same creditors or a new set of creditors as the case may be. The repayment of the debt is contained in the loan agreements. In July, 1983, Nigeria had the first refinancing arrangement followed by the second agreement in September 1983. On both agreements, US S2.1 billion worth of trade arrears on confirmed letters of credit were refinanced. By 1986 however, Nigeria had repaid the total amount involved in the two agreements.

* Debt rescheduling: debt rescheduling involves changing the maturity structure of the debt. In this case, interest payments are usually spread over a longer period until debt is finally liquidated. Example, in 1986, debt worth US S1.6 billion due to the London Club and payable in 1987 was rescheduled to extend to 1996 with a 4 year grace period.

*Debt buy back, collateralization and new money options: this implies the offer of a substantial discount to pay off an existing debt. In February 1992, Nigeria bought US S3.395 billion commercial debt due to the London club at 60% discount. In addition, US S2.05 billion has been collaterized at a 30 year per bond with the London club. With this arrangement, the yield of the

bond with a 30 year period would offset or pay off the collaterized amount which is referred to as the zero coupon dollar.

* Debt conversion: this was introduced to complement other strategies for debt management; debt conversion is the exchange of monetary instruments (promissory notes for tangible assets, or other financial investments). It is a mechanism for reducing a country's external debt burden by changing the character of the debt. Conversion comes in various forms and included debt for equity and debt for cash. In Nigeria, the debt conversion exercise involves the sale of an external debt instrument for a domestic debt or equity participation in domestic enterprises. The debt conversion committee was established in July, 1988. 271 applications valued at US S2.5 billion were given approvals in principle. The total amount of debt actually redeemed from inception to 1994 stood at US S813.4 million. Other benefits which accrued from the conversion undertaken up to 1994 include total discount of US S380.2 million and commission of US S10.1 million.

4.0 CONCLUSION

Debt management in Nigeria is the sole responsibility of the federal government. Similarly the CBN in collaboration with Federal Ministry of Finance and other agencies have been on the forefront in ensuring that this laudable task is properly attended to.

5.0 SUMMARY

In this unit, attempts have been made to define debt management and discuss the types of debts. We also x-rayed guidelines for debt management in Nigeria and measures used in reducing the burden of external debt.

6.0. TUTOR-MARKED-ASSIGNMENT

Define debt management.

Discuss measures used in reducing the burden of external debt in Nigeria.

7.0. REFERENCES/FURTHER READINGS

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UNIT 3 GOVERNMENT ENTERPRISES

CONTENTS

Introduction

Objectives

Main content

Government Enterprises

Functions of State Enterprises in Nigeria

Conclusion

Summary

Tutor Marked Assignment

References/Further Readings

1.0. INTRODUCTION

In this unit, we shall explain the meaning of government-owned enterprises and also the effect of that on the citizens of the country. We see these enterprises as a product government uses to meet up with its obligations.

2.0. OBJECTIVES

At the end of this unit, you should be able to:

*explain the meaning of government enterprises

*identify the various government enterprises in Nigeria

*state the importance of these enterprises to the country

3.0 MAIN CONTENT

3.1 Government Enterprises

Government enterprises are enterprises legally owned by government which undertake commercial activities on behalf of government. Omoleke (2007) defines public enterprises as special organizations or bodies, corporate in nature set up by the government of a state for entrepreneurial purposes. The major aim of government is to provide as much essential services as possible including the provision of welfare and health services to the populace. Therefore,

these enterprises though may be pursuing financial gains but the main aim of their establishment is for provision of essential services to the citizens - to make contributions to economic development. The defining features are that they have a distinct legal form and they operate in commercial affairs.

SELF-ASSESSMENT EXERCISE

Define public enterprises.

