



NATIONAL OPEN UNIVERSITY OF NIGERIA

SCHOOL OF MANAGEMENT SCIENCE

COURSE CODE: BHM 799

COURSE TITLE: PUBLIC FINANCIAL MANAGEMENT

COURSE DEVELOPMENT

BHM 779

PUBLIC FINANCIAL MANAGEMENT

COURSE GUIDE

Course Developer Unit Writer/Adapter:	Mr. E. U. Abianga NOUN,
Course Editor:	Dr. I. D. Idrisu NOUN
Programme Leader:	Dr (Mrs.) Fagbemi NOUN
Course Coordinator:	Mr. Henry Agbebaku NOUN

CONTENT

1.0 INTRODUCTION

This course, BHM 779 Public Financial Management in Post Graduate Diploma in Public Administration has been designed to give you self instruction on the fundamental of Public Administration. It teaches you financial management in the public sector.

2.0 COURSE AIM

The aim of this course is to introduce you to basic public financial management approaches and processes.

3.0 COURSE OBJECTIVES

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

- (i) Discuss public financial management;
- (ii) Explain fiscal and monetary policy;
- (iii) State types and purposes of taxation in Nigeria;
- (iv) Identify and classify sources of government revenue and expenditure;
- (v) Discuss budgeting, implementation and control in public sector financial management;
- (vi) Define and identify public debt sources and management;
- (vii) Identify government enterprises and their roles;
- (viii) Highlight major multilateral institutions and their functions.

4.0 WORKING THROUGH THIS COURSE

This course, BHM 779, Public Financial Management, expects you to do a lot of reading in order to cover the materials in the course material. This means that you should devote much time to this course by reading through this material and getting more information from numerous texts and journals. These abound in every library and from the internet. The course material has been made easy to read and user-friendly. You will need to work in groups with other students in order to discuss, compare notes and thoughts as well as to exchange and share ideas. Below are the lists of all the components of the course:

5.0 COURSE MATERIALS

The National Open University of Nigeria will provide you with the following items:

- Course Guide

- Study Units
- TMA Assignments

In addition, at the end of every unit, is a list of texts for your references and for further reading. It is not compulsory for you to read all of them. They are only essential supplements to this course material.

6.0 STUDY UNITS

The study units in this course are as follows:

MODULE I: BASICS OF PUBLIC FINANCIAL MANAGEMENT

- Unit 1: Basics of Public Financial management
- Unit 2: Monetary Policy
- Unit 3: Fiscal Policy
- Unit 4: Taxation

MODULE II: 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 Resources Allocation and Government Accounting

MODULE III: BUDGETING IN PUBLIC SECTOR

- Unit 1: Budgeting in Public Sector
- Unit 2: Budgetary Control in Public Sector
- Unit 3: Appropriation in Public Sector
- Unit 4: Project Management in Public Sector

MODULE IV GOVERNMENT DEBTS, ENTERPRISES AND MULTI-NATIONALS

- Unit 1: Government (Public) Debts
- Unit 2: National (Public) Debt Management
- Unit 3: Government Enterprises
- Unit 4: Multi-National Institutions

In **Module 1**, the first unit discusses the basics of public financial management.

Unit 2 deals with the monetary policy generally as a tool for economic balance in a nation. Monetary policy is concerned with discretionary control of money supply by the monetary authorities (Central Bank of Nigeria) to achieve economic goals

Unit 3 exposes you to the nature and meaning of fiscal, fiscal year and fiscal policy. You will also learn about the identification of major instruments of fiscal policy, the fiscal system in Nigeria.

Unit 4 discusses the general principles of taxation in Nigeria, types and the purpose, incidence and canons of taxation with current development to support.

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In Module 2,

Unit 1 introduces you to sources of government revenue classified as: oil and non-oil.

Unit 2 tells you about the adoption of a federal system of political administration with fundamental implications for fiscal system.

Unit 3 states economic management of a country through revenue allocation formula in Nigeria.

Unit 4 focuses on the expenditure of government in Nigeria and the classification and types of revenue as they affect different levels of government which you have to study closely in order to identify the broad parts of public expenditure.

Module 3,

Unit 1 discusses the forms of budget and its role as a major financial management tool emphasizing budgets' application in the public sector administration as it affects developing economy like Nigeria..

Unit 2 explains budgeting in government and budgetary control as a primary device for ensuring compliance in public sector funding.

Unit 3 introduces you to the politics of budgeting through machinery of appropriation and the process thereof.

Unit 4 discusses project management via cost-benefit analysis as applied to the public sector with political and social considerations overriding financial consideration in the public sector through network approach.

Module 4

Unit 1 discusses public debt and Nigeria

Unit 2 explains national debt management of economy

Unit 3 deals with the significance of government enterprises as product of growth and service delivery to satisfy the public.

In Unit 4, you will learn about the multilateral institutions and their functions.

7.0 ASSESSMENT

There are two aspects to the assessment of the course: first is the tutor-marked assignment; and secondly, the examination.

Within each unit are self-assessment exercises, which are aimed at helping you to check your assimilation as you proceed. Try to attempt each of the exercises before finding out the expected answers from lecture.

8.0 TUTOR-MARKED ASSIGNMENT (TMAS)

This is your continuous assessment and accounts for 30% of your total score. You are expected to answer at least four TMA's, three of which must be answered and submitted before you sit for the end of course examination.

9.0 FINAL EXAMINATION AND GRADING

With this examination written successfully, you have completed your course in Basic research and one believes you would apply your knowledge (new or up-graded) in your project. The 'end of course examinations' would earn you 70% which would be added to your TMA score (30%). The time for this examination would be communicated to you.

10.0 HOW TO GET THE BEST FROM THIS COURSE

In distance learning, the study units are specially developed and designed to replace the conventional lectures. Hence, you can work through these materials at your own pace, and at a time and place that suits you best. Visualize it as reading the lecture.

This is one of the great advantages of distance learning. You can read and work through specially designed study materials at your own pace, and at a time and place that suits you best. Think of it as reading the lecture that a lecturer might set you some readings to do, the

study unit will tell you when to read other materials. Just as a lecturer might give you an in-class exercise, your study units provide exercises for you to do at appropriate points.

Each of the study units follows a common format. The first item is an introduction to the subject matter of the unit, and how a particular unit is integrated with the other units and the course as a whole.

Next is a set of learning objectives. These objectives allow you to know what you should be able to do by the time you have completed the unit. You should use these objectives to guide your study. When you have finished the unit, you must go back and check whether you have achieved the objectives. If you make a habit of doing this, you will significantly improve your chances of passing the course.

The main body of the unit guides you through the required reading from other sources. This will usually be either from a **Reading Section** of some other sources.

Self-tests are interspersed throughout the end of units. Working through these tests will help you to achieve the objectives of the unit and prepare you for the assignments and the examination. You should do each self-test as you come to it in the study unit. There will also be numerous examples given in the study units, work through these when you come to them too.

The following is a practical strategy for working through the course.

- (1) Read this course guide thoroughly.
- (2) Organise a study schedule. Refer to the course overview for more details. Note the time you are expected to spend on each unit and how the assignments relate to the units. Important information e.g. details of your tutorials, and the date of the first day of the semester will be made available. You need to gather all this information in one place, such as your diary or a wall calendar. Whatever method you choose to use, you should decide on and write in your own dates for working on each unit.
- (3) Once you have created your own study schedule, do everything you can to stick to it. The major reason that students fail is that they get behind with their coursework. If you get into difficulties with your schedule, please let your tutor know before it is too late for help.
- (4) Turn to unit 1 and read the introduction and the objectives for the unit.
- (5) Assemble the study materials. Information about what you need for a unit is given in the 'Overview' at the beginning of each unit. You will always need both the study unit you are working on and one of your references, on your desk at the same time.
- (6) Work through the unit. The content of the unit itself has been arranged to provide a sequence for you to follow. As you work through the units, you will be instructed to

read sections from your set books or other articles. Use the unit to guide your reading.

- (7) Review of the objectives for each study unit and confirm that you have achieved them. If you feel you are not clear about any of the objectives, review the study material or consult your tutor.
- (8) When you are confident that you have achieved a unit's objectives, you can then start on the next unit. Proceed unit by unit through the course and try to face your study so that you keep yourself on schedule. Check that you have achieved the unit objectives (listed at the beginning of each unit) and the course objectives (listed in the Course Guide).
- (9) You now take the e-TMA online
- (10) After completing the last unit, review the course and prepare yourself for the final examination.

11.0 SUMMARY

This course BHM 779 is designed to give you some knowledge which would help you to understand financial management as applied to public sector. After going through this course successfully, you would be in a good position to pass your examination at the end of the semester and use the knowledge gained to apply in the execution of finance as public administrators and contribute to the development of scholarly thoughts in public sector management.

We wish you success in this interesting course and hope you will use what you have learnt in this post graduate diploma in public administration which is a gateway to master's degree program in public sector management/administration.

We also hope you would appreciate the unique role and opportunity you have to make a difference in using the knowledge derived from this course in solving problems. We, therefore, sincerely wish you the best as you enjoy the course. GOOD LUCK.

OPP of PGD Public Financial Management (BHM 779)

Basics of Public Financial management; Monetary Policy; Fiscal Policy and Taxation; Government Accounting, Government (Public) Revenue, Government (Public) Expenditure; Fiscal Federalism and Resources Allocation and Government Accounting; Budgeting in Public Sector, Budgetary Control in Public Sector, Appropriation in Public Sector; Project Management in Public Sector; Government (Public) Debts, National Debt Management; Government Enterprises; Multi-National Institutions



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14/16 Ahmadu Bello Way, Victoria Island, Lagos

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BHM 728: PUBLIC FINANCIAL MANAGEMENT

COURSE CONTENT

MODULE I: BASICS OF PUBLIC FINANCIAL MANAGEMENT

- Unit 1: Basics of Public Financial management
- Unit 2: Monetary Policy
- Unit 3: Fiscal Policy
- Unit 4: Taxation

MODULE II: GOVERNMENT (PUBLIC) ACCOUNTING

- Unit 1: Government (Public) Accounting
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MODULE 1 BASICS OF FINANCIAL MANAGEMENT

Unit 1:	Basics of Public Financial management
Unit 2:	Monetary Policy
Unit 3:	Fiscal Policy
Unit 4:	Taxation

UNIT 1 BASICS OF PUBLIC FINANCIAL MANAGEMENT

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3.3 Aim of Public Financial Management
3.4 Modern governments' intervention and instrument in the economy
4.0 Conclusion
5.0 Summary
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1.0 INTRODUCTION

The main goal of this unit is to define public financial management. The public functions of financial management and their peculiarities will be discussed along the importance.

You will be introduced to the basics of Public financial management as a vast field of endeavour which encompasses the whole processes of formulating and implementing decisions made on government services.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define public financial management
- Discuss public financial management

3.0 MAIN CONTENT

3.1 Basics of Public Financial Management

Definitions:

Ola and Offiong (2008) defined public financial management as “the measures put in place to control the people’s money or funds. You will note that the word ‘public’ means the people while ‘finance’ connotes funds or money. The management of the public funds is known as public financial management.

Ekpong (2001), also defined Public Financial Management as the management of the flows of money or financial resources through an organisation (public), whether it is a company, a school, bank, or government agency. The actual flow of money or financial resources as well as claims against money in a judicious way is its concern. Public Financial Management is a specialised functional area found under the general classification public administration and finance;

- The traditional concept of finance (providing funds needed by an organisation) has the merit of highlighting the central core of the financial function –the treasury function- which is simply keeping the organisation supplied with enough funds to accomplish its objectives. In the present modern economy, there is increase in complexity, size technology, inflation, recession and government control with a lot of implications to financial management in many organizations.
- In public financial management, every decision is based on equity and efficiency back-up by public policy so as to ensure efficient employment of resources. Thus public financial management deals with judicious use of funds and also ensures accountability and financial control.

Self-Assessment Exercise 1

Define Public Financial Management.

The subject of public financial management is the acquisition and disposal of resources by the government, be it Federal, State or Local Government. It is about government income and expenditure. It deals with budgets which are statements about how a government plans to obtain income (income) and the ways a government plans to spend such income during a particular financial year. A budget can be deficit, surplus or balanced. The flow and management of funds is the life blood of our system of public administration. In public administration, the system of public financial management rest on designs and reforms over the years.

In a modern money-using economy, finance may be defined as the provision of money at the time it is wanted. Every person responsible for finance, whether it be the finance of company (business), household (private) or government (public), is confronted with the prospect during the coming days, months or years of an inflow of an inflow of receipts on the one hand and an outflow of payments on the other.

The subject matter of public financial management could be summed to be the acquisition and disposal of resources by the government and its agencies through proper management and control through budgeting usually prepared annually or through developmental plans for a specified period depending on the government's needs. At the heart of the design of an effective system of public financial management, are the following principles: Democratic consent, Equity, Transparency, Probity, Prudence and Accountability.

Self-Assessment Exercise 2

In your own word, explain the concept 'public financial management'.

3.2 Scope of Public Financial Management

For all tiers of government in Nigeria- Federal, State or Local Government- public financial management is vital in the governance than other matters; since money (funds) is the hub of the wheel of every government activity. Behind the formulation and execution of financial decisions lie many questions of public policy, and these questions range from:

-what fiscal measures are to be put in place to ensure high standard of living; satisfactory income distribution, resource allocation and public accountability?

- More questions on the tax system to be more equitable and efficient in order to generate substantial funds to meet the needs of the people?

3.3 Aim of Public Financial Management

The aim of public financial management is to enhance the management of the flows of money or financial resources through government and its agencies for the aims of government in the modern economy.

The following functions are the summary of aims of government in a modern economy.

- The provision of essential public services.
- The control of certain sectors of the economy
- The application of social policy
- And that government assumes responsibility for the overall state of the economy.

The scope of governance covers the following key responsibilities that require financial management and control:

1. The up-keep of the president, legislature, the judiciary, maintenance of law and order, provision of facilities for defence and diplomatic representation including discharge of international responsibilities.

2. The direct or indirect involvement in enterprises example the postal services, energy, inland waterways, gas and oil etc. It could be through financial assistance or advisory services.
3. This involves revenue and expenditure. Revenue is taxation and its distribution among the community. Expenditure is on social services like education, health etc.
4. The maintenance of a high and stable level of employment, the encouragement of growth in the economy and improve productive capacity, ensure the relative stable prices and the preservation of solvency in its external business relationships.

Self Assessment Exercise 3

What is the aim of public financial management in government?

3.4 Modern governments' intervention and instrument in the economy

1) Modern governments;

Intervene in the market economy in order to fine tune it; made possible through legislation, regulation, controls and standard legislation. The government intervenes through the provision of public goods and income distribution. The government is concerned with the welfare of its citizenry. Government invests on projects supposedly not attractive to private investors but beneficial to the citizens. These projects are: relatively low in profitability.

2) Instruments for government intervention in the economy include:

- Fiscal Policies: These are government policies through government revenue and expenditures are manipulated.
- Monetary Policies: Government through the Central Bank targets the quantity of money in circulation within the economy, considering the cost (interest) and general credit direction.
- Direct Control: This comes in the form of rules and regulations involving the passing of laws or executive directives as a supporting to enforce implementation of policies
- Income Policy: This aims directly at regulating the disposable incomes accruing to earners to meet government macro-economic objectives, ensuring equitability in income and productivity level. These include minimum wage laws etc.
- Debt Management policy: Government normally incurs internal and external loans for some important reasons.. A policy as an instrument of debt management will be in place to avail the team of managers to meet current fiscal obligations.

- Exchange Rate Policy: With international trade, the exchange rate (price of foreign currency) is of value in the economy as it affects and influences virtually all other prices for the purpose of controlling the economy.

4.0 CONCLUSION

Public financial management is concerned with income and expenditure of public funds. Policies of government influence the thrust of public financial management approach in all government activities.

5.0 SUMMARY

In this unit, we have defined and discussed public financial management. We highlighted the subject matter of public sector financial management.

In the next unit, you will define and discuss monetary policy and the effect on the economy.

6.0 TUTOR-MARKED ASSIGNMENT

- 1) Define Public Financial Management.
- 2) State the aim of Public Financial Management in Nigeria

7.0 REFERENCES/FURTHER READING

Ekpong Edame (2001): *The Essentials of Public Finance and Public Financial Management in Nigeria*, Calabar University of Calabar Press

National Open University Nigeria (2009) MBA728: *Public Financial Management* Lagos

Ola, R.O.F. and Offiong, O.J. (2008) *Public Financial Management in Nigeria*. Lagos: AMFITOP Books.

UNIT 2 MONETARY POLICY

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 - 3.4 Monetary Policy Administration in Nigeria
- 4.0 Conclusion
- 5.0 Summary
- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, we will consider monetary policy. Monetary policy is concerned with discretionary control of money supply by the monetary authorities (Central Bank with Central Government) in order to achieve stated or desired economic goals. With this policy, Governments try to control the money supply in order to stabilize the quantity of money in circulation. This helps in checking inflationary trend and position in the economy.

1.0 OBJECTIVES

After studying this unit, you should be able to:

- Define Monetary Policy
- Discuss objectives of monetary policy
- Name the Instruments of monetary policy

3.0 MAIN CONTENT

3.1 Monetary Policy

Monetary policy is essentially a programme of action undertaken by the monetary authorities generally the central bank, to control and regulate the supply of money with the public and

the flow of credit with a view to achieving predetermined macroeconomic goals. – Dwivedi D.N.

Monetary policy consists of a Government's formal efforts to manage the money in its economy in order to realize specific economic goals. Three basic kinds of monetary policy decisions can be made about:

- (1) The amount of money in circulation;
- (2) The level of interest rate
- (3) The functions of credit markets and the banking system.

The combination of these measures is designed to regulate the value, supply and cost of money in an economy, in line with the level of economic activity. Excess supply of money will result in an excess demand for goods and services, prices will rise and balance of payments will deteriorate.

On the other hand, an inadequate supply of money could lead to stagnation in the economy, hence retard growth and development. Consequently, the central monetary authority normally attempted to keep the money supply growing at an appropriate rate to ensure sustainable economic growth and to maintain internal and external stability.

Self-Assessment Exercise 1

Define monetary policy.

3.2 Objectives of Monetary Policy

The primary objectives of monetary policy in Nigeria in recent years are to:

- a) Check the rate of inflation
- b) Sustain exchange rate stability
- c) Promote output and employment growth and
- d) Enhance overall efficiency of the economy

In pursuit of the above objectives, the stance of monetary policy will be non-accommodating and will ensure efficiency in resource allocation to support private sector. Monetary policy is used to influence these ultimate objectives because there is a belief that there is a relationship between the real variables and the monetary variables.

