Public Financial Policies And Their Implementations In A Developing Economy: The Nigerian Experience

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Abstract

Public Finance and Policy Administration are seen as the focal points for effective development in any society. For development process to be sustained in the society, policies must be effectively and efficiently administered and implemented by the authorizing agencies. The process of development involves some identifiable features and proper public policy administration, such as Fiscal and monetary policies, debt management and effective control mechanisms by the authority, so as to sustain such development. In Nigeria, development programmes have been gradual, inconsistent and unstable. This paper, therefore, seeks to address the disconnect between policy promulgation and implementation of such policy and suggests a more pragmatic control measures.

Key words: Public financial management, Developing Economy, policy Implementation, Nigerian Economy

Introduction

When Crowther, in Swammy (1985), was talking of money, as the bedrock of discovery in economics and financial management, in the whole public and commercial sectors and for the social existence of man, he was, in fact demonstrating the universal importance of finance. Peter Abraham, in Mine Boy, was describing the power of money and argued that, with money, one can achieve any thing (Abraham, 1979).

In the early days of development, finance was only seen as a means of exchange for mere living and sustainability. However, with gradual development and in the 15^{th} century, it was used by the monarch and the kings, (for the palace maintenance) with a view to maintaining law and order and for good governance. Little was known of finance as the main expansionary phenomenon for diverse and decisive development, which modern development has proved it to be. It shows that finance does not have to concentrate on the oligarchic maintenance of the feudal class only but also on general development.

Service to the people engenders public service delivery. This service centers on policies aimed at general development (both urban and rural development). To this effect, the need for public finance becomes imminent. This is so because there is the need for broad financial resources to tackle the numerous societal needs and development, including social, economic, political and rural development. In addition to public finance and fiscal policy, the need for the real value of the purchasing power of goods and services should be considered, so as to show a realistic development. In other words, monetary policy should be addressed. This is due to the fact that monetary policy aims at determining the real value of money in circulation, the cost of capital and the interest rate involved. In substantiating effective development, we should look at the policies involved in enhancing development, and measures being adopted for the development of the economy, especially, such policies that are sustainable and laudable.

Development, according to Todaro and Smith (2007), is the capacity to increase and sustain the economy and economic condition of the people, including Gross National Product (GNP) at the rate of 5%to 7% or more. While Nzenwa (2000) defines development as the .improvement of human material needs, social and economic conditions as well as man's advancement in political and technological institutions. Developing economy is a positive change that brings increase in GNP and Gross Domestic Product (GDP) and improvement in per capita income of the citizenry. It could be the discovery of such variables as economic advancement, social improvement, exhibition of political ingenuity and cultural growth. The economy could be developed through managed and controlled development in such a way that recognizes the dynamic nature of social, political, cultural and technological factors in the society. Economic development process which involves such identifiable features of growth that addresses the social, economic, political and environmental conditions of the society needs viable policy enactment and pragmatic implementation model

For an enduring development in a society, there should be effective financial policies and implementation of such policies in that society. In other words, Economic development is indispensible with public finance and its management which is the over all management of the innovation process, from generation of the original concept, through development, and to final production and transportation/consumption (Hill and Jones, 2004). . The management of public finance involves the Fiscal and Monetary Policies and of course debt management.

Theoretical Frame Work: In dealing with this paper, we wish to apply Structural-Functionalism theory. This is due to the paradigm nature of the structural functional analysis of David Apter and Gabriel Almond which involves changes and development. Though, political in nature, it is apt in describing specific and sufficient pre-condition to maintain a system in a given state. In other words, it talks about a pattern which could be applied to achieve a purpose in a state (Mbah, 2006).

Public finance

Public finance is the study of public authorities (government) in generating revenue, allocating revenue (i.e. spending) and debt management, towards ensuring efficiency of the state and the well being of the people (Salawu, 2005). According to Carl in Salawu (2005), public finance is the study of fund raised by government to meet the cost of government. For Jhingan (2007) public finance is the study of incomes and expenditure of the central, state and local governments for the collective satisfaction of wants and the principles which govern income and expenditure.

However, public finance, being about money and its importance, especially in government, should reflect on the source of fund and its cost. In other words, the worth of fund is very necessary in determining the state of an economy. For effective stable economy, the enactment and implementation of policies that would regulate the cost of fund is very necessary. The income and expenditure policy of government should include the cost of fund of such income, hence, the need for monetary policy which determines the money in circulation and the interest rate (cost of capital) and of course the management of both (public debt).