Government owned enterprises in Nigeria

In Nigeria, government established a number of enterprises deemed necessary for accomplishment of the country's objectives. These enterprises include

*Nigeria Garden City Radio

*Nigeria Social Insurance Trust fund

*Nigeria Coal Corporation

*Nigeria National Petroleum Corporation

*Power Holding Company of Nigeria Now EEDC

*Nigeria Telecommunications

These enterprises were established for specific purposes in Nigeria. We should note that the public sector contributes significantly to the well-being of the country and as such public sector enterprises are seen as economic agents acting on behalf of citizens and serving as major engineers of economic progress .The main idea of the establishment of these enterprises from inception is a stable society where the citizen's welfare will be guaranteed. However, in Nigeria, the economy is a mixed one where the private and public sector compete in providing the main stay of the economy. In Nigeria, as well as in many developing nations, public enterprises have failed to live up to expectation and this has led to the privatization of many government-owned enterprises, despite their importance and value to the common man.

There are certain goods that if left in the hands of private enterprises, the poor will be denied of the consumption of such goods. This is the main essence of public enterprises in Nigeria and globally. However, most of the public enterprises in Nigeria failed to significantly propel development, which led to privatization of many of them in Nigeria. But one wonders if privatization is the answer. It is quite obvious that the affairs of the public enterprises in Nigeria left the Nigeria public in a state of great disillusionment but privatization of these enterprises will

not and have not placed the country in a state of equilibrium. Public enterprises in Nigeria have failed to meet up with their obligations despite the huge resources expended on them. One big question that would agitate our minds is the question, why?

We should note that the management of public enterprises has been left in the hands of our big political actors who occupy political positions to recoup what they spend in politics with a neat profit. This adage "government work is not my father's work thus becomes the prime mover of the economy. But privatization of state owned enterprises has rather enriched the same set of people (political actors) and impoverished the poor .The gap existing between the rich and the poor has widened instead of being bridged by the "Almighty Privatization". The critical issue here is that despite the privatization of many government owned enterprises, Nigeria is still wallowing in the desert. Public enterprises if properly made to be accountable and profitable would surely deliver on its mandate. Our problems are poor attitude to work, our mindset, lack of transparency and corruption. There is no gainsaying it that Nigeria's public enterprises have performed grossly inefficiently.

SELF-ASSESSMENT EXERCISE

Discuss the inherent problems with the Nigeria public enterprises

CONCLUSION

In this unit, we considered the reason for the existence of public enterprises in Nigeria and the adverse effect of the "Almighty Privatization". We also explored the variables which constituted a cog on the wheel of progress for public enterprises.

5.0. SUMMARY

In this unit also, we have attempted to define public enterprises in Nigeria, the reasons for their existence and the state of disillusionment in the country caused by the nonchalant attitude of the political actors and the workers in the field.

6.0 TUTOR MARKED ASSIGNMENT.

Identify some government enterprises in Nigeria

Public enterprises have grossly performed below expectation in the country. Discuss.

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UNIT 4: MULTI-NATIONAL INSTITUTIONS

CONTENTS

1.0. INTRODUCTION

2.0. OBJECTIVES

3.0. MAIN CONTENT

3.1. Multi-National Institutions

3.2. Multi-National Functions

4.0. Conclusion

5.0. Summary

6.0 . Tutor-marked Assignment

7.0. References/Further Readings

I.0. INTRODUCTION

In this unit, we will take a tour of the role of multinational institutions in an economy and its objectives. We will attempt to explore how multi-lateral institutions assist in underwriting external debts of nations in international trade and the expansion and development of the respective economies.

2.0. OBJECTIVES

At the end of this unit, you should be able to:

*identify different multinational institutions

*explain the functions of Multi-nationals

MAIN CONTENT

3.1 Multi National Institutions

Multinational institutions are business organizations whose activities extend beyond the shores of the country of origin (home country). Multinational activities are located in more than two countries and the organizational form defines its foreign direct investment. The form consists of a country's location where the firm is incorporated and of the establishment of branches and subsidiaries in foreign countries. The size of multinationals is determined by their activities in terms of number of countries in which they operate. A large multinational can operate in 80

countries, with hundreds or thousands of employees located outside the home country. The economic definition stresses the ability of the owners and their managerial agents in one country to control the operations in foreign countries. It is widely recognized that capital flow is not the distinguishing features of a multinational corporation. The reason being that capital can flow from one country to another in expectation of the higher rates of return and the flow may be invested in the form of bonds or equity which is too insignificant to grant control to foreign owners in this case, it is treated as "portfolio investment". We should note that a multinational is a product of foreign direct investment that is defined by effective control of operations in a country by foreign owners.

