MODULE 7

PUBLIC FINANCE

OUTLINE

- The Economic Environment
- Revenue Sources
- The economic role of the Public Sector
- Debt management strategies
- Fiscal policy and Tax administration
- Principles and practice of Federalism, fiscal federalism, fiscal capacity in multi-level government structures
- Theory and practices of grants in relation to State and local Government
- Project appraisal in the public sector
- Rolling Plans Prospective Plans and PPBS

The Economic Environment

A qualitative evaluation of several key economic factors, undertaken in order to predict the success of a business venture or to evaluate the amount of risk involved in economic activities in general. The economic environment may include factors such as unemployment percentages, consumer confidence measurements, and the values of market indexes.

Environmental Economics is a sub-field of economics that is concerned with environmental issues. Quoting from the National Bureau of Economic Research Environmental Economics program:

Environmental Economics undertakes theoretical or empirical studies of the economic effects of national or local environmental policies around the world [...]. Particular issues include the costs and benefits of alternative environmental policies to deal with air pollution, water quality, toxic substances, solid waste, and global warming.

Environmental economics is distinguished from ecological economics in that ecological economics emphasizes the economy as a subsystem of the ecosystem with its focus upon preserving natural capital. One survey of German economists found that ecological and environmental economics are different schools of economic thought, with ecological economists emphasizing "strong" sustainability and rejecting the proposition that natural capital can be substituted by human-made capital.

Revenue Sources

Revenue is the total annual income of the federal government, state government or local government council. In other words, all the money that goes into the Treasury irrespective of the sub-head into which it is paid. The sources of revenue are:

- Oil revenue- the sources of oil revenue are:
* Joint venture cash call royalty (JVC)
* Petroleum profit tax
* Rent
* NNPC's earning from direct sales, sales of gas (crude oil sales).
* Proceeds from the domestic market
* Penalty from gas flared
* Pipeline licences and other fees
* Excise duties and VAT on domestic crude oil

Revenue Sources cont'd

Non-oil revenue- the sources of these include:
Indirect taxes- these are taxes indirectly imposed on consumer goods. Examples of indirect taxes include: customs and excise tax, sales tax, expenditure tax and so on which I shall explain below.

* Excise duties- these are taxes imposed on commodities produced locally. Excise duties are imposed on selected commodities, such as: alcohol, petroleum products and tobacco. The duties are discriminatory in character and are usually imposed on an ad volarem basis.

Excise duties are sometimes imposed to protect infant industries from foreign competition

* Custom duties- this constitutes one of the oldest devices used in collecting revenue. The base of customs duties is the movement of goods across national boundaries. Occasionally, you have domestic custom duties. For example, movement of goods within the country. There are two types of custom duties which are:
- Export duties
- Import duties

* Sales tax- this tax like other tax has high reliability. It is a reliable way of collecting revenue, in that it has a wide coverage. Normally, sales tax is

Revenue Sources cont'd

imposed on basic necessities of life. For goods with inelastic demand, it is a reliable source of revenue. Another quality of sales tax is that it is an effective tool for controlling inflation.

Revenue Sources cont'd

Individual income taxes and payroll taxes accounted for 82 percent of all federal revenues in fiscal year 2010. Corporate income taxes contributed another 9 percent. Excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts (earnings of the Federal Reserve System and various fees and charges) made up the balance. The composition of tax revenue has changed markedly over the past half century. The share coming from individual income taxes has remained roughly constant, while payroll taxes have accounted for a larger share and corporate income and excise taxes smaller shares.

In 2010 the federal government collected $2.2 trillion, an amount equal to 14.9 percent of GDP. Federal revenue has ranged from 14.4 of GDP in 1950 to 20.6 percent in 2000 over the past five decades, averaging 17.9 percent. The individual income tax has been the largest single source of federal revenue since 1950, averaging 8 percent of GDP. Payroll taxes swelled following the creation of Medicare in 1965. Taxes for Medicare, combined with periodic increases in Social Security taxes, caused payroll tax revenue to grow from 1.6 percent of GDP in 1950 to 6 percent or more since 1980. Payroll taxes also include railroad retirement, unemployment insurance, and federal workers' pension contributions. Revenue from the corporate income tax fell from between 5 and 6 percent of GDP in the early 1950s to 1.3 percent of GDP in 2010. Excise taxes fell steadily throughout the same period, from nearly 3 percent of GDP in 1950 to 0.5 percent in recent years.