However, this is valid only for a highly monetary economy. If the economy is not highly monetary, then the efficacy of monetary policy is restricted. In a developing economy like Nigeria, where a large proportion of output is subsistence, the level of output would be

independent of supply of money. Therefore monetary policy would not be efficacious in determining the output level of the subsistence sector

Monetary policies are effective only when economies are characterized by well developed money and financial markets like developed economies of the world. This is where a deliberate change in monetary variable influences the movement of many other variables in the monetary sector

Self-Assessment Exercise 2

Name the objectives of monetary policy in Nigeria.

3.3 Policy Instruments (Measures)

The primary instrument of monetary policy is Open Market Operation (OMO), Reserve requirements, Discount Window Operations and Moral Suasion. The techniques are used directly/portfolio control approach and indirect/market intervention. There is a basic difference between the mechanisms of direct and indirect monetary control.

Under the system of direct monetary control, the monetary authority uses some criteria to determine monetary and credit targets and interest rates which are the intermediate targets to attempt to achieve the ultimate objectives of policy.

Indirect monetary control only the operating variables related to the path of the intermediate variables. The operating variables, particularly the monetary base are managed, while the market is left to determine interest rates and credit allocation.

These instruments place restrictions on a particular group of institutions –especially deposit banks – by limiting their freedom to acquire assets and liabilities. This method is employed mainly in developing economies in which the financial infrastructure necessary for operating indirect monetary control is under-developed.

On the other hand, the indirect method is used mainly in developed financial systems. It relies on the power of the monetary authority as a dealer in the financial markets to influence the availability and the rate of return on financial assets, thus affecting both the desire of the public to hold money balances and the willingness of financial agents to accept deposits and lend them to users. This is an indirect monetary policy instrument introduced to influence the level of money supply in the economy. This involves the issuance of short-term instrument the issuance of short-term instruments such as treasury bills and other securities to the public subscription.

Cash reserve requirement is the least amount of reserve a bank must maintain with Central Bank of Nigeria expressed as a ratio each individual banks total liability. Liquidity ratio is the minimum percentage amount of reserve which shall be in form of liquid assets expressed as the banks total deposit liability, promissory notes and certificate of deposits which the banks must keep with the CBN.

Discount Window Operations are transactions in the form of short term, overnight loans, collateralized by the borrowing institution's holding of government debt instruments and other eligible first class securities approved by the CBN.

Moral Suasion is the CBN regular dialogue with banks and other financial institutions, under the aegis of the Bankers Committee on monetary and financial issues and to encourage enhanced operational efficiency in the banking industry.

3.4 Monetary Policy Administration in Nigeria

The Central Bank of Nigeria proposes the monetary policy to be considered by the presidency through a memorandum with the caption monetary, credit, foreign trade and exchange policy proposals for a particular fiscal year. The memorandum is an input of all the policy departments of the CBN. It considers the prevailing economic conditions, prospects and the policy objectives that appear most appropriate to pursue in the immediate future.

The memorandum is initially considered by the committee of governors, the highest management body for the daily administration of the CBN. It is deliberated upon and approved by the board of directors of the CBN and transmitted by the Governor of CBN to the presidency for consideration and approval. The Presidency after reasonable consultation with other tiers and agencies of government takes a decision on which proposals to accept and include them in the budget.

The CBN conducts periodic and special examinations of the books of all licensed banks as a monitoring tool. The banks are also required to submit regular returns on their operations to the Central Bank in compliance with the monetary policy circular.

4.0 CONCLUSION

In this unit, we defined monetary policy a tool of controlling money supply in an economy of a nation by the monetary authorities to achieve a desirable economic growth.

5.0 SUMMARY

In summary, we have discussed and identified monetary policy as one of the primary objectives of monetary policy in Nigeria and have enumerated the Central Bank of Nigeria Instruments (measures) for monetary policy administration in Nigeria

In the next unit, you learn about fiscal policy as a complementary policy to the monetary policy of the economy.

6.0 TUTOR-MARKED ASSIGNMENT

- 1) What is monetary policy?
- 2) State the monetary policy Instruments of an economy.

7.0 REFERENCES/FURTHER READING

Central Bank of Nigeria (2000) *The Changing structure of the Nigerian Economy and Implications for development* Lagos Realm Communications ltd

Central Bank of Nigeria (1999) *Monetary, credit, foreign trade and exchange policy guidelines for 1999 fiscal year (monetary policy circular No.33)*

Dwivedi, D. N (2005) *Managerial Economics* Sixth Edition New Delhi VIKAS Publishing house PVT LTD

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Onyia, A.C. (2007) *Element of Banking- A First Course* Lagos Tayo Falas (Nigeria)

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UNIT 3 FISCAL POLICY

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2.0 INTRODUCTION

We continue this unit with fiscal policy, the twin of monetary policy.

Fiscal policy is the use of government spending and taxation policies to influence the level of economic activity, inflation and economic growth. Fiscal is the expression of taxation, public revenue or public debt. The fiscal year is a 12-month accounting period without regard to a calendar year. The fiscal year for the federal government of Nigeria is from 1st January to 31st December.

In this unit, you will learn about definition of fiscal policy and identify objectives and major instruments of fiscal policy and system and allocation of functions of different tiers of government in Nigeria.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define and explain fiscal policy in Nigeria
- Identify objectives and major instruments of fiscal policy
- Identify allocation of functions of tiers of government

3.0 MAIN CONTENT

3.1 Fiscal Policy-Definitions

Fiscal policy is the manipulation of government finances by raising or lowering taxes or levels of spending to promote economic stability and growth. (Shafritz & Russell 2005)

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Fiscal policy is the manipulation of government expenditure and taxation in order to influence economic performance. (Ola & Offiong 1999)

Fiscal System in Nigeria

Nigeria's economy is one built around the nation's Federal Capital Territory of Abuja, 36 states and 774 local governments. Nigeria's fiscal federalism supports the general perception that decentralization is beneficial to the economy as regards the provision of goods and services. Hence this has fundamental implications for the fiscal system and economic management of the country.

The economic role of the public sector in a federal system is the joint responsibility of the multi-levels of government. This joint responsibility of local, state and federal governments in performing the fundamental functions of socio-political administration and economic management introduces complications in the fiscal system which must be technically and constitutionally resolved in the light of political factors and pressures that gave birth to the union. This role of government sector in economic management is performed through a system of formulation and implementation of economic policy and fiscal policy in the country. This is designed to achieve the objective of price stability, growth, balance of payments equilibrium, full employment, mobilization of resources and investment. These objectives have influenced government's economic policy design and development efforts in Nigeria since independence.

Nigerian governments had designed and implemented four development plans between 1960 and 1985 in the form of different approach depending on leadership namely:

- Structural Adjustment Programme (SAP) in 1986
- three-year rolling plans thereafter
- vision 2010 programme
- National Economic Empowerment and Development Strategy (NEEDS) and
- Seven Point Agenda of the present Administration
- Vision 2020 etc

All these objectives aim at achieving economic development and bringing about significant improvement in the living standard of the people.

Self-Assessment Exercise 1

What is a fiscal policy?

3.2 The Role and Objectives of Fiscal Policy in the Economy

Fiscal policy enables government to obtain revenue through the follow means:

- (i) Taxation (This will be discussed in the next unit)
- (ii) Price Stabilization

- (iii) Equity in Income Distribution
- (iv) Increase in Investment in the economy
- (v) Maintain a favourable Balance of Payment
- (vi) Exchange Rate Stabilization

All these revenue when obtained, help government in solving socio-economic and political challenges like providing employment, reviving ailing industries and solving national security insurgents etc.

3.3 Major Instruments of Fiscal Policy

The major instruments of fiscal policy have been

- Taxation
- Government expenditure and
- Borrowing from domestic and external sources to finance budget deficits.

A country may achieve growth of Gross Domestic Product (GDP) without corresponding economic development. The experience in Nigeria as in many other developing countries, have also proved the public sector intervention in an economy can result in failure just as the rationale for government intervention is based on the inherent failure of price mechanism to achieve a stable equilibrium in the market economy.

Self-Assessment Exercise 2

Identify objectives of fiscal policy

3.4 Fiscal System and Allocation of Functions in the Economy

Theoretically, there is an optimum allocation of functions among the tiers of government in a federation such that the fiscal relations would facilitate the achievement of macroeconomic objectives of price stability, full employment, economic growth and balance of payments equilibrium. If the three tiers of government were to provide the functions of stabilization, income redistribution and resource allocation simultaneously, inefficiency would result (Musgrave & Musgrave; 1973; pp. 613-616).

The citizens of a country incidentally belong to all the tiers of government in a federal system. There is, therefore, intersection of jurisdiction among the tiers of administration. Local government areas intersect the state constituencies while the states intersect the national boundary of the federal government. State and local governments engage in the performance of the resource allocation functions along with the federal government in accordance with the provisions of the constitution. However, the stabilization and income redistribution functions are better performed when localized in the central government to avoid unintended spillovers. Revenue Mobilization and Allocation Commission is saddled

with the responsibility of sharing the National revenue in consonance with the Legislature and constitution of the Federal Republic of Nigeria

Self-Assessment Exercise 3

What are major instruments of fiscal policy of government?

3.5 Allocation of Functions

This list is reserved for federal government power to execute. Example is the keeping of accounts of the government of the federation involving issue of legal tender currency, external affairs, defence, construction and maintenance of federal trunk roads; collection of customs and excise duties, immigration and issuing of passports, exploitation of mines and mineral (including oil fields), oil mining, geological surveys, natural gas, public debt of the federation, regulation of political parties etc.

3.5.3 Concurrent Legislative List

This list is performed by the federal and state government. These include:

- Allocation of public revenue among the federal, state and local governments
- Collection of taxes
- Electric power
- Industrial, commercial and agricultural development
- University and post primary institutions
- Antiquities and monuments, archives etc.

Self-Assessment Exercise 3

What is allocation of functions in government?

4.0 CONCLUSION

In this unit, we conclude that the fiscal policy and the responsibility of government is the determinant of the level of involvement and commitment of each level of administration. The constitution is the guide and provides the benchmark of performance.

5.0 SUMMARY

We have considered fiscal policy system in the public sector in Nigeria, major instruments of fiscal policy and allocation of functions of fiscal responsibility to government.

In the next unit, we will expound on **taxation** which is an integral of fiscal policy.

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6.0 TUTOR-MARKED ASSIGNMENT

- 1) Explain a fiscal year in Nigeria.
- 2) What is the objective of fiscal policy?

7.0 REFERENCES/FURTHER READING

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UNIT 4 TAXATION

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1.0 INTRODUCTION

This unit will take you through taxation in Nigeria as a source of revenue, types and the purpose, incidence and canons of taxation with current development to support.

Revenue generation is the base of financial management in the public sector and tax is a reliable and legitimate means of obtaining revenue by any government. You will be shown taxation from the basic point of view.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define Taxation
- Identify types, purposes and canon of tax in Nigeria
- List the incidence and effects of Taxation in economic amenities
- Explain tax evasion and avoidance

3.0 MAIN CONTENT

3.1 Taxation Definition and Tax as source of revenue to government

Definition

Taxation is defined as a compulsory payment or levy imposed via legislation by the government of a country on the income of the residents.

- The Joint Tax Board defined taxation as “the legal demand made by the Federal Government or the State Government for its citizens to pay money on income, goods and services”.

Self-Assessment Exercise 1

Define Taxation.

Tax as Revenue to the Government

Public financial management involves how funds are generated, allocated and managed by the government (Ola and Offiong, 2008).

Nigerian income depends so much on the incidence of tax and different types of taxes are imposed on individuals, businesses and corporate bodies. Government also borrows funds from different available sources in order to meet its general responsibilities. The oil and gas sector, for sometimes now, has contributed greatly to the revenue base of the country as it has helped in the long run to solve social and political problems.

It has also helped the government in addressing a lot of issues concerning the populace (despite Nigerian increasing population) the attitude of people towards payment of tax has been in the low level as discussed above under tax evasion and avoidance.

The character of the people has negatively affected the incidence of tax and those who find themselves in the ‘corridor’ of power have not helped issues because they do not pay their taxes. In view of these, the reliance of government on taxes for public expenditure has been relatively low hence the dependence on revenue from oil and gas sector.

This has affected the numerous public projects embarked upon by different tiers of government. Sense of responsibility by citizens as tax payers has been neglected and even corporate bodies have also joined this ‘wagon’. Invariably, the standard of living of the people has been affected because of shortage of revenue through taxation.

3.2 Types of Taxes

Direct taxes include:

- Personal income tax
- Company gains tax that is, taxes on profits.
- Capital gains tax – taxes on assets held for more than one year
- Death duties- taxes on the property of deceased
- Royalties and mining rents, stamp duties, motor vehicle duties

- Miscellaneous receipts of the government include loans profit from direct government investment, grants and fines.

Direct Tax: If the payer bears the burden of the tax and cannot shift the burden to any other person. These taxes are based on income or receipts and their incidences fall directly on the payer. It can be used as a fiscal instrument to adjust disposable income of the citizens and redistribute income through different forms of direct taxes. Different forms of direct taxes are: Progressive, Regressive and Neutral (Proportional).

Indirect taxes are:

Custom duties – imports and exports:

- Excise duties – domestic products
- Purchase tax – on certain goods at wholesale level
- Sales tax – levied and collected either at wholesale or retail level.
- Value-Added-Tax- VAT. (Replaced sales tax since 1994)

Progressive Tax:

The higher the tax base, the higher the rate will be. The rate of taxation is graduated progressively as income increases.

- Reduces inequality of income
- Increases aggregate demand
- Is non-inflationary
- Yield more revenue to government
- May induce disincentive as it is exorbitant to addition income of tax payers.
- Adopted in real life situation

Regressive Tax:

The tax rate diminishes as income level/tax base increases. This is the opposite of progressive tax.

- Low rate of tax is paid at high levels of income
- Creates incentives to efforts
- Widens inequality of income in the economy
- Decreases aggregate demand
- Only rich saves extra income
- The rest discouraged in investment in the economy
- Not applied in real life

Neutral (Progressive) Tax:

Takes no cognizance of the economic situation of the tax payer and the tax is proportional to the tax base/income at a constant rate.

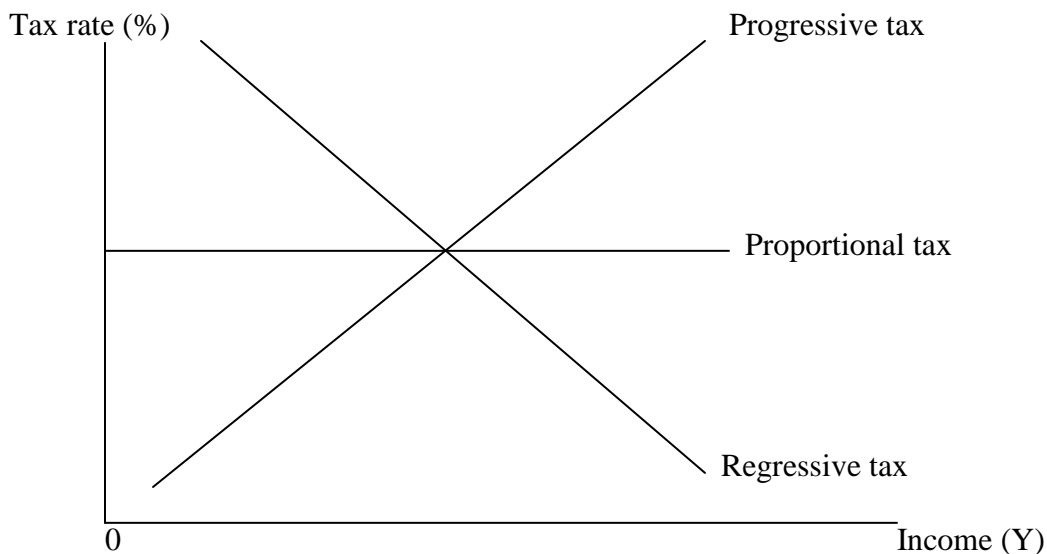
- Is impartial
- Is not disincentive to efforts
- It does not provide incentives
- It is insensitive to economic situation
- It is against social equity

Self-Assessment Exercise 2

Identify types of tax in Nigeria

GRAPHICAL EXPRESSION OF THE BEHAVIOUR OF THE FORMS OF DIRECT TAXES

Figure 1.1: Graphical expression of the Behaviour of the forms of Direct Taxes



Indirect Tax:

The payer shifts the burden to someone else. This depends on the elasticity or otherwise of the demand for the goods and services and the object of the tax.

- Tax on expenditure
- It is possible to shift tax incidence (partly or wholly) to someone else.

Tax Base:

Taxes are based on something. In Nigeria tax system it is based on three main bases namely; Income, Capital Gains and Consumption.

1. Income Tax

This is the regime of tax levied on the financial income of individuals, companies and corporate entities. Diverse income tax regime exists in different degrees of tax incidence – progressive, regressive or proportional which had earlier been discussed above.

The income tax is levied on the income or profit of the companies as corporate tax, corporate income tax or income tax. It is based on net income – the difference between gross earnings and expenses and/or any other write offs. When it involves an individual, the income tax is often assessed on the total income less deductions or exemptions statutorily permitted by the law and regulations of tax in a given country. Types of payments that are taxable include: personal earnings, capital gains and business income.

2. Capital Gains Tax

This is tax levied on the gains or profits realized from sales of assets. The most common capital gains tax around the world are charged on the sale of stocks (shares), bonds, precious metal, real estate, mutual trust shares, interest on bank deposits, etc. The capital gains take into account the cost of investment and the proceeds realized from the sales of such assets. There are exemptions like agricultural land, primary residential buildings, etc.

3. Consumption Tax

Sales taxes are also known as consumption tax charged at the point of purchase for certain types of goods and services. The percentage of this tax is set by the government (authorized tax authority – Federal Inland Revenue Service and backed up by their States counterpart).

There are exemptions in terms of goods and services which are not subject to sales tax. This sales tax can be included in the sales price of the good or service. By its nature and application, sales tax is considered to be fair and has a high compliance rate which makes it difficult to avoid.

The retail sales tax (a version of sales tax) is usually affected by charging the tax only on the ultimate consumer as compared to the gross receipt tax levied on the intermediate businesses in production or distribution line.

Value Added Tax

The value added tax (VAT) is also known as goods and services tax, and is a tax on exchanges. It is levied on the added value that results from each exchange through the whole gamut of the production of goods to the final consumer. It is an indirect tax

because the tax is collected from someone other than the person who actually bears the cost of the tax; the seller of the product or service pays the tax rather than the consumer who benefits from the utility of the commodity. VAT is the acronym for value added tax. This tax which is in other words called consumption tax can be defined as the amount charged by the government for every goods or services purchased from time to time. This means it can only be paid when there is consumption of goods or services (It forms part of the price paid for the good or service).