SELF-ASSESSMENT EXERCISE

Define multinational institution

Let us consider the following multinational institutions:

The World Bank (International Bank for Reconstruction and Development)

As the name implies, it is a bank involving more than one party, that is, it is a bank involved in reconstruction and development of needy countries by providing loans. World Bank was established in 1945 as International Bank for Reconstruction and Development (IBRD) under the Bretton wood agreement of 1944, after World War II to midwife reconstruction and development from war time to peace time.

Capital Resources of World Bank

The World Bank started with an initial capital of ten million dollar (S10, 000). However, with the approval of member states, the authorized capital has been increased from time to time. As at 1996, the authorized capital of the Bank was S188 billion out of which S180.6 billion was issued to member countries in the form of shares.

Objectives of World Bank

* Provision of long-run capital to member countries for economic reconstruction.

*It is the duty of the bank to induce long-run capital investments. This actually assists in balance of payments equilibrium and balanced development of international trade.

* Acts as guarantor for loans granted to small and large units and other projects of member countries

*The World Bank ensures implementation of development projects.

* The World Bank promotes capital investment in member countries by providing guarantees on private loans and also providing loans for productive activities if private capital is not available.

Functions:

The principal functions of the IBRD are set forth in Article I of the agreement as follows:

* to assist in the reconstruction and development of the territories of its members by facilitating the investment of capital for productive purposes.

* to promote private foreign investment by means of guarantee of participation in loans and other investments made by private investors and when private capital is not available on reasonable terms, to make loans for productive purposes out of its own resources or from funds borrowed by it.

*The World Bank encourages international investment for the development of the productive resources of members. This the bank does through promotion of long-term balanced growth of international trade and maintenance of equilibrium in balance of payments.

*one of the major aim of establishing The World Bank is to provide long term loans of 5-20 years duration needed by member states for various development projects.

*The World Bank provides technical services for the member countries and this led to the establishment of the Economic Development Institute and a staff college in Washington

* The World Bank also gives loans to private investors of member countries on the express approval of the member countries.

Operations of the World Bank

The World Bank is the largest public development institution in the world, lending around US$ 25 billion a year to developing nations. The major aims of the bank, are outlined in Article One of its Articles of Agreement, which includes amongst others - to facilitate development of capital for productive purposes for the reconstruction and development of territories of member states and "to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investments thereby assisting in raising the productivity, the standard of living and conditions of labor in their territories".

These goals are achieved through the provision of long-term loans to governments for the financing of development projects and economic reform. The members capital subscription determine the voting power on the bank's board which means the members with the greatest financial contributions have the greatest say in the bank's decision-making process. The US government holds 20 per cent of the votes and is represented by a single executive director. The

47 sub-Saharan African countries, in contrast, have two executive directors and hold only seven per cent of votes between them.

The contribution of each member is two per cent of its subscription in gold or US dollars and 18 per cent in its national currency. Members pay in 20 per cent of the capital while the remaining 80 per cent is kept "callable" (to be paid in the event of a default). This guarantee allows the bank to raise money for its lending purposes on international capital markets by the sale of its bonds.

The World Bank receives interest on its loans revised every six months and typically, the bank charges borrowers a rate of interest, 0.5 per cent above its own cost of borrowing on the international market, the proceeds going towards paying the bank's operating costs and to add to reserves.