Fiscal Policy:

Fiscal policy refers to the tax structure and the determination of the amount of tax revenue and the amount and direction of government expenditure for the purpose of attaining specific objectives such as balance of payment equilibrium or the avoidance of inflation (Uzoaga, 1984:162). According to Salawu (2005), Fiscal Policy is the use of taxation and public expenditure by government to influence aggregate level of economic activities and to carry on the corporate activity of the State. For the sustainability of any economy, the fiscal policy of the government should be vigorously followed by government agencies. An economically sound fiscal policy is indispensable in a developing economy of any country.

The instruments of fiscal policy are varied and they include such items as taxes and their features including exemptions allowable, deductions, schedules of rates, modes and procedures of government expenditures. The execution of a tax structure is aimed at achieving a given objective and it is undertaken not mainly due to the amount of revenue that could be raised but because of the effect that specific kinds of taxes and their different schedules of rates and duties will have upon consumption, saving, domestic investment and foreign investment. Fiscal policy is aimed at moderating the economy in such a way that it not only brings the balance of payment to equilibrium but helps in raising the Gross National Product and the Gross Domestic Product to a higher standard. For the government budget to achieve its aim, the fiscal policy of the government would be explicit. It gives the government the sense of purpose and direction as to what measures to be undertaken during the fiscal period.

Monetary Policy

Monetary policy is the management of the expansion and contraction of the volume of money in circulation for the specific purpose of achieving certain declared national objectives (Uzoaga, 1984). The monetary and banking policies of the government are aimed at controlling the volume of money in circulation. It is principally aimed at controlling the inflationary trend in the economy of the state. In other words, monetary policy is the policy of the government geared towards checking the inflation in the economy and raising the standard of living. The execution of monetary policy is geared towards strengthening the currency of the state comparatively.

Every country makes effort to ensure that her currency is qualitative enough to have a bargaining power and is recognized internationally. In finance and economics, the quality of money is in relation to its quantity. In other words, money is characterized by its quality and quantity, hence, the quantity theory of money. According to Classical theorist in Peter (2005), the quantity theory of money is the relationship between the quantity of money and the general level of prices. The money multiplier shows how the change in the quantity of money can affect the money base, while the high powered money shows the total amount of currency held in circulation and the bank reserve. The Central Bank of a country influences the money multiplier in a desired direction. In other words, the government influences the quantity of money through the apex bank (the Central Bank/ reserve Bank).

The government regulates the quantity of money so as to give the money its effective functionality as unit of account, exhibit the economic worth or financial position of the State as entity, makes the money a medium of exchange which serves as a means of procuring or exchanging goods and services, takes it as a store of value for its durability and as a standard of deferred payment for any future demands/desires.

For the government to achieve its objectives of good governance, the implementation of fiscal and monetary policies will help tremendously. The government will continue to maintain, manipulate and manage the policies, so as to achieve its aim. In its bid to effect a stable economy, the government's manipulation of the fiscal and monetary policies creates public debt.

Public Debt

Public debt is the aggregate instrument owed by the state. It is usually quantified in monetary terms. It is the amount of money owed by the state (government or country). The meeting point of fiscal policy and monetary policy is the management of public debt (Uzoaga, 1984). Management of public debt concerns the determinations of the composition of privately held public debt. The government through its fiscal policy, issues the type of securities that determine the structure of public debt. The government through its monetary policy agents which duty bothers on purchase and sale of government securities can affect the size and composition of public debt held by the private sector. Hence, the swapping of debt by imposition/ sale of bond or refund/purchase of the debt aimed at stabilizing the economy is the determining debt management policy (Musgrave Musgrave,2005).

Public debt issue is appropriate in two situations; the first relates to a situation in which government desires to substitute public for private demand upon resources. The second situation is when a stabilization objective is being pursued. For instance when inflation threatens and it is considered a desirable social policy to stop it. Here, debt issue provides a means of moderating inflationary pressure, since, it involves an exchange of debt, instruments for money (Uzoaga, 1984). It is worth noting that no country can thrive without effective implementation of the fiscal policy, monetary policy and of course, to a large extent debt management. In Nigeria, and indeed in all the developing countries, the instability of the country's currencies is attributed, greatly, to the management of these policies.