More Facts about VAT

This was introduced by the federal government in 1994 to replace sales tax. Initially, the federal government received only 20 percent of the VAT proceeds to cover administrative cost of collection while state and local governments received 50 and 30 percent respectively. VAT was designed broadly to be levied on imported goods, locally-manufactured goods, hotel service, bank transaction etc and to be federally-collected. A uniform rate of 5 percent was fixed on all affected items while VAT proceeds are shared among the three tiers of government at an agreed proportion.

Self-Assessment Exercise 3

Which tax did VAT substitute?

Characteristics of Value Added Tax

There are spelt out as follows:

1. It is a consumption Tax. This is that it can be paid when there is consumption of the good or service.
2. Its incidence is borne by the final consumer
3. It is multi-stage tax. That is as additional value is created at each stage of production the tax is paid by the consumer of the product at that stage. The total payments make up the consumer's price of the product.

The following Goods and Services exempted from VAT

Goods exempted are:

1. Medical and pharmaceutical
2. Basic food items
3. Books and educational materials
4. Agricultural equipments, product and veterinary medicine
5. Fertilizer Agricultural Chemicals
6. Baby product
7. Exported goods

Services exempted are:

1. Medical services
2. Services by Development Finance Institutions – like Agricultural, Cooperative and rural Development, Mortgage Banking institutions.
3. Plays and entertainments conducted by educational institutions (part of learning)
4. Religious services
5. Exported services

VAT Administration

The tax authority for VAT is the Federal Inland Revenue Service (FIRS) with Head Office centrally located at Abuja and has Zonal offices and local offices throughout the Federation, Nigeria. The VAT Directorate works in close cooperation with the Nigerian Custom's Services and the State Internal Revenue Service.

VAT Registration-Procedure

- First step- identification of VAT-able person and its address
- Prepare a comprehensive list of all suppliers of goods and services
- Form VAT 001 is completed by each VAT-able person
- VAT identification number given
- VAT certificate issued to the VAT payer
- VAT-able person registers for VAT within six months of the business
- A penalty of N10,000 is given in the first month of failure and
- N5000 for each subsequent month if failure continues.
- Government ministries, Statutory Agencies have to register for VAT as FIRS Agents.
- For the purpose of collecting the VAT and paying to the appropriate VAT office.

Non-resident companies doing business in Nigeria shall register for VAT with FIRS, but the person with whom it has a subsisting contract shall act as agent of FIRS in collecting the VAT and paying over to the VAT office

- This formula varied in 1996, 1998, and 1999 **as shown on the table below**. You should note that revenue from VAT recorded a substantial growth since its inception in 1994, increasing from N726.8 million in 1994, which represented 3.6 percent of totally-collected revenue in that year, to N36,867.7 million or 8.0 per cent of the total revenue in 1998.

Table 2: VAT revenue allocation formula (%)

S/N	Governments	1994	1995	1996	1997	1998	1999
1.	Federal	20.0	50.0	35.0	35.0	25.0	15.0
2.	State and FCT	50.0	30.0	40.0	40.0	45.0	50.0
3.	Local	30.0	20.0	25.0	25.0	30.0	35.0

	Total	100.00	100.00	100.00	100.00	100.00	100.00
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Sources: CBN Publication (2000). Approved Budgets of the Government of the Federal Republic of Nigeria

Self-Assessment Exercise 4

When was VAT introduced into Nigeria fiscal system?

3.3 Cannon or Principles of Taxation

1. **Equity:** equality of sacrifice. This principle states that the subjects of every state should contribute towards the support of the government in proportion to the revenue which the respectively enjoy under the protection of the government.
2. **Certainty:** By this principle tax paid by individuals must be certain with respect to amount paid, time of payment and manner of payment.
3. **Convenience:** The principle of convenience states that the time of payment and the manner of payment should be suitable to the contributor
4. **Economy:** The administrative cost of collecting the tax should not be higher than revenue realized, but should be less enough to leave surplus revenue.
5. **Simplicity:** The tax system should be coherent, straight forward and clear to the tax payers and accepted by the public.
6. **Flexibility:** The tax system should be such that it should respond to charges
7. **Impartiality:** All similar income earners should pay the same amount of tax.
8. **Productivity/fiscal Adequacy:** The origin of taxation is to raise revenue for the expenditure of government, hence should be able to cover government's expenditure.

3.4 Incidence of Tax: The incidence of a tax is upon the person who pays it.

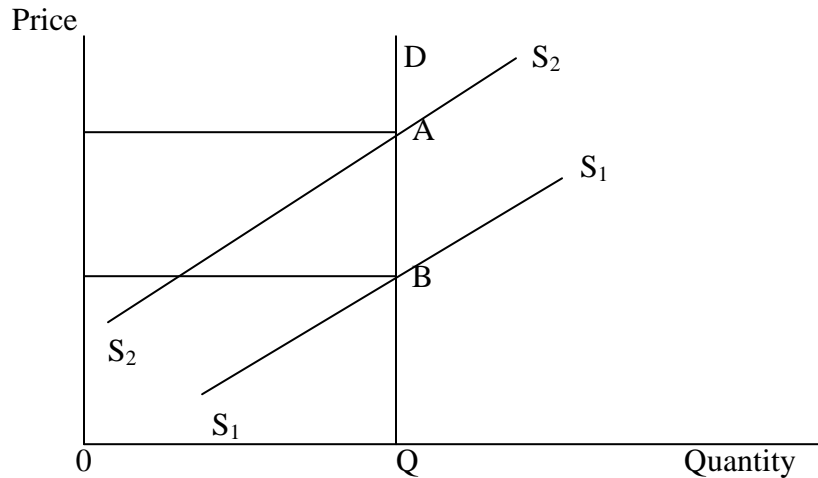
- In the case of income tax- the incidence is always on the person receiving the income because income tax cannot be shifted to someone else. A person's income is always being reduced by the full amount of the tax.
- In the case of an indirect tax- one cannot be sure in advance whether the incidence of the tax will be on the buyer or on the seller of the commodity or whether it will be on them. The effect will depend on the elasticity of demand.

Illustration:

Suppose a specific tax of N2 is imposed on a commodity previously priced N10. If the price is immediately raised to N12, the incident of the tax is clearly on the purchaser.

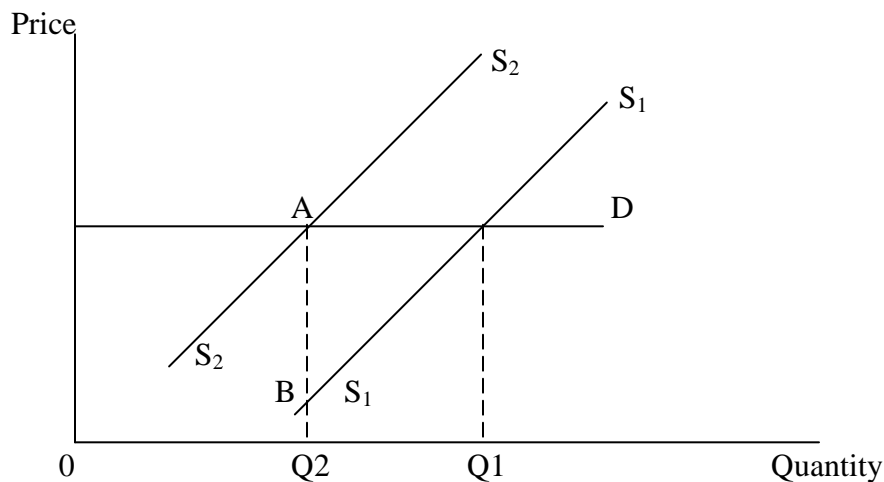
For now he has to pay N2 more than previously for it. That is, the old price plus the full amount of the tax. If the demand for the commodity is perfectly inelastic the price will rise to N12 and the full incidence of the tax will then be on the buyer as shown graphically below:

Figure 1.2: Incidence of Tax – inelastic demand



The tax AB increases the cost of production by that amount and so the condition of supply moved from S₁ to S₂. The demand curve being perfectly inelastic, the price rises from Op₁ to Op₂, this increase being exactly equal to the amount of the tax AB. If the demand for the commodity is perfectly elastic, the incidence of the tax will be entirely on the seller, since at any price above N10 sales drops to zero as shown in figure 1.3 below. Again the tax AB increases the cost of production by the same amount, but because demand is perfectly elastic, the price OP remains the same.

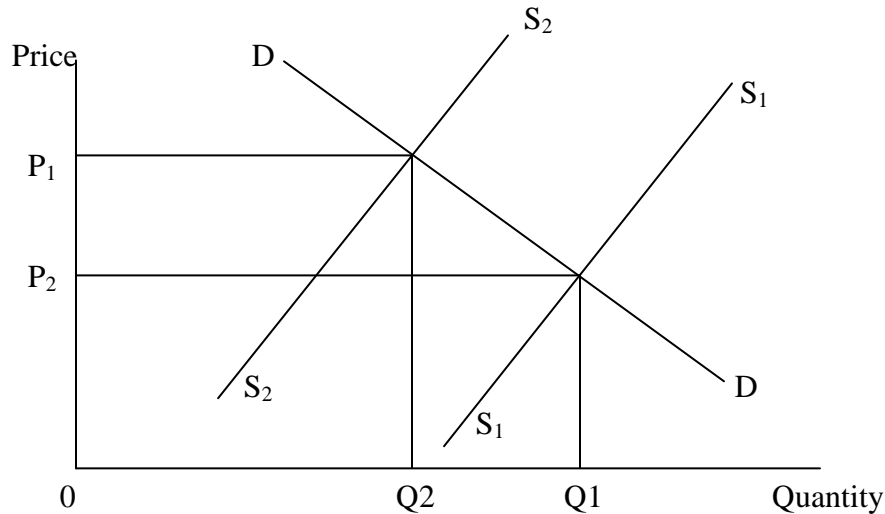
Figure 1.3: Incidence of Tax – elastic demand



The above two are extreme cases of incidence. If demand is moderately elastic, the quantity demanded will fall off due to increase in price. To keep sales up, the price may be reduced to

may be N11. In this case, buyer and seller pay part of the tax each so that the incidence of the tax is partly on the buyer and the seller as shown in the figure 1.4 below:

Figure 1.3: Incidence of Tax – moderately elastic demand



From the foregoing discussions and graphical presentation it stands to reason that the commodities most suitable for taxation (when thinking of maximizing revenue) will be those for which demand is inelastic. Unfortunately, many of the commodities for which there is a fairly inelastic demand are common necessities of life, whereas for some luxury goods demand moves towards more elastic. Semi-luxuries like alcoholic drink have to bear an increasing burden of taxation because experience has indicated the demand for them to be fairly inelastic.

3.5 Effect of Tax on Economic amenities- Purpose of Taxation

The general tax administration and practicing guide for professionals (2002) provides the following reasons for imposition of taxes inter-alias:

1. To maintain general administration, defence, law & order, and social services provided by government.
2. To reduce income and wealth in order check inequality.
3. To control consumption of goods and services considered non-essential and harmful.
4. To check inflation by reduce the volume of purchasing power.
5. To service national debt and to provide retirement benefit etc.
6. To provide subsidies in favour of preferred sectors of the economy example Agro-allied industries.

7. To implement government policies since budget is now an adjunct to monetary policy.
8. To serve as a dependable fiscal tool to plan and direct the economy, by shaping the growth and development of the country.

Self-Assessment Exercise 5

List the purposes of Taxation.

3.6 Tax Evasion and Avoidance

Tax evasion

This is the manipulation of forms when rendering returns and claims as regard the taxpayer's income status and the accompanying responsibilities. This is a direct violation of the law and it involves a fraudulent or deceitful effort by the tax payer to escape legally stated obligation. It is a criminal offence as it involves illegal means of reducing the tax payable by making false returns or by deliberate omission from the return of some source of income like declaring lower income or refusing to pay altogether.

Tax avoidance

This is where the individual takes advantage of the loopholes in tax regulation and manipulate his/her economic situation accordingly to pay low tax. It occurs when a tax payer takes a perfectly legal course to lower the amount he has to pay in taxes like the taking a life assurance policy, deductible from the total amount subjected to tax or claiming the existence of an aged mother or father- where there not which statutorily attract some deductions from the taxed sum and declaring that he has children whereas he/she has none

Self-Assessment Exercise

Differentiate between tax avoidance and evasion.

4.0 CONCLUSION

Tax is compulsory levy on the residents of an economy by the government of that economy. In this unit, we will see tax as a compulsory payment which is enforced by law for adults within the work-force age to pay and the non-payment leads to penalties. The other fact is the only government can levy tax as a means of revenue.

5.0 SUMMARY

In summary, we have discussed the definition and historical perspective in Nigeria, highlighting types of tax, canons/incidence of tax, effect of tax on economic amenities, tax evasion and avoidance as well as their contribution to government revenue.

In the next unit, you will be introduced to another interesting Module 11 government accounting (revenue and expenditure), starting with Unit known as government (public) accounting.

6.0 TUTOR-MARKED ASSIGNMENT

1. State the purpose of Taxation
2. List the incidence and effects of Taxation in economic amenities

7.0 REFERENCES/FURTHER READING

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MODULE II: GOVERNMENT ACCOUNTING (REVENUE AND EXPENDITURE)

Unit 1:	Government (Public) Accounting
Unit 2:	Government (Public) Revenue
Unit 3:	Government (Public) Expenditure
Unit 4:	Fiscal Federalism and Resources Allocation and Government Accounting

UNIT 1 GOVERNMENT (PUBLIC) ACCOUNTING

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3.0 Main Content
3.1 Government (Public) Accounting-definition
3.2 Objective of Government (Public) Accounting
3.3 Basis for government accounting
4.0 Conclusion
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1.0 INTRODUCTION

This unit introduces you to the module 11 of this course material- public financial management which is mainly concerned with government/public accounting.

The unit will define, state the objective and discuss government accounting. The activities of government need proper balance sheet to show the balance nature of public sector- revenue (income) and expenditure (outcome).

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define government (Public) Accounting
- State the objective of government (public) accounting
- Discuss basis for government Accounting

3.0 MAIN CONTENT

3.1 Government (Public) Accounting-Definition

Government accounting can be defined as the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government in aggregate and in details, reflecting all transactions involving the receipt, transfer and disposition of government funds, assets/property and stores:

In this definition:

- recording,
- analyzing,
- classifying,
- summarizing,
- communicating and
- Interpreting of financial information remains very significant.

Generally, Government (public) accounting may be considered as a process in which transactions, events and activities in an operating entity (system) are recorded for the purposes of accumulating and providing financial information essential to the good conduct of activities of that entity. This consists of accounting in the federal, state and local government as well as their respected agencies. The need for greater attention in developing government accounting or public sector accounting and financial control is now globally awoken. The reason being that government is obviously the largest single business entity and broad sense; it is the pivot of the economy. The pattern of resource allocation determines the level of accountability for economy to be efficient and effective. These objectives can be realized by having a sound financial control which depends on the status of the accounting system.

Self-Assessment Exercise 1

Define government Accounting

3.2 Objectives of Government Accounting

With the definition of government accounting in mind, you can break down the meaning into objectives as follows;

1. to determine the extent of probity and accountability in the management and disbursement of government resources
2. to determine propriety of transactions and their conformity with established rules
3. to provide financial information useful for control and co-ordination of activities; determining and forecasting the flows; balance and requirements of short term financial resources; monitoring performance in various facets of the economy, planning and

budgeting for effective allocation of resources and assessment of socio-economic, political conditions of government establishments.

Self-Assessment Exercise 2

Summarize the objectives of government accounting

3.3 Basis for Government Accounting

You can deduce from the above objective that the basic feature of public or government accounting is established on accountability and probity.

- 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 of source of revenue etc.
- The need to get formal approval on estimates of revenue and expenditure before they are collected or incurred, makes budgeting to largely determine the structure of government accounting
- The governments-Federal, State and Local- sometimes find it necessary to demarcate and segregate its resources into specific or special purpose compartments – receipts and payments – and the method of accounting adopted in recording and measuring each component is referred to as “fund accounting”
- Another peculiarity of government accounting is that it is maintained on cash basis. This ensures stewardship accountability and cash programming. Accordingly, the Balance Sheet (known as Monthly Reconciliation of Accounts, surplus and Deficit Statement of Assets and Liabilities in Government) does not contain information on fixed assets such as buildings.

Government accounting is based on the following;

1. The grouping account into funds is the main characteristic is the characteristic of the government accounting that is various accounts are grouped into funds. “Fund is a separate fiscal and accounting entity in which resources are held, governed by special regulation, segregated from other funds, established for specified purpose on which the resource of the fund may be expanded”
2. Cash basis-This is the basis under 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 or benefits received

3. Accrual basis-This is the system where revenue is recorded when earned and expenditure recorded when benefits are received, notwithstanding that the receipt and payment of cash may take place wholly or partly in another accounting period
4. Commitment/obligation basis-This is an accounting system concerned with the recording of local purchase order, contract or job order issued in the memorandum book (referred to as vote book) as liability spending the time when the fund will be available for settlement

Self-Assessment Exercise 3

What are the bases of government accounting?

4.0 CONCLUSION

Government accounting has been defined as the process of recording, analyzing, classifying, summarizing, communicating and interpreting financial information about government in aggregate.

5.0 SUMMARY

We have defined government accounting, its objectives and the basis for it. Government accounting is summarized into four main bases as stated above.

In the next unit, you will be introduced to another interesting unit known as government (public) revenue.

6.0 TUTOR-MARKED ASSIGNMENT

1. Discuss basis for government Accounting
2. Identify the objectives of government accounting

7.0 REFERENCES/FURTHER READING

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UNIT 2: GOVERNMENT (PUBLIC) REVENUE

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 - 3.3 Non-oil Revenue
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- 6.0 Tutor-Marked Assignment
- 7.0 References/Further Readings

1.0 INTRODUCTION

In this unit, we will discuss government conventional sources of revenue namely: direct and indirect taxes, expanded to enable corporate governance take place. This means a broader base portion of total funds required by government for the purpose of financing activities.

The Constitution of the federal government of Nigeria provides for the generation of revenue through taxation and miscellaneous receipts as the main sources of revenue.

In this unit, we will pin-down our discussions on two main sources of government revenue classified as: oil and non-oil although governments have other means of sourcing for fund for financing their spending requirements.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify the source of government revenue
- Differentiate Oil-revenue from Non-oil Revenue

3.0 MAIN CONTENT

3.1 Sources of Government Revenue

Government (Public) revenue can be defined as income generated by public sector from various services rendered. Revenue is the other arm of the public/government accounts.

Income generated by the public sector from various services rendered could mean a portion of total funds required by government for the purpose of financing its activities. We know

that Government earns money to sustain itself and perform its duties of national building through fiscal measures.