The initial agreement is that loans should be given only to "specific projects" - usually infrastructural projects, such as the construction of highways, dams, and telecommunications facilities, and social welfare projects, such as those in the health and education sector.

But, in 1980, the bank assumed a new dimension from its original plan by the introduction of adjustment lending under its structural adjustment programme (SAP) to provide financing to countries experiencing balance of payments problems while stabilization measures took effect. These loans are provided to countries for social, structural and sectoral reforms, for example for the development of national financial and judicial institutions. The World Bank attaches conditions to its loans with the stated aims of ensuring that the country's economy is structured towards loan repayment.

Lending Operations of the Bank

The granting of loans to member countries is as agreed in the Articles of Association. Loans are granted to countries on the basis that the bank is satisfied about the purpose of the borrowing and the purpose of the loan. In granting loans, the bank is prepared to take reasonable risks but insists that funds obtained from it should be used for purposes which are constructive and practical. Recently, under the current dispensation in Nigeria, President Mohammed Buhari sought for loan from The World Bank which the bank denied the country. The World Bank lady actually came to Nigeria to teach us how to catch fish but not to give us fish as requested for obvious reasons.

The bank has powers of supervision and control to ensure that funds are used for the purposes for which the loan is granted. Normally, the bank makes medium or long-term loans, the term being related to the estimated useful life of the equipment or plant being financed.

The bank makes or facilitates loans in any one or more out of its own following ways:

(a) By making or participating in direct loans out of its own funds; or

(b) Out of the funds raised in the market of a member, or otherwise borrowed by the bank; or

(c) By guaranteeing, in whole or in part, loans made by private investors through the investment channels.

The total outstanding amount of the loans made or guaranteed by the bank is not to exceed 100 per cent of its total unimpaired subscribed capital resources and surplus. The interest rate charged by the bank on its loans is the estimated cost to the bank of borrowing money for a comparable term in the market and is uniform without distinction among borrowers. In addition to the rate of interest, the bank charges on all loans a commission of 1 per cent for the purpose of creating a special reserve against losses and ½ per cent for administrative expenses.

In recent years, the bank has made loans mainly for specific development projects in the field of agriculture, power, transport and industry. Most of the loans have been made to the underdeveloped countries. India is the bank's largest individual borrower.

Technical and Advisory Assistance:

In addition to providing financial assistance to member countries, the bank also renders technical services to its members through the provision of suitable technical assistance, which helps to assess their total economic resources and to set up priorities to be followed in their development programmes.

Technical assistance on a boarder scale has also been provided, for instance, in development programming through Survey Missions, which make intensive studies of national resources and formulate recommendations to serve as the basis of long-term development programmes.

The bank has also instituted a training programme in Washington, an Economic Development Institute with the aid of Rockefeller and Ford Foundations. The aim is to provide an opportunity to selected groups of senior officials from the less developed countries to participate annually in an international course of studies designed to give them a broad perspective of the problems of economic development and to increase their efficiency.

Criticism:

The modus operandi of the Bank has been criticized on various accounts from different quarters:

*High interest rate: There have been complaints from various quarters on the high interest rate charged by the bank. For example, some of the loans which India has received in recent years bear an interest of 53.4 per cent including the commission at 1 per cent which is credited to the bank's special reserves.

*Application of unorthodox standards: The bank's insistence, prior to the actual grant of loan, on the country having the capacity to transfer or repay, is open to criticism. The bank should not apply unorthodox standards to judge the transfer capacity of any borrowing country. Transfer capacity follows rather than precedes the loan.

*The financial help given by the bank does no amount to more than a drop in the big ocean of financial requirement so essential for various development projects.

SELF-ASSESSMENT EXERCISE

Briefly discuss the operations of The World Bank

INTERNATIONAL MONETARY FUND (IMF)

This is an organization of 189 member countries whose sole aim is to stabilize the global economy. The IMF was created at the Bretton wood's conference in 1944. The aim was to rebuild Europe after World War II. The Conference also set up a modified gold standard to help countries maintain the value of their currencies. The planners wanted to avoid the trade barriers and high-interest rates that helped cause the "Great Depression"

IMF monitors global conditions and identifies risks in countries and also advises members on what to do to improve their economies. In addition, it helps member countries in preventing financial crisis by providing technical assistance and short term loans.