Financial Policies and their Implementations

Having briefly explained the policy instruments in economic development, we may look at the policy application in Nigerian economy. Public policy refers to the action of the government. According Dye (1981), public policy is whatever governments choose to do or not to do. It deals with wide variety of areas viz: defense, environment, foreign affair, social security, taxation, economic opportunity, health, inflation, etc. Financial policies are actions of financial matters that the government decides to take .or not taken. Financial policies are geared towards economic development which aims at controlling and manipulating the environment progressively, with a view to increasing production and productivity so as to achieve a better standard of living in the society. Nzenwa (2000) sees development as synonymous with economic development which he describes as not only economic growth, but economic growth plus positive change in social, cultural and institutional development. Wafure in Peters (2005) sees development as economic growth accompanied by functional change in the structure of the economy plus political, social and economic structure. To him it includes positive change in technology, socio-economic and institutional arrangement that enhances output. For development to be effective there would be effective demand. In other words, **it is only finance that engenders effective demand.** Most of the developed countries in the world are regarded developed due to their developed economy engendered by their sound financial policies.

In Nigeria, the policy instruments of fiscal, monetary and debt management are direct policies the government uses to achieve economic stability, growth and general development.

The federating state of Nigeria is structured in such a way that gives the centre higher multiplier effect of public spending than private spending for the interest of fast and general development. Hence, the federal authority takes precedence in major fiscal decisions. The federal government takes control of major fiscal policies that regulate the economy. It takes exclusive responsibility of such major revenues like mineral resources, taxes, customs and exercise duties, value added taxes, personal income tax distribution etc. in fact, the Nigerian wealth boarders on the resource accumulation of the federal revenue. The federal government budget has been usually hinged on oil revenue and other fiscal income. In other words, the federal government budget is mostly based on bench mark of the oil prices, thereby neglecting other vital resources of the land, the states now depend on the federal allocation of revenue for them to operate. Hence, the Nigeria federalism does not reflect a true federalism that takes fiscal autonomy of the subunits of the federal.

In the same vein, the federal government takes precedence in the expenditure and development programmes of the country. For instance the federal government under the control of the centre takes charge of Defense, Foreign Affairs and international trade, Environment, internal affairs, banking and currencies, airways/railways, immigration etc while it is also concurrently involved with the states in many other expenditure/development programmes such as education, health, Agriculture, industries, security etc (Aigbokham, 2005).

The fiscal development of Nigeria has been one of the main economic sustenance of the nation. For instance, since the introduction of Value Added Tax in 1994, it has been a very significant contribution to the federal revenue and is being distributed among the tiers of governments of the federal, state and local governments (FIRS, 2008). Revenues from customs and exercise duties as projected in the budget proposals surpassed the amount in the budget implementation. This shows improvement and dexterity on the part of customs and immigration officials. The fiscal decisions on such development programmes as Defense, Education, Agriculture, International Trade/Foreign affairs, etc have moved the nation forward.

Today, Nigerians are now concerned with personal development and self help programmes. The Millennium Development Goals (MDGs) and International Development Partners (IDP) such as United States' Agency for International Development (USAID), Department for International Development (DIFD). The United Nation's Development Programme (UNDP) etc, have been playing a lot of pivotal roles for poverty reduction and sustainable development. In fact the MDGs assertion of total eradication of absolute poverty by the year 2015 and Nigeria's vision 2020 are being vigorously pursued financially and decisively.

The National Poverty Eradication Programme (NAPEP), as the federal government agency for poverty reduction, has been playing a lot of interventionist roles towards sustainable development and poverty reduction. The roles include, micro-credit scheme, youth empowerment and capacity enhancement schemes and other programmes as may be introduced/directed by Federal Government, World Bank group, Millennium Development Goals and International Development partners. For instance the United Nations' Education, Social and Cultural Organization (UNESCO) has established Community Skills Development Centres (CSDC), for conflict prevention, management and skills acquisition, while the Department for International Development (DFID) has established many Neighbourhood Centres for community policing and skill acquisitions. Though these are social development programmes, but for the fact that huge financial outlay are associated with such ventures and development projects are sustained due to the financial involvement, they are also regarded as financial development (NAPEP, 2005).