The money required by government to perform its duty must be from a source and utilized on recurrent and capital expenditure. In Nigeria there are two main sources of Government Revenue-Oil and Non-oil. This became imperative since exploration of oil became major contributor to the national budgeting

Self-Assessment Exercise 1

Name two main source of government income in Nigeria.

3.2 Oil Revenue

This source consists of Royalties, Petroleum profit, Rent, Earnings from direct sales of crude oil to domestic market by Nigerian National Petroleum Corporation (NNPC), Gas flaring penalties, pipeline licenses etc.

- Since the 1970s oil revenue became the dominant source of government revenue, contributing over 70 per cent of federally- collected revenue.
- For most of the 1960s, federally-collected revenue from oil sources accounted for an average of 8 percent of total receipts.
- The oil boom of the 1970s propelled the sector to become dominant, accounting for most of the foreign exchange earnings as well as federally-collected revenue.
- The contribution of the oil sector to total receipts increased from average of about 46 percent between 1970 and 1973 to about 77 percent between 1974 and 1980. Through-out the 1980s and 1990s, the contribution of the oil sector to total revenue maintained its dominant position and contributed between 70 and 76 percent of the federally-collected revenue (CBN, 2000).
- With the constitutional powers vested on the federal government to control the exploration of mineral resources, proceeds from the sales of crude oil, petroleum profit tax, rents and royalties etc are collected by the federal government and paid into the Federated Account for distribution among the three tiers of government. The status quo is retained till today with legislations for adjustment.

3.3 Non-oil Revenue

These are Direct and In-direct taxes:

Since independence, federally-collected revenue was largely revenue from non-oil sources, accounting for an average of 92 percent of the total receipts while revenue from the oil sources accounted for the balance. As can be deduced from the narration of the oil

disposition from the 1970s to this day, the non-oil sector revenue accounted for the balance of about 20 to 30 percent receipts annually, to complement the oil sector receipts which form the mainstay of the sources receipts of Federal Republic of Nigeria.

The government also borrows from the public through issuance of bonds and using innovative finance techniques, public-private partnerships, franchise or licensing of private sector providers etc are also applied where the need arises.

Representation of Public Revenue

- **OIL REVENUE**

1. NNPC Earning
2. Petroleum Profit
3. Tax
4. Royalty

- **NON OIL REVENUE**

1. Import Duties
2. Export Duties
3. Excise Duties
4. Stamp Duties
5. Value-Added Tax
6. Personal Income Tax
7. Corporate Tax
8. Capital Gain Tax
9. Capital Transfer Tax

- **INDEPENDENT REVENUE SOURCES**

1. Fines
2. Fees
3. Rates
4. License
5. Income from Government Investment
6. Public loans

Types of Revenue for each government level

The major sources of revenue collected **by the Federal Government are:**

- Import, export, excise duties and fees
- Direct tax mainly company income tax and petroleum profit tax
- Licence fees and stamp duties
- Mining rents and royalties
- Earnings and sales
- Rents on government property
- Reimbursements
- Revenue from Armed Forces

- Interest and repayments
- Miscellaneous

Sources of Revenue for **States are:**

- Independent Revenue
- Statutory appropriations from the federation account
- Non-statutory grants
- Total recurrent revenue
- Less recurrent expenditure
- Budget surplus or deficit
- Capital grant from Federal Government
- Internal loans
- External loans
- Total capital receipts

Sources of **Local government revenues are:**

- Independent revenue
- Statutory allocation from the Federal Government
- Statutory allocation from the State Government
- Budget surplus
- Internal loans
- Capital grants
- Total capital receipts

Self-Assessment Exercise 2

List the sources of revenue for states

4.0 CONCLUSION

In conclusion, this unit identified other sources of Government Revenue to include Oil Revenue, Non-oil Revenue

5.0 SUMMARY

In this unit, we have identified the sources of government revenue as Oil and Non-oil Revenue.

In the next unit government (public) expenditure will be discussed.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify the main sources of government revenue in Nigeria

2. Differentiate Oil-revenue from Non-oil Revenue in Nigeria

7.0 REFERENCES/FURTHER READING

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UNIT 3: GOVERNMENT (PUBLIC) EXPENDITURE

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- 1.0 Introduction
- 2.0 Objectives
- 3.0 Main Content
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1.0 INTRODUCTION

In this unit, we will consider the expenditure of government which is the other arm of the public accounts. You have to study this unit closely in order to identify the broad parts of public expenditure.

As with the machinery of government and the system of inter-governmental relations, many aspects of the design of the Nigerian system of public financial management depend so much on political considerations and compact – basically constitutional on relative term.

8.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain government expenditure
- Classify government expenditure
- Link government expenditure with Gross Domestic Product

3.0 MAIN CONTENT

3.1 Government Expenditure

Wagner's Law predicts that the development of an industrial economy would be accompanied by an increased share of public expenditure in gross national product (GDP). This is not an exception in Nigeria, as a developing nation, trying to expand its industrial base – manufacturing, agriculture, mining, extractive industry etc. The scope of government expenditure has obeyed this law since the economic base and government expenditure has been expanding over the years. Furthermore, Wagner's law suggests that a welfare state evolves from free market capitalism due to the population voting themselves ever increasing

social services. Neo-Keynesians and socialists often urge governments to emulate modern welfare states like Sweden, which Nigeria is taking a cue from.

As progressive nations ensure industrialization of its economy and the national economy grows continually. The increase in state expenditure is indeed due to three reasons as identified by Adolf Wagner (German economist, 1835 – 1917), namely:

- (i) Social activities of the State;
- (ii) Administrative and Protective Actions; and
- (iii) Welfare functions.

Self-Assessment Exercise 1

What is government expenditure?

The material below is an apparently much more generous interpretation of Wagner's original premise.

- Socio-political, i.e., the state social functions expand over time; retirement insurance, natural disaster aid (either internal or external), environmental protection programmes.
- Economic: advance in science and technology, given room to an increase of state assignment into the sciences, technology and various investment projects.
- Historical: the state resorts to government loans for covering contingencies and thus the sum of government debts and interests amounts grow. What this means is that it is an increase in debt service expenditure.

This principle applies to Nigeria as it increases her economic and capital bases socially and politically.

As explained, there are two broad parts of government expenditures, namely: the recurrent and capital expenditures.

- Recurrent expenditure-the financial outlay daily running of government business
- Final consumption of government expenditure.
- For that of Federal Government is divided into three main parts: personnel emoluments, other charges and special
- Personnel emoluments are wages and salaries of government workers the allowances accruing to them
- Other charges are maintenance expenditure, travel, stationery, and consolidated charges Consolidated charges include emolument for judges and settlements government debts

- Special expenditure-to acquire durable equipment, machines, motor vehicles, furniture etc At times they are more of capital than running costs
- Capital expenditure-investment outlays that increase the asset of government.
- It depends not only on the size of revenue but on the amount used annually by government.

Self-Assessment Exercise 2

Name two broad parts of government expenditures.

3.2 Classification of Government Expenditure

In developing countries like Nigeria, government spending can be classified as follows:

1. Administration of law and order
 - Police, Law courts, Prisons, Civil service, Government Agencies, Foreign Affairs
2. Defence
 - Army, Navy, Air-force
3. Social Amenities
 - Education, Health, Housing, Social Welfare, Environment, Recreation
4. Economic Development
 - Agriculture, Mining, Power and Electricity, Oil and Gas, Commerce and Industry, Transport, Communication
5. Miscellaneous
 - National Debt interest payment, Grant to local Governments, Social Security, Pension payment, Aids to other countries

3.3 Government Expenditure and Gross Domestic Product

Generally, government expenditure has been on the increase with increase in the Gross Domestic Product (GDP). That is the marginal propensity to spend in the public sector is high (the increase in current expenditure as a percentage of the increase in the GDP). This is as the need of the society increases.

- As government revenue increased, government decided on the provision of a number of social services as a means of spreading oil wealth such as free education etc.
- As a matter of necessity, government can embark on the provision of public capital goods. Hence overhead capital like roads etc with heavy operating and maintenance expenditure

- Relatively, cost of public services is higher than private owing bureaucracy in government administration resulting in red-tape in the system.

4.0 CONCLUSION

In this unit, we have attempted to identify government expenditure from the different tiers of governance in Nigeria recognizing their different responsibilities which abound in the laws of the country.

5.0 SUMMARY

In summary of this unit, we have discussed the classification of government expenditure

In the next unit, you will learn another interesting topic known as fiscal federalism and resources allocation and government accounting

6.0 TUTOR-MARKED ASSIGNMENT

1. Classify government expenditure in Nigeria.
2. What do you understand by Wagner's law of public expenditure?

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UNIT 4: FISCAL FEDERALISM AND RESOURCES ALLOCATION AND GOVERNMENT ACCOUNTING

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1.0 Introduction
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3.1 Fiscal federalism in Nigeria
3.2 Distribution of Revenue
3.3 Revenue allocation
3.4 Structure for Revenue Allocation from the Federation Account
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5.0 Summary
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1.0 INTRODUCTION

In this unit, we will see the adoption of a federal system of political administration with fundamental implications for the fiscal system and economic management of a country through revenue allocation formula.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Describe fiscal federalism
- Show the distribution of Revenue
- Utilize Revenue Allocation Formula
- Identify structure for Revenue Allocation from the Federation Account

3.0 MAIN CONTENT

3.1 Fiscal Federalism

Nigeria is a federal system of political administration with fundamental implications for the fiscal system and economic management of the country. The economic role of the public sector in a federal system is the joint responsibility of the multi-levels of government with joint responsibility of local, state and federal governments in performing the fundamental functions of socio-political administration and economic management.

Complications in the fiscal system are technically and constitutionally handled and resolved in the light of political factors and pressures that gave birth to the union. The process of economic transformation and development calls for the collaboration and participation of many interest groups in an economy such as household, firms, public and private sectors etc.

The role played by government or public sector in achieving desired changes in the structure of the economy is unique. This uniqueness of the government sector is formed from the fact that apart from being the element of the economy, the government sector plays a decisive role in achieving macroeconomic objectives of stability growth and development through a package of economic policy measures and legal provisions.

Self-Assessment Exercise 1

Explain fiscal federalism

3.2 Distribution of Revenue

The distribution of revenue from the Federation Accounts is done at two levels:

1. between federal, state and local governments;
2. intra-states and local governments.

The formula and principles of revenue distribution have always been subjects of intense debate with the formation of ad-hoc fiscal review commission without satisfaction.

3.3 Revenue Allocation

The use of Revenue Allocation Formula for sharing Federation Account revenue among the tiers of government in Nigeria originated from the colonial administration and the revenue allocation was based on the prevailing political structure then.

As the country became independent, the structure changed and the review of revenue formula became necessary. Revenue Allocation Commissions were appointed at ad hoc level thus: -

- Binns (1964),
- Dina (1968),
- Aboyade (1977)
- Okigbo (1980).

National Revenue Mobilization Allocation and Fiscal Commission (NRMAFC)

These ad hoc Commissions could not come out with a lasting solution; there became need for a permanent body that would regularly review the major sources for revenue and advice on the necessary changes in the revenue allocation formula.

In 1989, the Federal Government established it under the Presidency, to find enduring solutions to problems of revenue mobilization and adequate allocation to the three tiers of government.

In the 1999 Constitution of the Federal Republic of Nigeria, provision was made for the permanent body to exercise this function and send to the national assembly for necessary legislation and implementation by the execution after ascent by the president

Self-Assessment Exercise 2

Show the distribution of Revenue

3.4 Structure for Revenue Allocation from the Federation Account

The allocation principles of revenue sharing formula that are in use at the inception of the present democratic dispensation are: Population, Equality of States, internal revenue generation, Land mass, Terrain, Population density and Derivation. These principles are expressed in the Nigeria's 1999 Constitution under Section 162 (2), which provides that "in any approved formula, derivation accruing to the area which is home to natural resources being exploited for foreign exchange earnings, takes a magnitude of not less than thirteen percent of the revenue accruing to the Federation Account.

So far, a revenue allocation formula was proposed by the Revenue Mobilization, Allocation and Fiscal Commission in 2003 and submitted to the National Assembly through the Presidency, as prescribed by the 1999 Constitution. There emerged a structure of sharing of revenue from the Federation Account as typified below:

The vertical and horizontal formula

A. Vertical Formula

This shows the structure of allocation to the three tiers of government.

S/N	Beneficial	Percentage
1.	Federal Government	46.00%
2.	State Government (including FCT)	33.33%
3.	Local Governments (including Area Councils)	21.00%
	Total	100.00%

B. Horizontal Formula

This shows the structure of allocation among State Governments (including FCT) and among Local Governments (including Area Councils) to the three tiers of government.

S/N	Principles of Allocation	Percentage
i.	Equality	45.00
ii.	Population	25.60
iii.	Population Density	1.45
iv.	Internal Revenue Generation Effort	8.31
v.	Land Mass	5.35
vi.	Terrain	5.35
vii.	Rural Roads/Inland Waterways	1.21
viii.	Portable Water	1.50
ix.	Education	3.00
x.	Health	3.00
	Total	100.00

Self-Assessment Exercise 3

The structure of sharing of revenue from the Federation Account broadly divided into----

Revenue Sharing Formula in use in Nigeria

The revenue sharing formula in Nigeria has always tilted in favour of the Federal Government as evident from the recent formula used and presented in the figure below

Practiced Revenue Sharing Formula (1999 – 2007)

Year	Beneficiaries	Formula (in percent)
1999 – 2000	Federal Government	54.68
	States	24.72
	Local Councils	<u>20.60</u>
		<u>100.00</u>
2001	Federal Government	41.30
	States	31.00
	Local Councils	16.00
	Special Funds	<u>11.70</u>
		<u>100.00</u>
2002	Federal Government	56.00
	States	24.00
	Local Councils	<u>20.00</u>
		<u>100.00</u>
2003 – 2006	Federal Government	54.68
	States	24.72
	Local Councils	<u>20.60</u>
		<u>100.00</u>
2007	Federal Government	52.68
	States	26.72
	Local Councils	<u>20.60</u>
		<u>100.00</u>

Proposed Revenue Sharing Formula by RMAFC

Year	Beneficiaries	Formula (in percent)
2001	Federal Government	41.30
	States	31.00
	Local Councils	16.00
	Special Funds	<u>11.70</u>
		<u>100.00</u>
2003	Federal Government	46.63
	States	33.00
	Local Councils	<u>20.37</u>
		<u>100.00</u>
2004	Federal Government	41.30
	States	20.50
	Federal Capital Territory	6.50
	Local Councils	20.00
	Special Funds	<u>11.70</u>
		<u>100.00</u>
2007	Federal Government	47.19
	States	31.10
	Local Councils	15.21
	Special Funds:	
	(i) General Ecology Fund	1.50
	(ii) Solid Mineral Fund	1.70
	(iii) National Reserve Fund	1.50
	(iv) Agricultural Dev. Fund	<u>1.75</u>
		<u>100.00</u>

Source: Abdullahi, S.A. (2008). Public Financial Management in Nigeria: Principles, Practice and Issues, pp. 136 – 137.

Self-Assessment Exercise 4

Explain Fiscal Federalism.

The Federal Government independent revenue comprises the following:

- Personal income tax of personnel in armed forces
- Staff of the Ministry of Foreign Affairs
- residents of the Federal Capital Territory, Abuja
- operating surplus of federal agencies
- dividends from Federal Government's investment in public quoted companies

- rents on government properties
- Interest on and capital repayments of loans on-lent to state government and their agencies.

Table 1.1: Summary of Federal Government Finances (₦ Million)

Sources	1994	1995	1996	1997	1998
Oil Revenue	160,192.4	324,547.6	369,190.0	416,811.1	289,532.3
Non-Oil Revenue	41,418.4	135,439.7	151,000.0	166,000.0	174,076.5
Total Federally-collected Revenue	201,910.8	459,987.3	520,190.0	582,811.1	463,608.8

Table 1.2: Summary of Federal Government Expenditure (₦ Million)

Sources	1994	1995	1996	1997	1998
Recurrent Expenditure	89,974.9	127,629.8	129,416.3	146,421.0	206,477.5
Capital Expenditure	112,538.1	121,138.3	158,678.3	289,841.3	237,085.8
Total Federally-collected Revenue	202,513.0	248,768.1	288,094.6	356,262.3	443,563.3

Source: Federal Ministry of Finance and Economic Development / CBN Publication (2000).

The State Governments' sources of internally generated revenue are:

- Personal income tax of citizen resident in the states.
- Fees for registration and licencing of vehicles, permits, fees charges and levies with respect to land development etc.

For the Local Governments, the sources of internally generated revenue are:

- property tax within their boundaries
- Licenses on bicycles, tricycles, motorcycles trucks, canoes, wheelbarrows and crafts, collection of rates, radio and television licences etc.

Fiscal Operation of Government

You should note that under the fiscal system of Nigeria, the multi-levels of government engage in:

- Fiscal management
- Preparing and implementing annual budgets for the provision of services in the respective area of jurisdiction

- The main objective of fiscal management over the years is that of promoting accelerated economic growth as a base for achieving higher per capita income and social welfare

Federally-Collected Revenue

Nigeria's fiscal management experience in the 1960s was characterized by narrow revenue base, largely the relative under-development of the economy. The Federally-collected revenue retains the trend of oil based revenue being 70 percent and above till today.

9.0 CONCLUSION

We have described the distribution of revenue via revenue allocation formula based on the structure/tier of government and demonstrated the Fiscal Operations of the Federal Government

10.0 SUMMARY

In this unit, attempts were made to identify the Fiscal Federalism and Resources Allocation narrating from fiscal operation of government.

11.0 TUTOR-MARKED ASSIGNMENT

- 1) Identify the priority accorded each tier of government in Nigeria
- 2) Explain Value-Added Tax system in Nigeria

12.0 REFERENCES/FURTHER READINGS

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MODULE III: BUDGETING IN PUBLIC SECTOR

Unit 1:	Budgeting in Public Sector
Unit 2:	Budgetary Control in Public Sector
Unit 3:	Appropriation in Public Sector
Unit 4:	Project Management in Public Sector

UNIT 1: BUDGETING IN PUBLIC SECTOR

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	3.2 Budgeting Theory and Practice
	3.3 Object of Budgeting
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	3.5 Types of Budgets
	3.6 Budget Making
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1.0 INTRODUCTION

In this unit, we will attempt to explain budget and emphasizes on its application in the public sector administration especially as it affects developing economy like Nigeria. Budget is presented as a major financial management tool. The execution of a government's budget is carried out within an established legal framework for management of public finances as enshrined in the constitution and further elaborated in other statutes

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define Budget
- Explain the theory and practice of Budgeting
- Identify object and types of Budgeting
- Narrate the making procedure of a Budget in public sector

3.0 MAIN CONTENT

3.1 Budget Definition

According to Chartered Institute of Management Accountants, a budget could be defined as a plan stated in quantitative monetary terms which is prepared and approved prior to a defined period of time usually showing planned income to be generated and or expenditure to be incurred during that period and capital to be employed to attain a given objective.