IMF Chief

The IMF Chief is Managing Director Christine Lagarde since July 5, 2011. She is Chairman of the 24-member executive board. In February, 2016, she was reappointed to a second renewable five-year term. The Managing Director is the chief of the IMF's 2,700 employees from 147 countries. She supervises four Deputy Managing Directors. The IMF Governing Board sets direction and policies. Its members are the finance ministers or Central Bank leaders of the member countries. They meet each year in conjunction with the World Bank. The International Monetary and Financial Committee meet twice a year to reviews the international monetary system and makes recommendations.

Functions

The IMF has the sterling quality of reviewing the economies of all its member countries. As a result, it has its finger on the pulse of the global economy better than any other organization.

It provides the world economic outlook, the global financial stability report and the fiscal monitor each year. It also delves into regional and country-specific assessments. It uses this information to determine which countries need to improve their policies. The IMF can identify which ones threaten global stability. The member countries have agreed to listen to the IMF's recommendations. They want to improve their economies and remove these threats.

Standards followed by member countries are developed by IMF and this helps them to prevent financial crisis. For example, the agreement by members to provide adequate foreign reserves in good times which help them to increase spending and ultimately boost their economies during recessions. It also issues member country reports that investors use to make well-informed decisions which also enhances the functioning of financial markets. In addition, IMF encourages

sustained growth and high living standards. That's the best way to reduce members' vulnerability to crises.

In times of economic crisis, IMF provides technical assistance and short-term loans that help members buffer the balance of payments problems, restore sustainable growth and stabilize their economies.

IMF does not finance projects like World Bank but lends money to developing countries for specific projects that will fight poverty.

Traditionally, most IMF borrowers were developing countries and they had limited access to international capital markets due to their economic difficulties. Before any country can borrow from IMF, the country’s economic policies must be on the right track. That reassures investors and acts as a catalyst for attracting funds from other sources.

IMF is a render of last resort to member countries in periods of global economic crisis

Members

Rather than listing all 189 members, it's easier to list the countries that are not members.

The seven countries (out of a total of 196 countries) that are not IMF members are: Cuba, East Timor, North Korea, Liechtenstein, Monaco, Taiwan and Vatican City. The IMF has 11 members that are not sovereign countries: Anguilla, Aruba, Barbados, Cabo Verde, Curacao, Hong Kong, Macao, Montserrat, Netherlands Antilles, Sint Maarten and Timor-Leste.

Members do not receive equal votes. Instead, they have voting shares based on a quota. The quota is based on their economic size. If they pay their quota, they receive the equivalent in voting shares. The number of voting shares was updated in 2010. That gave emerging market members more voting authority.

Role

The role of the IMF has increased since the onset of the 2008 global financial crisis. In fact, an IMF surveillance report warned about the economic crisis but was ignored. As a result, the IMF has been called upon more and more to provide global economic surveillance. It's in the best position to do so because it requires members to subject their economic policies to IMF scrutiny. Member countries also committed to pursuing policies that are conducive to reasonable price stability. They agree to avoid manipulating exchange rates for unfair competitive advantage.

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

International Development Association is a part of World Bank whose aim is to help the world poorest countries. In the world, 77 countries are in the list of IDA and out of these 77 countries, 39 were African countries. It is the single largest source of donor funds for basic social services

in these countries. For any country to qualify for IDA's assistance, certain criteria must be met. The country shall lack credit worthiness to borrow on market terms and shall its relative poverty defined as GNI per capital must be below an established threshold

OBJECTIVES

The major objective of IDA is to reduce poverty by providing loans and grants for programs that boost economic growth. It also reduces inequality and boosts living conditions of peoples. In addition, it supplements the objectives and activities of the World Bank.