The economic role of the Public Sector

Responsibilities of a Government in an Economy

Governments are appointed by citizens to manage the affairs of their country. Their responsibilities include:

-Ensuring the security of a state- Government must maintain law and order internally. This is realized through legislation, the court of justice and the police force. Externally the armed forces protect citizens against external threats.

-Protection and general welfare of citizens - Government is responsible for the general health and education of citizens. Welfare programmes must be provided for those who are very poor and vulnerable.

-Management of the economy – Governments are appointed by citizens to efficiently manage the economy to bring about growth and development. This includes: encouraging local and foreign investment, controlling inflation, maintaining the foreign reserve (NIR), curbing balance of payments deficits and achieving high levels of employment.

-Protecting the environment – Sustaining the environment is important to the well-being of citizens. Ways of protecting the environment include: legislation to prevent further degradation, zoning to protect wildlife areas from disruption by development of factories, shopping and residential areas and taxation to reduce the level of pollution by firms.

The economic role of the Public Sector cont'd

Ways in which Businesses Protect the Environment

1. Business owners must adhere to the various legislation set out by government and reduce pollution in rivers, seas and the atmosphere.
2. Establish business in the zones legally allocated to reduce the impact of noise and air pollution in residential areas.
3. Being part or initiating environmental projects such as beach clean up and planting trees.

Ways By which Government Regulates Business Activities

Consumers must be protected from business owners who are eager to sell without taking into consideration the well-being of customers. Consumers must be protected from overcharging, poor quality goods and services and short measurements and weights.

Consumers are protected by legislation delegated to various government agencies. These agencies include:

1. The Consumer Affairs Commission- aids consumers with redress
2. The Fair Trading Commission- investigates cases of tied selling and misleading advertising.
3. The Bureau of standards – set standards for goods and services to be sold on the market.
4. The Ombudsman- investigates injustices suffered by citizens from dealing with a government agency or official.

Debt management strategies

There has been consistent controversy over debt management in Nigeria. The controversy includes primary objections to and justifications for borrowing. Most of the objections focus on the interest cost that is created, the inflationary pressures that are associated with large-scale borrowing, debt illusion, crowding out effect and generational inequity of debt burden.

In Nigeria today, the cry and protest over debt management are over non-sustainability of public debt, borrowing without due process, continued borrowing on non-concessionary terms and the use of loan proceeds for purposes other than those for which they were obtained. The public outcry, I believe, led to the setting up of a House of Representatives Ad-Hoc Committee into Foreign Loans Obtained by the Federal and State Governments which held public hearing on 16 and 17 February, 2010.

Interestingly, against the opposition to national debt are supporters who justify borrowing on the grounds of postponement of increased taxation or non-reduction of consumption, that borrowing is the quickest way to meet huge expenditure outlay whether recurrent or developmental in nature and that borrowing constitutes a second-best alternative to money creation to finance government activities, especially in times of unemployment.

Debt management strategies cont'd

Debt Problem

During the first half of the last decade, public finances in Nigeria deteriorated continuously, leading to a large and intractable fiscal imbalances and unsustainable national debt. The deterioration was the result of the combined effect of reform-induced losses in revenue (reductions in customs and excise duty rates), poor tax performance due to a narrow tax base and low tax bouancy, and government's inability to contain current public spending. Both the Federal and State Governments contributed to the fiscal deterioration in Nigeria particularly with implementation of the public service wage increases in 1999 and 2000. These wage increases widened the deficits, especially at the State and Local Government levels. Persistent primary deficits led to a sharp accumulation of debts. In 2004, the total public debt stood at US$46,259.45million, the highest ever.

During the period, Nigeria lost international credibility. Fiscal consolidation was required, not only to facilitate sustained long-term growth by minimizing the crowding out of investment and allowing the removal of constraints imposed on the domestic financial system by government's financial needs, but also to create the fiscal space for countercyclical fiscal policy and crisis related spending. Consequently, the debt overhang was drastically reduced from US$46,259.45million in 2004 to US$17,349.63 in 2006. The reduction was actually only in the area of externally loans (from US$35,944.66 million to US$3,544.49 million). The Fiscal Responsibility Act was put in place in 2007 to checkmate further deterioration of the fiscal imbalances including the mounting public debt.