Budget is applied by users differently. In the individual / personal, business and public sector the scenario differs. For personal budget instinct and personal idiosyncrasies come to bay; while in the business sector liquidity and profitability are the guiding barometer. The public sector budget considers the availability of funds and socio-political consideration uppermost alongside regulations cum policies.

Self-Assessment Exercise 1

Define Budget

3.2 Budgeting Theory and Practice

Budgeting is the most important decision making process in public institutions. It is also a jurisdictions most important reference document. A public budget has four basic dimensions.

1. It is a political instrument that allocates scarce public resources among the social and economic needs of the jurisdiction
2. It is a managerial and administrative instrument: it specifies the **ways** and **means** of providing public programs and services; it establishes the cost of programme and criteria by which these programme are evaluated for efficiency and effectiveness; it ensures that the programme will be reviewed or evaluated at least once during the budget year.
3. It is an economic tool that can direct a jurisdiction's economic growth and development
4. It is an accounting instrument that holds government officials responsible for for the expenditure of funds with which they have been entrusted

Planning, Budgeting and Public Expenditure

In the introduction of this unit, we stated that execution of government budget is based on established framework and constitutional expectations. The legislative frame contained in the statutes of the country has been arraigned to ensure that government has access at all times to financial resources to defray approved public expenditure. The legislative framework also

ensures that the government's access to financial resources other than tax revenues is not utilized before certain set of limits, which, if exceeded, would compromise the government's ability to finance its operations in the years ahead and could be inflationary, thereby causing fiscal imbalances in the economy

3.3 Object of Budgeting

Budget is a Management tool. Pandey (2005) ascribes the following to be the purpose of budgeting for both business and public sector;

- Planning – compels planning to take place
- Coordination – helps to coordinate, integrate all efforts to achieve objectives
- Control – facilitates control by providing definite expectations in planning phase
- Evaluation – ensures evaluation of past with present and future
- Communication – improves the quality of communication
- Utilization – optimum use of resources
- Improvement – leads to productivity
- Efficiency – it leads to self assessment of the organization

A good budget should be able to fulfill these objectives.

3.4 The Influence of Keynes

Before the intervention policy put forward by a British economist John M. Keynes, in the wake of the Great Depression of the 1930's, that government spending could be critical in managing an economy by stimulating demand when resources were underutilized and unemployment was high. The annually balanced budget was a common feature of most governments' budgetary practices. His thought created the notion of budgetary policy as an instrument by which a country can execute macroeconomic policy.

Self-Assessment Exercise 2

State the purposes of budgeting.

3.5 Types of Budgets

In public sector the classifications accorded budget are balanced, surplus or deficit, annually balanced, cyclically balanced and functional finance, incremental, priority resource, rolling, fixed and flexible budgets.

- Balanced-when revenue projections and expected expenditures in a budget are presumed equal
- Surplus-the presumed excess of revenue projections over estimated expenditure
- Deficit-if the expenditure estimates in a budget out weigh the revenue projections

You should note that in Nigeria (Federal, State or Local government), all budgets are either surplus or balanced with major source of balancing either internal or external debt contraction.

- Annually- balanced- budget- common feature of most government budgetary practice. With time most economists observed that an annually balanced budget rules out government fiscal activity as a counter cyclical stabilizing force. It is a tool to curtail undesirable and uneconomic expansion of the public sector.
- Cyclically-balanced-budget-is the one balanced over the course of business cycle rather than being annually balanced. Therefore, government could initiate its counter cyclical influence while at the same time balancing the budget.
- Functional finance-is based on the assurance of a non-inflationary full-employment which is balancing the economy and not the budget.

Other Budgets are: **Line-Item Budgeting**

1. The line-item budget was the original budget format-each item of expense had a literal line in a ledger book. This is the Traditional or Incremental system
2. It classified budgetary accounts according to narrow, detailed objects of expenditure (such as motor vehicles, clerical workers or reams of paper) used within each particular agency of government, generally without reference to the ultimate purpose or objective served by the expenditure.
3. It is useful as a record of expenditures and the criteria against which audits could measure compliance.
4. It is widely used mostly in the local governments as their basic budget format or as a supplement to more sophisticated formats. This is so because it offers such comprehensive details on proposed expenditures.

A major weakness of this budget is that it might allow the test to be made as to whether funds had been spent on the purposes for which they had been appropriated. Despite several budgetary innovations and experimentations, the **line-item** or **incremental budget** is the most commonly used method of budgeting.

Sample of Table for Line-Item Budget

<i>Expenditure Items</i>	<i>Last Year ('07)</i>	<i>Current Year ('08)</i>	<i>Next Year ('09)</i>
Salaries			
Materials			
Other expenses			
Total			

The main advantage of line-item budget is the ease of its preparation and it makes a simple comparison of performance from one fiscal period to another.

The main problem is the difficulty of relating the line budget to the goals of the parent organization. Without much reviews, past inefficient activities are carried forward, making some resources wasteful. This could be deduced from the sample table above.

Performance Budgeting

The concept of performance budgeting requires a performance measure to be stated alongside each line item, so that elementary calculations of unit cost and efficiency could be made. Line items were grouped or categorized in functional items.

For example, refuse collection department's workload could be determined on the basis of the number of houses and businesses served, which made it relatively easy to calculate how much trash is generated each week, month or year. Using this measure, the efficiency of collection could be compared to a base period and a base cost. This system is recommended by World Bank and International Monetary Fund to countries seeking to reform their budgetary system

Performance Budgeting (PB) is a system wherein managers are provided with the flexibility to utilize organization's resources as required, in return for their commitment to achieve certain performance results. It is a system of planning, budgeting and evaluation that emphasizes the relationship between money budgeted and result expected

Characteristics of a Performance Budget:

- It helps in identification of mission, goals and objectives of organization
- It links strategic planning information with the budget
- Development and integration of performance measures into budget

- Expenditures classified into very broad areas like, personnel, operating expenses and capital outlays, rather than specific line-items

Advantages

- It has more of a policy-making orientation since it links plans, measures and budgets.
- It forces departments and policy-makers to think about the big picture.
- It provides better information about the impact of budget decisions on people.
- It gives department's increased budgetary flexibility and incentives for generating budget savings.
- It allows for ongoing monitoring to see if agencies are moving in the right direction.
- It helps in developing unit costs for the activities. Activity-based costing may be applied under this approach.
- It strengthens legislative decision-making and oversight.
- It enhances financial accountability to citizens, decision makers and governmental monitoring agencies, and
- It supports better management and evaluation.

Performance information can increase public accountability and public services. Furthermore, performance information provides decision makers information they need for evidence-based policy-making.

The primary disadvantage associated with it is the emphasis on quantity, not quality, of the activity being monitored. Besides, the link between performance measures and resource allocations are subject to political choices. There may also be lack of credible and useful performance information. In addition, difficulties may arise in achieving consensus on goals and measures. There could also be dissimilarities in programme and fund reporting structure as well as the limitations of information and accounting system.

Table 5.1: Performance Budget

<i>Expenditure Items</i>	<i>Function N1</i>	<i>Function N2</i>	<i>Function 3</i>	<i>Total</i>
Salaries				
Materials				
Other expenses				
Total				
Percent				100%

Figure 5.2

Detailed head (Financial targets or expenditure)		Total Budget
		₦
Salary		XXXXXX
Wages		XXXXXX
Office expenses		XXXXXX
Rent		XXXXXX
Stationery		XXXXXX
Supplies		XXXXXX
Diet		XXXXXX
Medicines		XXXXXX
Grants		XXXXXX
Vehicles		XXXXXX
Others		XXXXXX
Categories of manpower:	Gazetted	XXXXXX
	Non-gazetted	XXXXXX

Programme Budgeting

Programme budgeting system focuses on the output services that the programme provides to its users. It also readily relates to overall organizational goals and objectives. Under this system, budget request of public agencies or departments include funding and outputs and outcomes expect to produce as a result of that funding

The legislature establishes performance targets for outcomes and outputs in the implementing act to appropriations act. Public organ then report their actual performance in their long range programme plans and budget requests for the following fiscal year. Incentives are given when performance exceeds standard or disincentives when it falls below standards. These incentives and disincentives can be monetary or non-monetary.

Examples:

- Monetary incentive- bonuses employees and Non-monetary- increase in budget flexibility

Zero-Based Budgeting (ZBB)

Zero based budgeting is a cost benefit approach to budgeting which ensures value for money activities which involves the use of decision packages. It is a budget for public sector organization in which all expenditures must be justified afresh each year and not just amounts in excess of the previous year. Under zero based budgeting, nothing is considered as sacrosanct. Every time, the managers or directors are supposed to start from scratch or writing on a 'clean slate'.

ZBB is claimed to be a new technique of planning and decision-making. It reverses the working process of traditional budgeting. In traditional budgeting, departmental managers or directors need to justify only increases over the previous year budget. This means what has been already spent is automatically sanctioned. While in ZBB, no reference is made to the previous level of expenditure, every department function is reviewed comprehensively and all expenditures rather than only increases, are approved. ZBB is a technique, by which the budget request has to be justified in complete detail by each divisional manager or director starting from the zero-base. The zero-base is indifferent to whether the total budget is increasing or decreasing.

Self-Assessment Exercise 3

Classify budget in the public sector.

4.0 CONCLUSION

The public sector budget considers the availability of funds and socio-political consideration uppermost alongside regulations cum policies of the country

5.0 SUMMARY

In this unit, we defined Budget and analyzed budgeting theory and practice, object of Budgeting, types of budgets and budget making process in Nigeria as a developing country.

6.0 TUTOR-MARKED ASSIGNMENT

- 1) Explain the theory and practice of Budgeting
- 2) What is the objective budgeting in the public sector?

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UNIT 2 BUDGETARY CONTROL IN PUBLIC SECTOR

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1.0 INTRODUCTION

In the last unit, we discussed about the definition of budget, its theory and practice, the objects of budgeting, the influence of Keynes, types of budgets and the processes involved in budget making.

In this unit, we shall explain budget in government sector and budgetary control as a primary device for ensuring compliance in public sector funding. The decisions are based on available policy thrust of the government on such funding.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain Government Budget
- Define Budgetary Control concept
- Discuss Budgetary objectives in Government Sector
- Itemize the features of Master Budget

3.0 MAIN CONTENT

3.1 Government Budget

The description of government intentions and policies presented by a financial plan with details of estimates stating the receipts and proposed expenditures under various classifications is known as Government Budget.

- It is a projection of the flow of funds and how the funds will be expended to achieve stated objectives of individuals, households, business firms, institutions and governments.
- Budget is a financial plan which typically is made up of detailed estimate of expenditures, revenues- surplus or deficit for the present and successive fiscal years.
- Government Budget is not mere accounting statement of proposed expenditures and anticipated revenues; it bears the fruits of conscious policy decisions about the amount involved.
- Government Budgetary policy is fiscal policy directed to specific activity within the framework of the budget. Essentially, government budget is the instrument employed in the actualization of development plans hence, has legal backing. The Nigerian system of budgeting is usually for a year- from January to December. Module 1, Unit 3- The Fiscal System refers.

Self-Assessment Exercise 1

Explain Government Budget

There are two essential aspects of budget framework:

Capital and Recurrent estimates:

1. The recurrent budget includes recurrent revenue and recurrent expenditure. This category consists of items for the smooth running of government and of consumption nature like salaries, purchase of stationery as well as maintenance of infrastructures.
2. The capital budget includes capital receipts and capital expenditure. The annual capital budget is the instrument through which planned targets are translated to a programme of action. It is worthy of note that recurrent expenditure surplus and development loan stocks usually come under capital receipts with the defined development plan known as Rolling plan in Nigeria.

The economic policy objectives of a nation namely; stabilization of the economy, indigenization, income distribution, balanced development, socio-cultural growth etc are focused through the budget.

3.2 Budgetary Control in Public Sector

Budget and Budgetary Control is the backbone of any financial control system. The emphasis of financial control was in the private sector. Recently, the general attitude in the public sector has geared toward financial control because of the reality of scarce public resources which need proper management even at the macro-level. Nowadays, Public accounts Committees have been formed at the ministerial level and other agencies of government. Government prepare master budget which is supported by budget classification as; revenue, capital expenditure and cash budget. The budget targets are conventionally evolved not by consensus but from top to bottom. The incremental approach to budgeting overshadows the zero-base and programme-cum-performance approaches.

Costing and Cost Control in most of the public sector enterprises is not given appropriate attention. They pay lip service to cost and maintain no standards. Cost reduction drives are seldom undertaken.

The concept of just-time-inventory is not practiced in public sector undertakings. Variance analysis is not a regular feature and the resultant effect of such analysis is not effectively utilized. Raw material consumption norms and optimum inventory limits have been developed by some of them. To be effective in this, extensive costing systems and appropriate procedure need be in place for their operation.

Internal audit is an important component of financial controls. It has been given adequate attention in public enterprise's management in terms of its location, organization, empowerment, resource allocation, staffing and performance. It is usually headed by an executive at the middle or senior level.

Self-Assessment Exercise 2

Name the importance of budgetary control in the public sector.

The concept of budgetary control

Budgetary control is a system of controlling costs which include the preparation of budgets. Budgeting is thus only a part of the budgetary control. Budgetary Control is defined by Chartered Institute of Management Accountants as “the establishment of the budgets relating to the responsibilities of the executive to meet the objective if an organization and the continuous comparison of actual with budgeted estimates so that if remedial is necessary it may be taken at an early stage”.

- It can also be defined as “a continuous process which reviews and adjusts budgetary targets during the financial year and produces a control mechanism to hold budget holder to account”

- This means that budgetary control is a technique encompassing the entire process starting from the preparation of the budget or the action plan, covering monitoring and review culminating in corrective action.

The characteristics of budgetary control are to;

- Establish target of performance/budget
- Record the actual performance
- Compare the actual performance with the budgeted
- Establish the differences and analyze the reason
- Act immediately for corrective actions

3.3 Objective of Budgetary Control

The following are the objectives of budgetary control; refer to Module 2 Unit 5, Section 3.3 above (object of budgeting).

- To plan – A budget provides a detailed plan of action for activities over a definite period of time. By planning, many problems are anticipated long before they arrive and solutions sought through careful study. Example government planning for infrastructural development in a particular year for an area that is in need.
- To coordinate – Budgeting aids managers in coordinating their efforts so that objectives of the organization are harmonized with the objectives of its constituents. This will help in achieving result. Like the different sector need to be achieved and prioritizes in the light of the scarce resources.
- To communicate – A budget is a communication device. The approved budget indicating the details of planned activities assist in communicating the plans. The copies are distributed to the different ministries, extra ministerial departments and agencies.
- To control – The budget ensures that plans and objectives are being achieved. Control in budgeting may be synthesized effort aimed at keeping management informed of what pre-determined plans will achieved. Control comes through variance analysis and reporting
- To motive – Careful budgeting control motivates the human resource of the organization.

Advantages of budgetary control

The following are the advantages;

- Planning- It provides a well-organized plan based on facts. It provides definite objectives with regard to future operation.

- **Control-** It enables management to control each function, sector, ministry or department in order to achieve the best possible result.
- **Coordination-** It promotes and encourages coordination between departments of activities for the attainment of the overall good of the organization/institution
- **Cost consciousness-** It makes management to become more cost conscious and eliminate waste and inefficiency in its operations
- **Management by exception-** It is a time saving mechanism as attention is directed to areas of more pressing needs.
- **Management Responsibility-** It enables each manager to assume responsibility which is clearly established
- **Measurement of performance-** It provides a means of measuring the performance of individual managers and the various cost centres or departments by comparing targets against the performance of the manager can be assessed.
- **Communication and motivation-** It involves communication between top management and lower levels on how to attain the objectives. This motivates managers to achieve the target set.
- **Prevention of waste-** It prevents waste of physical resources such as labour, equipment, machinery etc Duplication of efforts is avoided as the most efficient and effective use of these resources is expressed in the budget
- **Authorization and Delegation-** It explicitly and expressly authorizes budget's policy thrust at approval of the master budget of the organ be it private or public. By the acceptance of the budget by the sectors concerned, responsibility for executing the policy can be delegated to the desk officers.

Limitations of budgetary control

- **The budget plan is based on estimates:** Budgets are based on forecasts and forecast estimates. Absolute accuracy is not possible in forecasting and budgeting. The strength or weakness of the budgetary control system depends to a large extent on the accuracy with which estimates are made.
- **Danger of rigidity:** Budget will not stand the test of time if not flexible because of the dynamic and continuous change in business condition
- **Management tool:** Budget is only a tool of management and cannot replace it. Its execution will depend on the will and nature of management concerned. The tool is as good as its applier.

- Expensive technique- Budget operation is costly, requiring specialized staff as well as incidental expenditure; however the cost used should not exceed the benefits to be derived there from.
- Inappropriate condition- Budgets are developed round existing organizational framework which may be inappropriate for current conditions
- Endangers morale and productivity- Budgets state clear objectives, realistic fulfillment of the desired established goal will be difficult.

Self-Assessment Exercise 2

Discuss the objectives of a budgetary control system.

3.3 Functions of Budgetary Control:

1. It increases efficiency
2. It reveals inefficiency
3. It reduces greater losses since it is a continuous measuring of actual and budgeted positions
4. The causes of variances between the budgeted and actual are identified to chart the remedial process to forestall such
5. It checks over-expenditure on the part of spending officer.

3.4 Master Budget

Public Sector Undertakings prepare master budget which is supported by budget classification under three sub-heads namely:

1. Revenue
2. Capital expenditures and
3. Cash budgets.

This is a functional budget and a summary of all the related functions of government.

4.0 CONCLUSION

Budgetary Control is explained as the establishment of the budgets relating to the responsibilities of the executive to meet the objective if an organization and the continuous comparison of actual with budgeted estimates so that if remedial is necessary it may be taken at an early stage”.

5.0 SUMMARY

In this unit, attempts have been made to describe government budget, essential features and the importance of budgetary control in public sector. The functional budget is known as the master budget summarizing all the main functions of government

6.0 TUTOR-MARKED ASSIGNMENT

- 1) Classify Government Budget
- 2) Itemize the essential features of Budgetary Control

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UNIT 3: APPROPRIATION IN PUBLIC SECTOR

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 - 3.3 Control- Legal and Institutional Framework Budget Making Process
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1.0 INTRODUCTION

In this unit, we shall explain appropriation, authorization and control of budget process in a democratic Nigeria. Attention will be given to the legal and institutional framework.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain Appropriation and budget making process
- Narrate Authorization and the process of budgeting in a democratic Nigeria
- Identify the Control, Legal and Institutional Framework of budget in Nigeria

3.0 MAIN CONTENT

3.1 Appropriation- Budget Making Process

The process of budgeting cuts across all political settings whether it is developed or developing nation. Budgeting is a major preoccupation in government at the federal, state and local levels of governance. Budget is the tool of decision and literally the biggest process.