Activities:

- Investment project financing is used in all sectors, with a concentration in the infrastructure, human development, agriculture, and public administration sectors. It supports a wide range of activities, including capital-intensive investments, agricultural development projects, service delivery, community-based development plans and institution building.
- The World Bank Group Environment Strategy, 2012-2022, lays out an agenda to support "green, clean, resilient" paths for developing countries, as they pursue poverty reduction and development in an increasingly fragile environment. Each Country Partnership Strategy is also reflecting the global WBG environment strategy.

SELF-ASSESSMENT EXERFISE

Briefly discuss the reasons for the establishment of the IMF

AFRICAN DEVELOPMENT BANK (ADB)

ABD was established to reduce poverty in its regional member countries. The aim is to spur sustainable economic development and social progress in its regional member countries.

The Bank Group achieves this objective by:

1. Mobilizing and allocating resources for investment in Regional Member Countries (RMCs); and
2. Providing policy advice and technical assistance to support development efforts.

In 2015, all multilateral development institutions have agreed on a same set of objectives, called the Sustainable Development Goals. They are:

Sustainable Development Goals
Goal 1. End poverty in all its forms everywhere.

Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3. Ensure healthy lives and promote well-being for all at all ages.

Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5. Achieve gender equality and empower all women and girls.

Goal 6. Ensure availability and sustainable management of water and sanitation for all.

Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 10. Reduce inequality within and among countries.

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12. Ensure sustainable consumption and production patterns.

Goal 13. Take urgent action to combat climate change and its impacts.

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

PARIS AND LONDON CLUBS

This is an informal group of officials of major creditor countries (in the case of the Paris Club) and in the case of the London Club having more to do with commercial banks-related loans, whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor nations and their institutions.. The Paris and London club creditors discuss, agree to renegotiate and reschedule debts due to them. Debt rescheduling is providing a

country with debt relief through a postponement and if it is concessional rescheduling, it means a reduction in debt service obligations.

International Finance Corporation (I.F.C.)

IFC was established in July 1956, with the specific subject of providing finance to the private sectors. It is a separate legal entity with separate fund and functions though affiliated to The World Bank

Objectives:

* To assist in economic development: It encourages the growth of productive enterprises in its member nations, especially in less-developed countries.

*Invest in Productive Private Enterprises: IFC invests mainly in private enterprises, that is the productive ones, in cases where capital is not sufficient

*Clearing House: It serves as a clearing house in the sense that it brings investment opportunities, private capital and experienced management together

*Stimulates Productive Investment: Private capital benefits, in that it stimulates their productive investment both domestic and foreign.

*Fixed Investment: The investment is fixed and the minimum is S100 000.00.

Rate of Interest: The degree of the risk involved and other terms of investment determine the rate of interest to be charged for the loan.

*Repayment terms: The loans are repayable in five to fifteen years terms.

The Operations of IFC

The organization works with only productive private enterprises whose investment proposals dwell mainly on the re-establishment and expansion of the economy of the country concerned. The private organization's features shall be productive. However, IFC can invest its funds in any

form that is appropriate for the organization, excluding capital stock and shares. The interest rate on the resources loaned is negotiated as there is no fixed interest rate.

SELF-ASSESSMENT EXERCISE

Identify the functions of IFC

4.0 CONCLUSION

We have many multinationals but we have attempted to identify a few of them and their functions.

5.0 SUMMARY

In this unit, we have attempted to identify different multinational institutions, their objectives and functions. We have seen that these multinationals play significant roles in upholding and sustaining development, especially in developing countries.

6.0. **TUTOR MARKED ASSIGNMENT**

List the functions of The World Bank
Discuss briefly the functions of some of the multinationals mentioned in this unit.

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Acknowledgement

I made extensive use of the works of Abianga, E.U and Bureau of Energy Efficiency 156, Project Management and other works of related concern.