Fiscal policy and Tax administration

Within the last decade or so, the issue of domestic resource mobilisation has attracted considerable attention in many developing countries. In the face of unabating debt difficulties, coupled with the domestic and external financial imbalances confronting them, it is not surprising that many developing nations have been forced to adopt stabilisation and adjustment policies which demand better and more efficient methods of mobilising domestic financial resources with the view to achieving financial stability and promoting economic growth.

Taxation plays a crucial role in promoting economic activity and growth. Through taxation, government ensures that resources are channeled towards important projects in the society, while giving succour to the weak. Unfortunately, in today's Nigeria, the economic development is nothing to write home about. The role of taxation in promoting economic activity and growth is not felt primarily because of its poor administration. According to Olashore (1999), the economy has remained in a deep slumber, all macroeconomic indicators show an economy in dire need of rejuvenation, reflation and indeed radical reform. Also in the view of Oni (1998), tax administration needs to be revamped while refunds of taxes as well as duty drawbacks administration are inefficient.

Fiscal policy and Tax administration

A critical challenge before tax administration in the 21st century Nigeria is to advance the frontiers of professionalism, accountability and awareness of the general public on the imperatives and benefits of taxation in our personal and business lives which include: promoting economic activity; facilitating savings and investment; and generating strategic competitive advantage. If tax administration does not for any reason meet the above challenges, then there is a desperate need for reform in the area of the tax regime we run, and in the administration of taxes.

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here we look at how fiscal policy works, how it must be monitored and how its implementation may affect different people in an economy.

Functions of Fiscal operations

Functions of Fiscal operations

- Allocation function

The governmental operations basically involve the efficient provision of government in maximizing the welfare of the community.

- Distribution function

In a free enterprises economy, distribution of income and wealth is unequal and many times, its grossly unequal resulting in exploitation of the lower income groups

- Stabilization function

Modern economies are subject to economic fluctuation, viz business booms and inflations on the one side and business recessions and depressions on the other

Principles and practice of Federalism

One thing is clear in a federal system of government, the tiers of government ought to share political power as expressly spelt out in the constitution. Unfortunately, the current foundation and principles on which Nigerian constitution is operated over the years particularly since the advent of democracy has not in any way reflected a true federalism in its practical sense.

Presently, Nigeria has a strong center and weak states. The states have become administrative units of the federal government. The relationship between the centre and the states still reflects the military command structure, an unwelcome legacy of the military administration. The states are so weak that none of them enjoys fiscal independence from the centre. The federal government pays the piper and is happily dictating the tune to the states. The states are so weak and so generally impoverished that they have no capacity even to negotiate meaningfully with the centre. None of the states as it is now can generate enough internal revenue to prosecute any appreciable social and economic development. Instead of pillars, the states have become a burden on the federation.

Principles and practice of Federalism cont’d

It is a fundamental reality that, Nigeria cannot have a strong and united federation unless and until the constituent parts are sufficiently empowered by enabling practices that conform to the principles of federalism Thus, this paper aims at discussing the issue of distribution of powers between the Nigerian federal government and its constituent units, and making pragmatic solutions for its sustenance.

Nigerian federal government encroachments on the states

Nigeria returned to democratic rule in 1999, after about three decades of military rule. The state of the federation, in the new democratic rule since 1999, showed severe signs of stresses and strains. As the states try to express their newly acquired autonomy in a democratic context, the federal government tries to re-enact the old military scenario of the states as an administrative organs of the federal government. This leads to a number of severe strains in the relations between the federal and States governments.

The Federal government does not maintain its boundaries of authority. It encroaches upon the jurisdictions and sovereignty of the states. This has brought about severe resentments and conflicts between the states and the federal governments. It is therefore the mechanisms to resolving these encroachments .

Theory and practices of grants

A disorganized, unstructured **grants management** process can be overwhelming, which is why taking steps to become “grant-ready” is imperative to success. This publication describes prioritization, maintaining accurate and timely information, gaining effective knowledge and skills, and developing a healthy perspective, which will bring order, stability, and good preparation to your grants management system.

Preparation Breeds Success

- Successful grant-seeking organizations follow a series of best practices that facilitate a well-prepared and organized approach to the grants process. These practices include:
- Prioritization
- Maintaining accurate and timely information
- Gaining effective knowledge and skills
- Developing a healthy perspective

Theory and practices of grants cont’d

Prioritization

- A prioritization system will help you stay on top of the grant application process and promote stability. Such a system can be created by:
- Providing central support, training, and tools to expedite the grants process
- Defining specific priorities
- Adhering to decisions
- Removing barriers, such as obtrusive approval processes
- Creating streamlined approaches
- Having a consistent approach to monitoring grant activity will keep your staff informed of important deadlines and upcoming events, which will lead to better time management and long- and short-term planning.