It involves a lot lobbying at both chambers of the national level. This is also found at the state legislature floor. For this reason Nigerian politicians has been pre-occupied with what Aaron Wildavsky termed the “politics of the budgetary process”.

This of course consists of two fields of play for politics and governance:

1. Defending clientele (members of constituency) against revenue hikes such as tax increases and
2. Seeking to attract government spending programme that will benefit clientele

Often the process requires skillful display of an initiative as revenue or expenditure may serve to conceal its nature.

For example,

Government housing assistance to low-paid workers is categorized as expenditure. Government housing assistance to high-paid workers (tax deductibility of mortgage interest payment) is presented as an exemption on the revenue side. One is a direct expense and one is a tax expense. How do they differ?

Spending on the highway is characterized as the provision of necessary infrastructure. Spending from general taxation on public transportation is assigned the category “losses”. Again how do they differ?

In many respects, the inter-play between the President and the National Assembly represent the ultimate show-down. After all the convolutions of dealing, trading and bluffing the final play/politicking is between National Assembly and the Presidency. You should note that the play will be heightened in its drama National Assembly and President are from opposing parties.

- Both have budget offices to support them in analysis and in repackaging deals into budget options
- Both have enormous standing and access to the public through the media

Eventually, the president must send his budget to the National Assembly. The National Assembly, the more so if hostile will extremely amend it and return it; the president must decide whether and to what extent to use the veto. Behind the scene, horse traders, lobbyists continue to parley.

Owing to its importance and the way in which it is conducted, the budget game should never be underestimated or ignored by public administrators. At the same time, its centrality should not divert attention far from the substantive merits new and existing policies as embedded in the constitution, rather than the gamesmanship with which funds for them may be sought or denied.

Self-Assessment Exercise 1

Explain appropriation in budgetary process

According to Kiragu, Kithinji, effective financial management is critical feature of a public administration system. He noted that the key objectives of an effective public financial management system are;

- Proper planning and budgeting for public expenditures
- Effective and efficient administration of government revenues
- Proper use of budget resources
- Effective control of public expenditure
- Accounting and reporting on public finance
- Full accountability for all public spending

3.2 Authorization - Budgetary Process in Democratic Development

The importance and sensitivity of the finance management function in the conduct of public affairs underpinned by the comprehensive legislative and other statutory provisions on what, how, where and by whom public resources are obtained and utilized.

Usually, this key aspect of public financial management are enshrined in the constitution, elaborated in specific acts of parliament (National Assembly) and reinforced and enforced through supplementary legislation (financial regulations) usually issued by the Minister of Finance with the authority of National Assembly

For example, in the constitution of most Anglo-phone countries in Africa, including Nigeria, stipulates that:

- All government revenue will be collected under the authority of parliament (National Assembly) and paid into one Consolidated Fund, from which all funds for public expenditure purposes shall be paid
- No public moneys shall be spent without the authority of the parliament
- Government expenses shall be makes only for the purposes authorized by the parliament
- All moneys spent out of the Consolidate Fund must be accounted for before the parliament
- The office of the Auditor General will operate independently pf the executive arm of the government

Self-Assessment Exercise

Is constitution part of the authority of budgetary process?

3.3Control- Legal and Institutional Framework Budget Making Process

1. The preparation of the Annual budgets is essentially the duty of the Executive and the approval that of the Legislature.
2. Statutorily, the section 81 of 1999 constitution of the Federal Republic of Nigeria empowers the president of the nation to prepare and present an annual estimate of revenue and expenditure of each fiscal year in a specific format to the National Assembly for approval.
3. Presidency through the Budget Department initiates budget policy which is sent to the Ministry of Budget and Planning for consolidation.
4. Guidelines are given to various ministries in form of Call Circulars for action in the various ministries.
5. These are collated and sent back to the Ministry of Budget and Planning for further review, revision and modification by the Draft Estimate Committee before transmission to the President who would present same to the National Assembly for approval.
6. In summary, there are three phases of approval namely; the Ministerial, the Executive and Legislature.

Self-Assessment Exercise

What is the role of executive in budgetary process?

Budget Making Process–Appropriation, Authorization and Control

You would deduce that the structure and government budget is the subject of successive waves of innovation. This is so because the ultimate statement of what a government stands for and spends is found in the texture of its budget. The budget is the key focal point of public administration. It places authority and huge power in the hands of those who shape it. The waves of innovation gave birth to different types of budget in the public sector owing to its timeless potency as follows.

Budgeting in government comprises of two main arms, namely: the budgetary procedure and the budgeting system.

Budgetary Procedure: The budgetary procedure consists of practices, processes, institutional arrangements, documentations, norms and conventions governing budgets preparation, approval, implementation, appraisal and review.

Budget System: This means the management process that provides framework for acquisition, allocation and utilization of resources by pre-setting decision rules and other operational mechanism which governs the entire allocation process.

The budget cycle is a complete set of events which occurs in the same sequence yearly and cumulating into the approved budget. It has four phases, namely:

- (i) Executive preparation and submission;
- (ii) Legislative consideration and enactment;
- (iii) Execution; and
- (iv) Audit and review.

Phase One

Government objectives are articulated in terms of economic, social and welfare parameters. The priorities and expected levels of achievement act as indicators. These are made known both to the Ministry of Budget and the Council of Economic Advisers. Based on this, the Ministry of Finance (Federal and State level) issues call circulars inviting ministries, departments, and their agencies to submit advance proposals of revenues and expenditures for the next financial year (budget).

In response to this call, these units of government send their advance proposals (revenues and expenditures) to the Budget Ministry to collate them for consideration by the inter-ministerial body of officials selected from the Treasury, Establishment, National Planning and the Federal Ministry of Works.

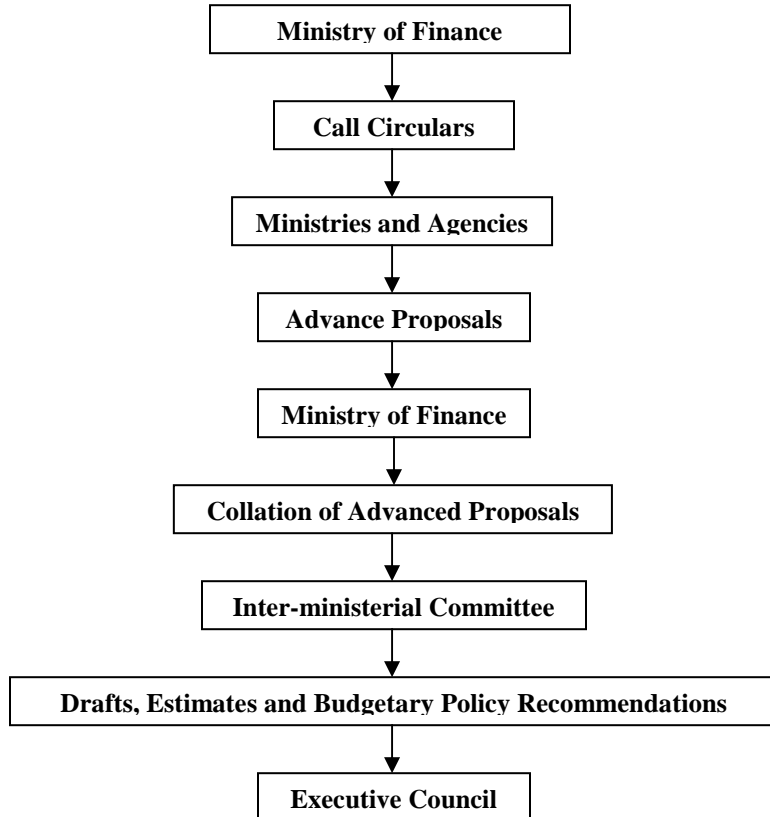
The officials of each ministry and their agencies led by their Accounting Officers (Permanent Secretaries) would appear before the inter-ministerial committee of officials to defend their respective proposals. After this, the inter-ministerial committee completes its review exercise, transmits its decision in form of advice and recommendations through the Budget Ministry to the Federal Executive Council (Cabinet).

The Federal Executive Council made up of political heads of the ministries i.e. Federal Ministers and State Commissioners who then deliberate on the budget. At this point of political consideration, the programmes of the party in power and the particular preference of the chief executive (President or Governor) tend to gain attention than all other economic rationality and budgetary models and frameworks that the budgetary process had gone through.

Under the presidential system of government, the draft of the estimate is sent to the State House of Assembly and the National Assembly, as the case may be. You should note that Section 81 (1) of 1999 Constitution place the responsibility for budget preparation on the President or the Governor at state level.

The flow chart of budgetary process in Nigeria is shown overleaf.

Flow Chart



Source: Ola and Offiong (2008). *Government Budgetary Process in Nigeria Nsukka* Mimeograph, University of Nigeria

Phase Two

This phase involves legislative consideration and enactment. More political factors are brought to bear on the draft budget. Ideally, it is expected to be concluded before the beginning of the budget year. In this phase, the budget is sent to the National Assembly at the national level and to the House of Assembly at the state level, where debates are held to accept more amendments if suggested before it is passed into law.

The national and state assemblies reserve the rights to call on both the political and technical heads of the ministries and agencies to defend their proposals. Eventually, the bill is returned to the President/Governor for assent, which is an approval authority. However, in a situation where there is a delay in approval of appropriation bill in respect of any financial year, the chief executive (President at the federal level or Governor at the state level or Chairman at the local government council) may authorize expenditure in default of appropriation for a period not exceeding three months. Such authorized amounts should not exceed the amount

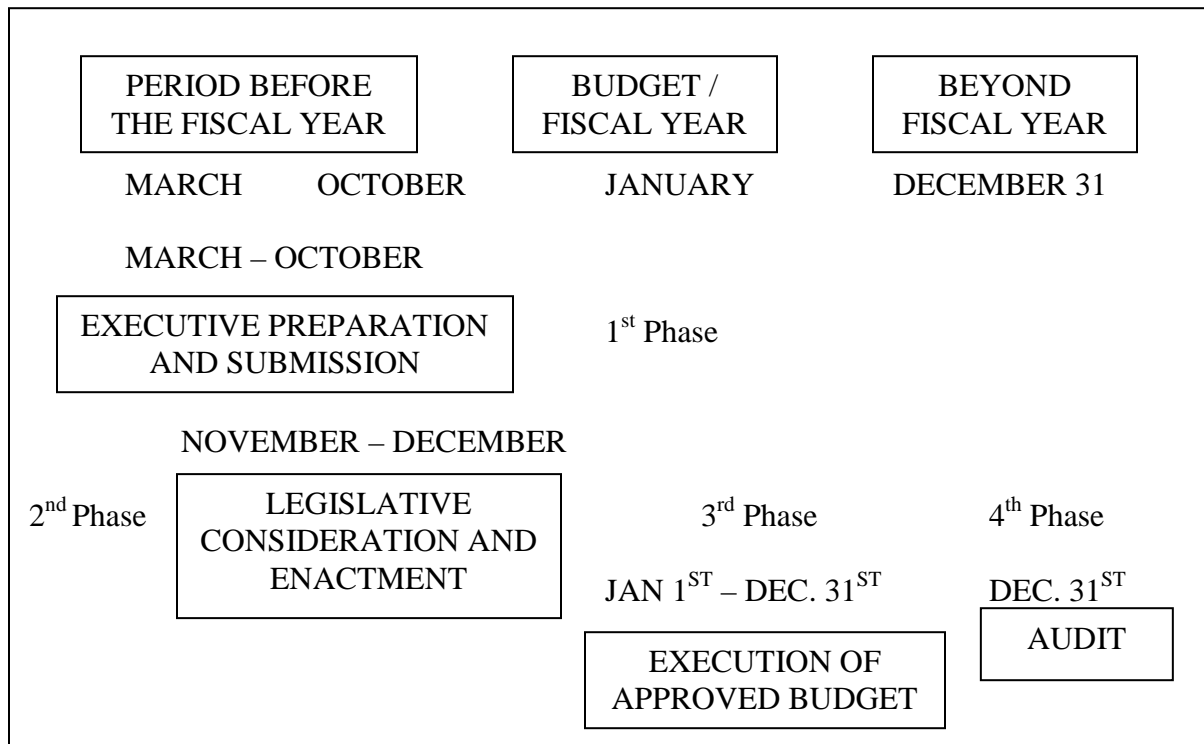
so authorized by the legislature during the immediate preceding financial year (refer to Sections 82 and 122 of the 1999 Constitution).

Phase Three

This is the implementation stage of the budget and schedules of financial disbursement are contemplated by the Budget Department. The implementation is fraught with problem of timely release of funds which could be caused by administrative bureaucracy. This has a tendency of delaying the execution of programmes and projects of various ministries and their agencies.

Phase Four

This is the audit stage and the review stage, which constitutionally, requires a post-mortem evaluation of government accounts by the Auditor-General of the Federation or the State, as the case may be – Federal, State and Local Governments. The Auditor-Generals then submit their reports to the various assemblies (National and State). The Auditor-General's basic function in the Nigerian budgetary process is the prevention of fraud, ensuring that there is a legislative authority for all payments being made or expenditure being incurred.



Source: Ola and Offiong (2008). *Government Accounting and Financial Control* Ibadan, Nigeria: Spectrum Books Limited, p. 55.

Self-Assessment Exercise 2

Budget System has how many phases at the national level?

The following though not exhaustive can be listed as Public Financial Control Authorities in Nigeria:

(i) The Constitution

The Constitution serves as the foremost control authority on financial matters just like and other matter of national interest. In it, is embedded all rules through which the country is governed. For example, it provides for the custody of all revenues or other moneys raised or received by the federation and the conditions and manners for their disbursement or utilization. The provisions of the Constitution are control measures and serves as an authority on which public fund is operated. The Constitution lays down the procedures for public fund control and compliance which protect it from abuse.

(ii) The President, Governors or Local Government Chairmen

The Constitution vests executive powers (see Sections 5 (1-5) of the 1999 Constitution) on the President and his counterparts in other tiers of government. As a result, they have powers over public financial matters and indeed, their consent and assent must be obtained for any public financial transaction.

In their wisdoms, they can refuse consent or assent if any foul play is suspected or an abuse is sensed. Public accountability lies on their heads and they are respectively accountable for any financial mismanagement of their states and localities.

(iii) The Legislature

The legislature is the formal law-making body of a country. In any democratic setting, all annual expenditures are controlled by the legislatures. For example, the budget or the annual estimates must be approved by the legislature before it can become legal and disbursable. The Executive Annual estimates are subject to reduction or addition by the legislature. They also have powers over supplementary estimates. The power of the legislature to control public funds is absolute and even the courts cannot challenge its decisions. The legislature also has powers over the custody and withdrawal of public funds. The legislature also has powers to enact money bills and laws. The Audit Act of 1956 and the Finance (Management and Control) Act of 1958 are cases in point. They all buttress the financial control authority of the Legislature.

(iv) The Minister of Finance or Commissioners for Finance in the States

Though all Ministers are appointees of the President and only carry out tasks on his behalf, there is need to single out the Minister of Finance. This is because it is his ministry that disburses and provides control over funds in other ministries. Usually, before budgets are formalized, the Ministry of Finance which in most cases embodies or has supervising power over the department of the budget, peruses and seeks clarifications where necessary on the financial estimates of other ministries. It has powers to advise the President on public financial matters.

The Ministry of Finance's broad objectives in financial administration includes:

- (a) the development of initiatives for the formulation of policies on fiscal and monetary matters;
- (b) the harnessing and mobilization of internal and external financial resources for development;
- (c) the supervision of the insurance industry;
- (d) the supervision and supervisory control of ministries, departments and agencies of government in financial matters;
- (e) management of foreign exchange;
- (f) external and internal borrowing, government-owned enterprises, public debt, trustee securities, etc;
- (g) the National Insurance Corporation of Nigeria, and
- (h) the Nigerian Re-Insurance Corporation and the Federal Savings Bank.

(v) The Accountant-General of the Federation

This is another control authority. The Accountant-General is vested with the responsibility of keeping the accounts of the Federation. Indeed, the Financial Regulations describes him as the "Chief Accounting Officer of the receipts and payments of the Government of the Federation funds". He was conferred with this status by virtue of Ordinance 27 of 1937. He is responsible for the general supervision of the accounts of all ministries and departments within the Federation and for compilation of the annual financial statements of government. The Federal treasury is under his control. Indeed, he operates the main government funds accounts annually for the receipt and disbursement of federal money, and ensures that there are adequate machineries in public offices for the control of public funds. Though, the Finance Ministry has overall responsibility for financial administration, it is the Accountant-General who finally releases money from the government funds after the warrants for same must have been issued by the Minister of Finance. His importance in public financial control cannot be undermined. Though he acts mainly on ministerial directives, he could raise alarm where public funds are to be abused or misused.

The Revised Financial Regulations of 1976 vests enormous powers on him. Some of these powers include: the powers to conduct surprise inspections of government

accounts (FR 112) and of the cashbooks of revenue collections (FR 311) and to disallow expenditure which has been incorrectly charged to a vote (FR 516).

(vi) The Auditor-General of the Federation

Auditing is a crucial factor in ensuring proper control of public funds or any fund for that matter. The duties and responsibilities of the Auditor-General formally came to light through the Audit Act of 1956. Section 7 (3) of this Act provides the authority for the existence of his office. Due to the importance attached to the Office of the Auditor-General, relevant sections of subsequent Nigeria's Constitutions stipulate procedures for appointment, tenure of office and duties (powers to audit public accounts and conduct investigations).

The responsibilities of his office constitute perhaps, the most important financial control function within the overall financial control system. He ensures that public funds are not misappropriated, lost or abused. He is regarded as the watchdog of the people over the spending of public funds. He works in league with the Accountant-General of the Federation who must submit the financial statements of the Federation to him and he in turn after auditing submits his report to the National Assembly to be considered by a Committee of the House responsible for Public Accounts. One significant aspect in the exercise of his function is that he cannot be subjected to the direction or control of any other authority or person (see Section 85 (6) of the 1999 Constitution). However, what is important is that the Auditor-General is a crucial factor in public financial control. A sound financial base strives in the effectiveness and efficiency of an Auditor-General.

(vii) The Role of the Treasury

At the heart of any organized government is the treasury function. The treasury is the financial organisation of the Federal Government which receives keeps and disburses its funds, on the directives of the Accountant-General. As the final port of disbursement, the Treasurer or any Treasury officials can raise alarm if there are suspected misappropriations. The Treasurer, if sufficiently satisfied that a disbursement is wrong, can stay action on such disbursement. There are cases where Treasurers have stopped payments on misappropriation grounds and by this, they contribute in controlling public funds.

(viii) The Budget

This is another significant control authority which had been exhaustively discussed above. Budget simply means estimates for expected revenues and expected expenditures in a given period though mostly annually. It is just a quantified plan and direction put in place by management or public officials, to achieve set objectives. The Budget of a country therefore provides the quantification course of action of the ruling government. It serves as a guide to actions of government. In a

democratic setting, the legislature must approve the budget before it becomes binding.

(ix) Permanent Secretaries

Permanent Secretaries are career officers and by the nature of their permanence, they can be held accountable for any misdeed at any time. The Permanent Secretaries assist the ministers at the national level and commissioners at the state level on crucial decision making at various levels and stages.

(x) The Central Bank of Nigeria (CBN)

The CBN serves as the sole monetary authority through its control of the monetary policy of government. As part of its functions, it serves as the Bank of the Government and Bankers to other Banks. Foreign exchange transactions are its responsibility. Indeed, it has enormous control over public funds and could raise alarm where foul play or abuse is suspected. It is also saddled with the responsibility to print currency, thus having control over physical government funds. Again, since most Government businesses are transacted through the CBN, it can refuse suspected transactions.

4.0 CONCLUSION

In conclusion, we have realized from this unit that the politics of budgeting is not peculiar to Nigeria as a developing country; it cuts across all political settings whether it is developed or developing nation. The budget game is a major preoccupation in politics, occupying the time and energies of lobbyist politicians and officials at the federal, state and local of government.

5.0 SUMMARY

In this unit, we discussed budgetary process in Nigeria Democratic Development since 1999, in terms of appropriation, authorization and control.

6.0 TUTOR-MARKED ASSIGNMENT

- 1) Narrate Authorization in the process of budgeting in a democratic Nigeria
- 2) Identify the stages of budget making in Nigeria

7.0 REFERENCES/FURTHER READING

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UNIT 4 PROJECT MANAGEMENT IN PUBLIC SECTOR

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 - 3.2 Network in Project Management
 - 3.3 Project Management-using Network
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1.0 INTRODUCTION

In this unit, we shall attempt to discuss project management as applied to the public sector. The private sector objective is always expressed in financial terms while the objective of a public sector enterprise is based on political and social consideration.

You would be led through an insight of project management in government using network analysis in executing projects.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain Project Management
- Objectives of network in Project Management
- Discuss Project Planning-Management-with Network

3.0 MAIN CONTENT

3.1 Concept of Project Management

Management of big projects that consist of a large number of activities pose complex problems in **planning, scheduling** and **control** especially when the project activities have to be performed in a specified technological sequence with the help of PERT and CPM.

PERT = Program Evaluation and Review Technique CPM= Critical Path Method

The phases of network analysis are: **planning, scheduling** and **control**

Public sector project might be done through the use of social Cost-Benefit Analysis. It considers a number of issues such as environmental problems, opportunity costs and transfer

prices. It is more subjective than the normal capital budgeting technique especially forecasting of future outcomes of proposed project. It attempts to consider all the consequences of embarking on a project to determine the viability of a project, the time cycle that would be beneficial to the project and the cash flow or profit (cash flow is preferable)

Cost-Benefits Analysis Process-Establish the objectives and possible advantages of a proposed project, ascertain alternative solutions to the problem, estimate and analyze the cost and benefits (this is a wide spectrum), Considers the costs and benefits that may accrue to anyone outside the project, Opportunity Costs, Shadow prices the cost of obtaining an extra unit of a scarce resource and transfer payments include subsidies and grants from a federal government fund to a state or local government funds.

Self-Assessment Exercise 1

Explain Project Management

The following considerations are used as cost of capital in the public sector as it is difficult to calculate using private sector approach of market value, no interest, business or financial risk in government activities;

1. **The Social Time Preference rate:** expresses the value which one places on consuming or owning an asset now as an alternative to consuming or owning it in future.
2. **Government Borrowing and lending Rate:** roughly the risk free rate of interest. The interest rate on Treasury bills can be used
3. **The Opportunity Cost Rate of Interests:** If a project has been under taken at the expense of to another project, the rate of interest that compensates for the capital being freed for the alternative project is called the opportunity cost rate of interest
4. **Real Cost of Capital:** used where the government set a target real rate of return for projects.

3.2 Objectives of network in Project Management

These are the summary of objectives of project:

- Minimizes total cost
- Minimizes total time
- Minimizes cost for a given time
- Minimizes time for a given cost
- Minimizes idle resources

In public jobs, some of the common applications of network analysis occur in project scheduling for:

- 1 The construction of roads, bridges, factories
- 2 Budgeting procedures
- 3 New project launching etc

Network can be applied for any purposeful chain of events characteristic of public work involving the use of time, labour, and physical resources including cash usually related to projects of a complex nature where the scale of operations resulted to corresponding greater financial and administrative problems.

Self-Assessment Exercise 2

List the objectives of network in Project Management

3.3 Project Management-Planning – using Network

Management of a project involves planning expediently through coordinating efficiently the factors there in. Planning has not been given priority as projects were less complex; the rule of thumb method would work well. However, today, as projects have become more complex project managers and public administrators have associated themselves increasingly to systematic planning and management. This section of the unit will lead you through the complexity services and you will affirm the need for systemic outlay of projects.

Projects are in stages- a life cycle which include: planning, execution and phase- out At each stage of this life cycle, a variety of skillful requirements are involved. In effect;

- Project unit human resources and with diverse knowledge and skills,
- Some go from project to project as they are needed –consultants

In **project management and planning** the size and scope of projects varies widely according to the nature and purpose of the project. It is worthy of note, that all projects have something in common. The life cycle can be arranged into five phases;

1. **Concept**-the need for the project
2. **Feasibility**-expected costs-benefits analysis
3. **Planning**-details of work-human, time and cost
4. **Execution**-ensure project
5. **Termination**-target achieved

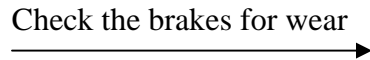
Self-Assessment Exercise 3

List the processes involved in management of a project.

The Network: Symbols, Diagram and Convention

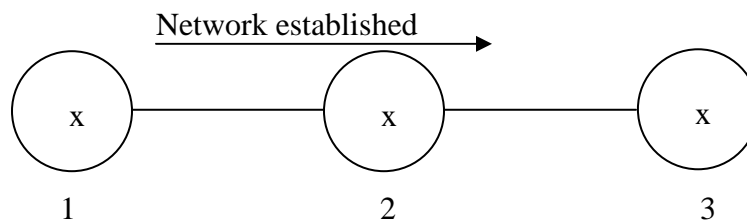
The first stage of analysis is to divide the project into a number of different activities. An activity is merely a particular piece of work identifiable as an entity within the project. If for example, the project under consideration is the servicing of a motor car, then one of the activities would be to check the brakes for wear.

Now an **activity** within a network is represented by an arrow, with the description of the activity written on it, as:



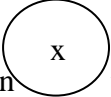
Note: In addition to activities, events are identified too.

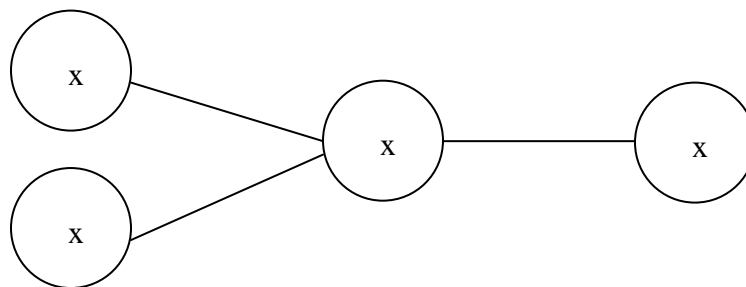
Events mark the point in time when activity is completed and the next activity can be started. Events are normally represented by circles:



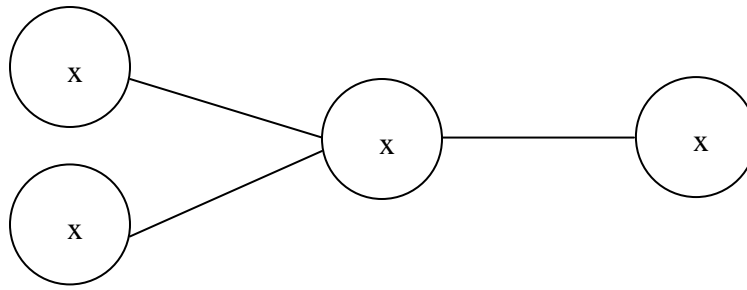
Network

A network is a convenient method of showing the logical sequence of activities in a project.

The event  represents the point in time when activity is completed but also represent the point in time when activity can begin.



The activities depend upon more than one activity or vice versa. The point of networking can be from one individual or source and terminates in dual results or contact points.



Dependence Tables

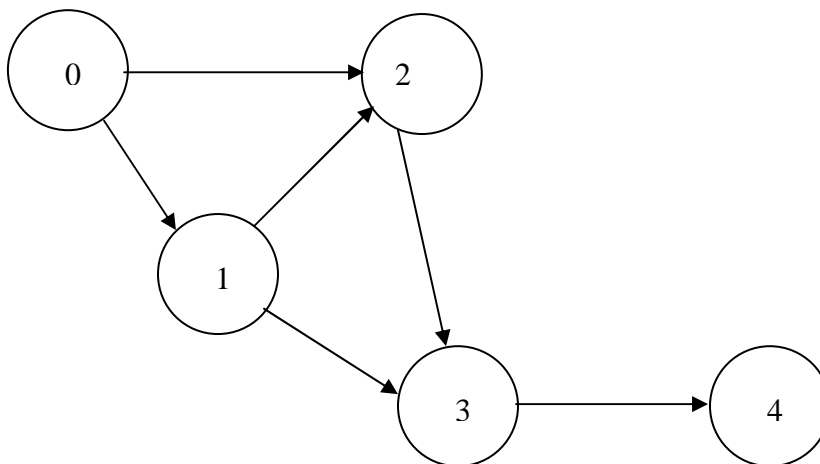
The first task of network analysis is to sort out the logical sequence of activity. This is done by constructing a dependency table by listing all activities according to priority. For example, a financial manager can affect the volume of credit sales and collection period and consequently investment in accounts receivable. This is called a dependable change in credit policy.

Credit policy hence is used to refer to combination of decision variables like, initially, to start with credit standard, credit terms, and credit collection. The financial manager proceeding activity influences the activities thereof.

Constructing a dependence table (trend) is often the most difficult part of project analysis, hence, in public sector project management; experts are engaged as consultants in their different phases of the project.

Network Diagram

The network diagram below is composed of a number of arrows and notes. These arrows represent the flow of project activities. A network diagram is generally preferred to portray the project's activities as follows:



The network diagram shows relationship among major activities of a project. For example, 0 to 1 has been completed, 1 to 2 is completed, 2 to 3 is also completed, and the circle has to be full by 1 to 3 which is the final spot and 3 to 4 is remote in to check if the project can start the test of time.

A path is a sequence of activities that leads from the starting node to the finishing node. The project life cycle is equals to the expected time of the longest path. The longest path is the critical path because of the depth and value of activities involved for the completion of the project. There is always an allowable slippage for any path which is called **slack**, and it reflects the difference between the length of a given path and the length of the critical path. The slack brings about flexibility in terms of implementation requirement.

Basic network terminology

Activity- a task or job work which takes time and resources

Event- a point in time and indicates the start or finish of an activity or activities.

An event is represented in a network by a circle or node

Dummy activity- is an activity that does not consume time and resources. It merely to show clear, logical dependencies between activities so as not to violate the rules for drawing network

Critical activity- an activity that lies on the critical path

Critical path is the path network that gives the shortest time in which the whole project can be completed

Total Project Time: Critical Path Method (CPM)

The main determinant of Performance Evaluation Review Technique (PERT) and Critical Path Method (CPM) networks are analysed and interpreted as whether activity time or estimated are probabilistic or deterministic. If the time estimates can be made with the high degree of confidence, the actual time would not differ significantly. We say the estimates are deterministic. If estimated times are subject to variation, we say the estimates are probabilistic. Probabilistic time estimates include an indication of the extent of probable variation.

4.0 CONCLUSION

You were led through public sector financial management and the use of modern strategic planning in project management against the rule of thumb which was the order of the day in the years past.

5.0 SUMMARY

Project Management-Planning and Nature of Project, The Network-Diagram and Convention, Total Project Time: Critical Path Method and have shown how they are useful in the public sector despite associated limitations.

In the next unit, we shall discuss government debts, enterprises and multi-nationals.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify the objectives of network in project management.
2. Discuss Project Planning and Management approach in public sector.

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MODULE IV GOVERNMENT DEBTS, ENTERPRISES AND MULTI-NATIONALS

Unit 1:	Government (Public) Debts
Unit 2:	National (Public) Debt Management
Unit 3:	Government Enterprises
Unit 4:	Multi-National Institutions

UNIT 1: GOVERNMENT (PUBLIC) DEBTS

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3.3 Public Debt Management
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6.0 Tutor-Marked Assignment
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1.0 INTRODUCTION

In this unit, we will discuss public debt and the management of the public debt. You will be led into debt financing gaps that led to the national indebtedness and the agencies thereof.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Define Public Debt
- Identify sources of Public debt
- Discuss Public Debt Management

4.0 MAIN CONTENT

3.1 Public Debt

The short-fall between domestic savings and the desired level of investments in most countries (especially developing ones) has led to both internal and external borrowings to fill the gaps. These led to financial liabilities (public debt) by government to individuals and institutions within and outside the country. In a developing country like Nigeria, the Central Bank on behalf of the government borrows money from both internal and external sources. ***Public debt** therefore is the amount of money owed by the government to institutions, governments and individuals' resident in or outside Nigeria.*

Deficit financing is the creation of extra purchasing power by government which then utilizes it for purchasing away resources from the market. It could also be defined as the net increase in the amount of money in circulation where such an increase result from a conscious government policy designed to encourage economic activities which ordinarily would not have taken place. And from another angle amounts to domestic credit creation which is not off-set by increased taxation, more restrictive bank credit policy and similar deflationary measures. This involves running down the government accumulated cash balances, net borrowing from the banking system, issuing of new currency by the central bank, net borrowing from abroad and drawing down of foreign assets

There is no single approach to economic development; multi-frontal attack on social, economic, political, cultural and attitudinal obstacles to it, which deficit financing is one tool. On the whole, you should note that there can be no deficit financing without deficit budgeting.

Self-Assessment Exercise 1

Define Public Debt

3.2 Sources of Public Debt

In both developing and developed countries, sources of internal debt are diverse. They are commonly incurred through monetary instruments like treasury bills/certificates and Government Development Stocks which can be contracted through:

1. **Banks-** as part of their investment portfolio banks invest in these debt instruments.
2. **Non-Bank Public-** like state/local governments, savings institutions, insurance companies, statutory boards/corporations and individuals
3. **Central Bank-** as the bank of last resort which absorbs the unsubscribed portion of government securities floated in the primary market. Instrument of domestic debt carry different maturities terms- short, medium and long.

These Public debts are classified along the purpose for which the debt was incurred as follows:

- **Internal debt-** Domestic debt-money owed citizens, raised within the economy. Repayment is by local currency by tax revenue transfer to the creditors.
- **External debt-** Creditors are foreigners-money borrowed by government of one country from the government or non-governmental institutions of other countries.
- **Trade Debt-** When Nigeria trades with other countries and is unable to pay for the goods and services supplied
- **Balance of Payment support Loan-** overall economic transactions between one country and other countries classified as current and capital accounts and the official settlement balance, constituting the balance of payment which may be favourable when it is deficit.
- **Project Tied Loans-** Viable projects to accelerate economic growth and development may lead to government contracting project-tied loan-a self liquidating investment.
- **Socio-Economic needs Loans-** government borrows to finance provision of socio-economic amenities like infrastructure, health, education, recreation facilities etc.
- **Funded and Non funded debts-** Funded are debts of which sinking funds have been provided-loan with lesser risk of default as redemption at maturity has been provided. While the unfunded debts are without any specific provision for redemption-debts with high risk of default.
- **Marketable and Non-marketable Debts-** securitized loans which can be resold by the existing debt holder to willing buyer is marketable; while loans to debt-holder which cannot be resold in the secondary market are non-marketable
- **Loan Pooling and Consolidation-** the acquisition of loans from various sources in order to execute a particular project is loan pooling; while the gathering or consolidation of loans before utilization is loan consolidation.

Self-Assessment Exercise 2

What are the sources of Public debt?

3.3 Public Debt Management

The classical principles of loan finance rationalize loans to provide intergeneration equity, pay-as-you-use, capital formation, old-age insurance, self-liquidating projects, adjusting distribution and reduction of tax friction. Borrowing can be considered as a second best

alternative to money creation during the period unemployment. Foreign loan is seen as a means of filling domestic savings gap, especially in the face of dwindling government revenues from domestic sources. It is particularly so, during fluctuating prices of primary commodities/exports and hence dwindling foreign exchange earnings.

External borrowing also enables a developing country increases its rate of real investment, just as it is seen as an engine of growth. In this sense, it increases per capita gross national product (GNP) (Cairncross, 1961) hence debt acts as a source of capital formation.

Public internal borrowing acts as an anti-inflationary measure by mobilizing surplus money in the people's hands. Such resources can be diverted from unproductive channels e.g. jewelry, real estate to productive ventures. Once incurred, debt must be serviced through the payment of interest and amortization charges as and when due. Government incurs a larger debt through continual net borrowing, the interest rate increases. If the entire amount of the interest charges were to be paid with tax revenue then the actual amount of tax collection must also rise continually. As a result, this imposes a burden on the public.

In Nigeria the Central Bank of Nigeria is statutorily with the responsibility of debt management in conjunction with the Federal Ministry of Finance and other agencies and the state counterpart. Recent development has witnessed the establishment of Debt Management Office under the supervision of the Vice President's Office.

4.0 CONCLUSION

We have defined public debt and identify the sources. Public Debt Management is explained as the technical, operational and government agencies arrangements engaged in managing a country's liabilities so that the debt stock and the debt service burden are contained a tolerable and sustainable level.

5.0 SUMMARY

In this unit, attempts have been made to define public debt, deficit financing, identify sources of public debt and discuss debt management strategies.

There is a difference between Public debt and National debt.

In the next unit, national debt will be explained to expose the difference.