Theory and practices of grants cont’d

Accurate and Timely Information

Grants are finite, time-sensitive resources that must be closely monitored, and managing applications and awards requires comprehensive documentation and reporting. For example, a typical program application might include dates or deadlines for a letter of intent, workshops, a comment period, the proposal deadline, an intergovernmental review, and supplemental information submission requirements, in addition to the deadlines and requirements that accompany the actual award.

Theory and practices of grants cont'd

Effective Knowledge and Skills

- According to one estimate, approximately 90 percent of grant writers have no formal training and their funding suffers as a result. Since learning the ins and outs of grant writing can be challenging, you should consider getting formal training for your organization's grant writers in order to bolster their skills and success.
- Gaining inside knowledge into funding opportunities can also be easier than you might think. For example, when applying for a particular program, it can be helpful to examine information on previous awards made through that program. Having an idea of what kind of applicants and projects have received funding in the past will help you verify that the program is a good fit for your project and understand the slant to give your application. It can also help you determine an appropriate amount of funding to request and how much funding can be reasonably expected.

Theory and practices of grants cont'd

Perspective

- Learning to look at the "big picture" and creating a healthy view of success is also a key component of grant readiness. Instead of tracking the number of projects completed, applications submitted, and the award-to-application ratio, many people only take into account the amount of funds received. It is important to approach the grant application process accepting the fact that not every application submitted will receive funding, regardless of the quality of your application. Awards may be given based on factors that are out of your control, such as regional priorities or economic status. Although receiving money is the end goal, it is important to track overall productivity and create award and goal incentives for the sustainability of your organization's efforts.
- In addition to maintaining order and a less stressful work environment, good grant readiness practices will help you create successful proposals and effective award implementation. Creating structure and organization in your grants management system will ensure that you start out on the right foot.

Theory and practices of grants cont’d

Grant Management System

the most trusted and widely used cloud-based grant management system in the nation for state, local, and tribal governments of all sizes. Grant funding has become more competitive and federal grant reform has increased the focus on performance. Our solutions streamline processes, address compliance, and seamlessly integrate with other systems to increase revenues and improve project outcomes. Our end-to-end grant management system addresses these challenges so you can increase your focus on projects impacting your community.

Project appraisal in the public sector

The basic purpose of systematic appraisal is to achieve better spending decisions for capital and current expenditure on schemes, projects and programmes. This document provides an overview of the main analytical methods and techniques which should be used in the appraisal process. These techniques can also be used in the evaluation process. More detailed information on individual techniques can found in financial and economic textbooks, examples of which are listed at the end of this document and in other guidance material on the VFM portal.

An understanding of discounting and Net Present Value (NPV) calculations is fundamental to proper appraisal of projects and programmes. A good understanding of Cost Benefit Analysis (CBA), Internal Rate of Return (IRR), Multi Criteria Analysis (MCA) and Cost Effectiveness Analysis (CEA) is also essential for economic appraisal purposes.

Rolling Plans Prospective Plans and PPBS

Program-based budgeting is a budgeting structure where money is distributed by program or functional area and based on the nature of the activities performed by the program. It is common in many state and local governments, but businesses also use program budgeting. Its purpose is to align spending with program objectives.

Rolling planning
Rolling planning is a systematic type of planning where a plan which has been carried out is substantiated, updated and edited after a specific time interval. The plan time period (for example, 12 months) always remains the same, and after the end of the current period, an additional period is added to the plan.

Prospective payment plans
Prospective payment plans work by assigning a fixed payment rate to specific treatments. While these rates might change over time because of factors such as inflation, they are not adjusted to accommodate individual patients. Under a prospective payment plan, a healthcare provider will always receive the same payment for providing the same specific type of treatment.

Review Questions

1. What do you understand by economic environment.
2. What are the revenue sources
3. What are the function of fiscal operation
4. Ways By which Government Regulates Business Activities
5. what are the theories and principle of grants

Reference

http://wizznotes.com
ukoima.blogspot.com
www.ecivis.com
profaconline.org
http://www.ehow.com
http://www.fool.com