6.0 TUTOR-MARKED ASSIGNMENT

1. Identify sources of Public debt in a developing country
2. Discuss public Debt Management in Nigeria

7.0 REFERENCES/FURTHER READINGS

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UNIT 2 NATIONAL (PUBLIC) DEBT MANAGEMENT

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1.0 INTRODUCTION

In this unit, we will discuss national debt and management. You will be led into the gaps that led to the national indebtedness and the agencies thereof.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Explain National Debt
- Discuss National Debt Management

3.0 MAIN CONTENT

3.1 National Debt

As stated in the summary of last unit that there is a difference between Public debt and National debt. The former is the debt owed by the Federal Government, while the later comprises the federal debt, state, local governments and public corporation debt. That means national debt is the total amount of debt owed by all tiers of government- federal, states and local.

Some of the debts owed by and negotiated for by the state government and guaranteed by the federal government with foreign interest as well as those with domestic contractors/investors. The local government constitutional scope for debt negotiation is domestic. It is at the collating point that all the indebtedness is summed as national debt.

Self-Assessment Exercise 1

Define national debt

3.3 National Debt Management

Every country has its own way of managing its national debt and for this purpose, a number of policy instruments with different objectives have over time evolved. Debt management policies are, for the most part, designed to go in tandem with the broader macroeconomic objectives of stabilization and growth. It is important to note that debt management strategies relate largely to the question of repayment and reduction of domestic as well as foreign debts.

From the last unit we deduced that debt management is the technical, operational, and institutional arrangements engaged in managing a country's liabilities and in this stage, the debt management include that of all tiers of government. .

- The technical aspect focuses on the need to determine the level of external debt required and to ensure that terms and condition of those borrowings are in consonance with the future debt service capacity of the country.
- Institutional arrangements include the administrative, organizational and monitoring aspect of managing both new borrowings and the total stock of debt. Nigeria has made efforts by successive government administration to restructure the county's debt over the years. Measures adopted include, refinancing, rescheduling restructuring of debt arrears and out right payment/settlement of the debt.

Internal (Domestic) Debt Management

The Federal Ministry of Finance (Treasury) manages government domestic debt; while Federal Government loans publicly issued in Nigeria is issued and managed by the Central Bank by:

- a. Advising the government on timing of floating debt instruments and terms of issue
- b. Advertising for public subscription to the issues
- c. Collecting the proceeds of issues on government behalf
- d. Supervising the issue of certificates and warrants
- e. Paying principal and interest on matured debts and in addition manages the sinking fund that facilitates redemption

The authority controlling the above responsibilities could underwrite the unsubscribed portion and provide a secondary market where the divestment of public holdings could be carried out at a discount as it is done in Nigeria. Thus, adequate guarantee is provided for debt instruments. The Federal Ministry of Finance (a controlling agency) manages other domestic debts such as contractual debts and organizes the mode of payment through appropriate consultation with the Federal Government and the Central Bank.

1. Acquisition of Domestic Debts

The Central Bank of Nigeria advises government as to the timing of floatation of debt instruments and terms of issue. Advertisements are usually put up and subscription made through the banks and acceptance houses. The duty lies on the CBN to maintain appropriate books and accounts of such transaction.

2. Restructuring of Domestic Debts

The Central Bank of Nigeria accommodates government short term financial shortfalls through the provision of overdraft facility by Ways and Means Advances.

3. Servicing of Domestic Debts

The CBN makes the interests and principal payments of domestic debts which fall due. It provides discount as well as rediscount facilities in respect of debt instruments held by its customers. This later function is however being transferred to the Discount Houses. In the case of development stocks, the CBN publishes due dates for redemption of maturing stocks through redemption schedule statements and payment forms.

External (Foreign) Debt Management

External Debt Management is a conscious and carefully planned schedule of loans acquired either for development purposes or to support the balance of payment. It incorporates estimates of foreign exchange earnings, sources of finance, the projected returns from the investment and the repayment schedule. It also includes the assessment of the countries capacity to service existing debts and whether further loans could be contracted.

Nigeria's external debt management strategies have varied from time to time since independence and measures were set out with the following policy objectives:

- To evolve strategies increasing foreign exchange earnings thereby reducing the need for external borrowing
- To set out the criteria for borrowing from external sources and determine the type of projects for which external loans may be obtained
- To outline the mechanism for servicing external debts of the public and private sectors

- To outline the role and responsibilities of various organs of the federal and state governments as well as the private sector in the management of external debt.

These policy objectives motivated the Nigerian government desire to reduce the burden of external debt.

The following steps were developed over the years including:

The states and local governments were prohibited over the years on considering loan-whether domestic or foreign.

1. ***Embargo on New Loans***-to check un-manageable hike in debt stock leading to preventing more debt burden. This is used to prevent a situation where the public debt becomes unmanageable as a result of unnecessary increases. The federal government directed in 2001 that no applicant for external loans, whether a state or federal government agencies, was allowed to borrow more than US\$500m for any projects unrelated to poverty alleviation.
2. ***Limit on Debt Service Payments***- to encourage the use of a particular proportion of our external earnings to service the external debt.
3. ***Debt Restructuring***- outstanding debts are converted into another type of debt.
4. ***Re-financing of Trade Arrears*** is a new loan is procured by a debtor to pay-off an existing debt if it involved short-term trade debt. This relates to procurement of a new loan by a debtor country in order to pay off an existing debt especially when it involves short term trade debt. There are two processes involved in re-financing of trade arrears. They are: debt rescheduling and debt buy back.
5. ***Debt Conversion***- the exchange of monetary instruments like promissory notes for tangible assets or other financial instruments. In simple terms, it means exchange of monetary instrument e.g. promissory notes for tangible assets or other financial instruments. It is designed for the reduction of a country's external debt burden by changing the character of the debts. Debt conversion could be of various types including debt for equity, and debt for cash. The debt conversion exercise involves the sale of an external debt instrument for a domestic debt of equity participation in domestic enterprises. This is practiced in Nigeria.
6. ***Collateralisation*** – under this arrangement, the yield of a bond collateralised within a specified period is expected to offset or pay off a collateralised amount referred to as the zero coupon option.
7. ***Debt Swap*** – this is a loan that could be paid for by other means like crude oil.
8. ***Debt Servicing*** – this is paying interest on loan.

9. Debt Settlement – this implies paying up the debt which Nigeria did in 2005.

The government of the day determines the strategy thereof. In this democratic dispensation, the necessary due process is taken to manage the national debt collectively with the consent of the states as well as local government representatives with a consensus.

The public and national approaches to debt management are intertwined and related. The difference is that the public concentrates on the debt incurred solely through and by the federal government while the national debt includes the aggregation of debts through and by federal, state and local governments.

Self-Assessment Exercise 2

List measures adopted by successive government in Nigeria to restructure the country's debt.

4.0 CONCLUSION

National Debt Management is shown as the technical, operational and institutional arrangements engaged in managing a country's liabilities. This is performed by the agencies of government be it internal or external debts.

5.0 SUMMARY

In this unit, attempts have been made to define national debt and discuss national debt management as a summation national strategy on solving the debt situation as it affects all tiers of government.

5.0 TUTOR-MARKED ASSIGNMENT

- 1) Explain National Debt
- 2) Discuss national Debt Management Strategies in Nigeria

7.0 REFERENCES/FURTHER READING

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UNIT 4 GOVERNMENT ENTERPRISES

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3.2 Functions of State Enterprises in Nigeria
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1.0 INTRODUCTION

In this unit, we will consider government organizations as product of growth of services needed and expected to satisfy the community. This is when the government is tilted towards welfare and the main thrust for state involvement is usually public interest.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify Government Enterprises
- State the objectives of the Public Enterprises

3.0 MAIN CONTENT

3.1 Government Enterprises

You have to note as a student of public administration that there are different types of government, so is the approach to addressing people's aspiration and public interest. If the arm of governance can not provide for certain need for urgent services to the community which can not be provided for by entrepreneurs, the government with welfare at the focus will be responsive to its duties and provide essential services.

State Enterprises in Nigeria

The British Colonial government administration introduced state enterprise system in Nigeria in 1898 by establishing:

- The railway transport project
- Coal mining Corporation
- Electricity (Electricity Corporation of Nigeria)
- Marine Services

In the 1950s public corporation growth became remarkable. Owing to the adoption of a federal system of government the number of government owned enterprises increased so much as the regional government established their own and the subsequent state creation multiplied the enterprises. Most of them are moribund or at dilapidated state owing to political influence which usually overrides the goal set for them to achieve.

Self-Assessment Exercise 1

Name public enterprises in Nigeria

The Nigeria economy has graduated over the years to a mixed economy ideology where the private and public sector compete in contributing to the mainstay of the economy.

The public enterprises are government sector made of mainly government and its enterprises- federal, state or local. They are economic agent, acting on behalf of citizen and major engine of economic progress with action taken in the public interest. This is the opposite of private enterprises.

The economic system of a particular country determines the importance of each of these sectors. In capitalist economies, the private sector is in the fore-front of development with government in providing only rules and regulations.

The reverse is the case in socialist/communist economies the public sector takes the central seat as the dominant sector. The private sector is played down as no individual owns means of production as government see to most economic question regarding production. The Nigeria economy is tilted towards a mixed economy. It will be interesting for you to note that it took time and assessments to arrive at this position.

Over the years, there has been a controversy on the relevance of the public sector in the Nigerian economy. Despite the abysmal performance of the public enterprises they are still needed because of development stride.

The objectives public enterprise includes:

- Distributes certain products and services as government assistance/intervention
- Interventions interest groups to avoid clashed.
- Checks efficiency in the allocation of scarce resources.

- Bridges the gap between the have and have not.

The negative effect of public sector enterprises is ascribed to the attitude of economic planners which is charted toward promoting economic development and this phenomenon involves much more than economic growth. The inequality in income distribution is the bane of economic growth in Nigeria and has contributed to the ineffectiveness of the government owned enterprises.

Self-Assessment Exercise 2

List the objectives of government enterprises

4.0 CONCLUSION

In this unit, we have seen that the arms of government can not provide for certain need of the community which can not be provided for by entrepreneurs. Government enterprises as produce services needed and expected to satisfy the community. This is when the government is tilted towards welfare.

5.0 SUMMARY

In this you we have attempted identify government (public) enterprises and the objectives of the enterprises.

In the next unit you shall be introduced to multi-national institutions

6.0 TUTOR-MARKED ASSIGNMENT

- 1) Identify Government Enterprises
- 2) State the objectives of the Public Enterprises

7.0 REFERENCES/FURTHER READING

National Open University Nigeria (2009) MBA728: *Public Financial Management* Lagos

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UNIT 4 MULTI-NATIONAL INSTITUTIONS

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1.0 INTRODUCTION

In this unit, you would be introduced to the role of multi-lateral institutions that help in underwriting external debt of nations in international trade and enhancing the expansion and development of the respective economies thereof. Their functions with regard to lending/borrowing especially to developing countries will be discussed.

2.0 OBJECTIVES

After studying this unit, you should be able to:

- Identify different multi-national institutions
- State their functions

3.0 MAIN CONTENT

3.1 Multi-national institutions

1) World Bank (International Bank for Reconstruction and Development)

The World Bank is a multi-lateral institution which provides loans to needy countries. It was established as International Bank Reconstruction and Development (IBRD) in 1945 under the Bretton Wood Agreement of 1944 after the World War II to mid-wife reconstruction and development from Wartime to peace time.

Functions

1. To in the development of territories of it members by facilitating the investment of capital for productive purpose and to that of less developed countries.
2. To promote private foreign investment by means of guarantees on participation in loans and other investment made by private investors

3. To promote long-range balance growth of international trade and maintenance of equilibrium in the balance of payments of member countries by encouraging international investment for the development of their productive resources.
4. To arrange the loans made or guaranteed by it in relation to international loans through other channels so that more useful and urgent small and large projects are prioritized.

The memberships consist of financial members of International Monetary Fund (IMF). If a country resigns it shares the assets and liabilities of the bank as at that time.

Borrowing and Lending Activities of World Bank

The World Bank capital is subscribed by members. It finances its lending operations from its medium and long-term borrowings in the international capital markets and Currency Swap Agreements (CSA). In these agreements, the proceeds of a borrowing country are converted into a different currency and simultaneously a forward exchange agreement is executed providing for schedule of future exchange of two currencies in order to recover the currency converted.

The Bank's mode of lending to member countries takes any of these ways; by

1. Marketing or participating loans out of its own funds;
2. Making or participating in direct loans out of funds raised in the market of a member or otherwise borrowed from the bank;
3. Guaranteeing in whole or in part loans made by private investors through the usual investment channels.

The Bank guarantees, participates in or makes loans to its members on different conditions as follows;

1. If it is satisfied that in the prevailing market conditions the borrowers would be unable to obtain the loan under conditions which the Bank presumes is reasonable to the borrowers.
2. Loans are for specific developmental projects or deemed to be so implied
3. If the member in whose territory the project is located is not itself the borrower, the member or its central bank fully guaranteed the repayment of the principal, the payment of interest and other charges on the loan
4. The project in question has been duly recommended by a competent committee in the form of a written report after a careful appraisal of the proposal
5. The borrower or the guarantor is in a position to meet its obligation under the loan

The World Bank Facilities to member countries varies according to needs and circumstances;

- **Structural Action Programme (SAP)**- Started in 1983 to strengthen World Bank's ability to assist member countries in adjusting to current economic environmental realities with the following elements;
 - 1) an expansion of lending for high-priority operations that support structural adjustment, policy changes, production for export, optimal use of existing capacity and maintenance of crucial infrastructure
 - 2) Accelerated disbursements under existing and new investment commitments to ensure timely implementation of high priority projects
 - 3) Expanded advisory services on the design and implementation of appropriate policies
 - 4) Enlisting familiar efforts by other donors for fast disbursing assistance in support of programme of the Bank and International Monetary Fund (IMF).
- **Structural Adjustment Facility (SAF)** – Introduced in 1985 to borrowing countries in order to reduce their balance of payments deficits while maintaining their economic growth potency. The funds are used to finance general imports with a few exceptions of luxury military imports. They are released based on stiff conditions of the Bank and it spans between 5 to 7 years.
- **Enhanced Structural Adjustment Facility (ESAF)** –It was set up to increase the availability of concession resources to low-income member countries totaling Special Drawing Right (SDR) 6 billion financed by special loans and contribution from developed and Oil Producing and Exporting Countries. Like others it helps in addressing positively the borrowing nation balance of payments problems and enhances growth and development.

Self-Assessment Exercise 1

Name the facilities provided by the World Bank to member countries.

2) International Monetary Fund (IMF)

The IMF is one of the multi-lateral institutions; an affiliate of the World Bank, involved in the act of providing loans for needy nations. It is established by different countries after the World War II with the objective of providing exchange stability throughout the world and increasing liquidity to enhance balanced multilateral trade through the cooperation of the member nations.

Objectives of IMF

The main purposes of the IMF summarized in the Article of Agreement are as follows:

1. To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems
2. To facilitate the expansion and balanced growth of international trade and to contribute to the promotion and maintenance of high levels of employment and real income and to the development of productive resources of all members economy
3. To promote exchange stability, to maintain orderly exchange arrangements among member and to avoid competitive exchange depreciations
4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade
5. To give confidence to members by the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures inimical to national or international prosperity
6. In accordance with the above, to shorten the duration and lessen, the degree of disequilibria in the international balance of payments of members.

3) International Development Association (IDA)

The International Development Association (IDA) was established in 1960 as an affiliate to the World Bank. There are many projects such as irrigation, railway construction, education, public health, housing etc. in under-developing countries which are vital to general economic development, with long gestation period and insufficient yield returns to meet the amortization charges.

The IDA was established to supplement the World Bank's development assistance and to make available loans to the developing countries on soft terms and for long period. That is, IDA is 'Soft Loan Window of the World Bank

Objectives of IDA

1. To provide development finance to the less developed countries on easy and flexible terms
2. To promote economic development, increase productivity and improve the standard of living in the developing countries

3. To supplement the objectives and activities of the World Bank

Self-Assessment Exercise 2

List the objectives of International Development Association.

4) International Financial Corporation (IFC)

International Financial Corporation (IFC) was established in July 1956 as an affiliate of the World Bank to provide finance to the private sector. You may note that conventionally World Bank loans are to governments of the member countries or provides loan capital to the private enterprises out of the guarantee of the member governments. Moreover the World Bank does not offer risk capital.

The IFC was with specific purpose of providing risk capital to the private sector/enterprises in the developing countries without government guarantee.

IFC Investment Policy

The main features of the IFC investment policy are;

1. It considers predominantly industrial enterprises which contribute to economic development of the country
2. The project to be financed must be in the productive private sector in nature
3. The IFC affirm that the enterprise has experience and competent management
4. The loan must not be more than half of the capital needed for the enterprise
5. The minimum investment to be made by the IFC to a single enterprise is fixed at \$100,000:00 with no upper limit
6. The rate of interest for the loan is determined by mutual negotiation, depending on the degree of risk involved and other terms of investment
7. The loans are disbursed in lump-sum or in installments and are repayable in a period of 5 to 15 years

5) Parish Club and London Club

These are some of the sources of external debt contraction.

- **Paris Club of Creditor**

This consists of mainly credit guaranteed by government. It is made up of United Kingdom, Federal Republic Government, The United States, Canada and France, who guarantee the export activities of their nationals through their official export credit agencies. If the recipient nation's government is unable to pay the foreign exchange equivalent of the domestic currency cover paid by the importer, it becomes public debt owned to the creditor nations. The Club commenced meeting in Paris in 1956.

- **London Club of Creditors**

This consists of mainly commercial banks in industrial countries where credit are extended by commercial banks to citizens of debtor countries, largely un-insured and un-guaranteed. It was in 1976 the first meeting was held in London.

6) African Development Bank (ADB)

The African Development Bank was established under the auspices of Economic Commission for Africa (ECA) in 1966

Functions as express in the statute establishing ADB are to;

1. Use the resources at its disposal for financing of investment projects relating to the economic and social development of its members
2. Undertake and participate in the selection, study and preparation of projects enterprises and activities contributing to such development
3. Mobilize both within Africa and outside Africa, resources for the financing of such investment programme
4. Promote investment in Africa of public and private capital in projects or programme
5. Provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development project or programme
6. undertake such other activities and provide such other activities as may advance its purpose

Self-Assessment Exercise 3

List African Development Bank functions

4.0 CONCLUSION

We have Identify different multi-national institutions and have state their functions depending on need and the level of the developing country.

5.0 SUMMARY

In this unit, we have attempted to identify the different multilateral institutions mentioning their functions.

This marks the end of your course – public financial management- in the post graduate programme in public administration.

6.0 TUTOR-MARKED ASSIGNMENT

- 1) What are the functions of the World Bank?
- 2) List three multi-nationals and their functions

7.0 REFERENCES/FURTHER READING

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