On monetary policy, the federal government of Nigeria has put policies that have put the banking sectors afloat. Also the general public is having confidence on these financial institutions due to the strong financial base of the banking industry. The interest rate has been 2-3% and 20-22% on savings and lending rates respectively between 2009 and2011. This has put the cost of fund at relative constant thereby building confidence on the prospective investors. The capitalization base of commercial banks of N25 billion and that of N20 million and Micro Finance Banks respectively have rather made the commercial banks and the micro-finance banks to be financially solid. The external reserve of the country which is about $43 billion (Forty three billion dollars), shows a strong economic base and it helps in the economic growth of the country as it builds confidence among the international investors and World Bank.

The Nigerian Money Market

Another issue in Nigerian Financial policy is the money market. Money market is the market where short term securities are traded. It is a market where money market instruments are bought and sold (Uzoaga 1984:247). It is very important to both the government and the public including the principal actors such as the banks. In his own assertion, Henderson (1988) sees money markets as a market that consists of financial institutions where buying and selling of large sums of money takes place. The Nigerian government has used money market instruments such as treasury bills, treasury certificates commercial papers, Bankers' unit fund, stabilization securities etc, to regulate the volume of money in circulation and these help in strengthening the value of the local currency i.e. naira. This also affects the interest rates as mostly, the cost of capital could be affected by these money market instruments (Uzoaga, 1984). The Nigerian money market has really expanded overtime. Though there was a rise in the number of banks in the banking sector especially in Mid 1980s and early 1990s, but the actual development came between 2004 and date. By huge capitalization of the commercial banks and the relative huge capitalization of the micro-finance institutions, the number of these banks reduced as many went into merger, acquisition and outright liquidation. This brought out real consolidation of the banks that could satisfy the capitalization demand of the federal government. As earlier stated, these banks are well consolidated and are confidence driven.

On the capital market, the government has improved the economic base of investors through the Security and Stock Exchange Commission. Capital market is that part of financial market that deals on long-term securities and procedures for financial long term investments. It is an investment instrument that encourages both actual long term investments and speculative businesses based on the market process. The Nigeria stocks exchange which started efficiently by the Lagos Stock Exchange Act 1961 with less than N6million, has a capitalization fund of about N7 trillion (seven trillion naira) only as at May, 2009 (the nation 3/6/09:42-43). This shows a very remarkable improvement in market economy that faces a nose-diving situation due to the global economic meltdown. The Nigerian Stock Exchange has really improved the investment opportunities of Nigerians and the government. Being an organized market, it has helped all the companies that wanted to be quoted in the market, to do so and also educate the entire public on the available instrument to invest.

Nigeria insurance institution is another financial institution that needs to be briefly discussed. Insurance organization, being an indemnifying organized institution, has been playing some roles towards economic growth of the nation. However, of all the various policies of the government, it is only insurance institution that its growth is gradual but progressive (NEPECOM(2010). The government is not really doing much towards insurance education and investment. The current Pension Act of 2004 gave the National Pension Commission (NENCOM) the responsibility of regulation and supervision of Pension Fund Administration (PFA) on the public service. It not only encourages savings and guarantees public servants safety on retirement but also encourages the savings of the private sector insurance. Also the life Assurance policy and other insurance policies introduced by the government of Obasanjo government are aimed at encouraging the people for more economic investment in all sectors of the economy (CBN Economic and Financial Review, 2007).

Sustainable Development Processes;

The government has been making efforts towards the sustainability of the economy. The government has been pursuing some programmes that would sustain the economy through different perspectives. These are programmes that would guard against corruption, unemployment, poverty, abuse of office and negligence, etc. The essential instruments that are employed include the following: Code of Conduct Bureau (CCB) with its tribunal as disciplinary court, Independent Corrupt Practices and other related offences Commission (ICPC), the Budget Monitoring and Price Intelligence Unit (BMPIU) (aka Due Process) and Economic and Financial Crime Commission (EFCC). While the CCB (1990), is constitutionally designed to investigate and bring before the tribunal any public officer who is suspected to have breached the code of conduct and ethics that are applicable to public servants, ICPC is established with a view to investigating public office holders who are suspected to be fraudulent and who use their official positions to enrich themselves, directly and or indirectly (ICPC, 2006). The EFCC is a national reform programme aimed at addressing corruption and money laundry (EFCC, 2006) BMPIU is an attaché of the presidency responsible for due process in awarding of contracts and procurement. It is aimed at enforcing compliance and transparency in tendering, contract awards and payments.

Conclusion and Recommendation

Nigeria as a developing nation has made great impact in all sectors of the economy. As rightly put by Crowther in Swammy, (1985), that money is the essential invention in all economic; financial management, public and commercial sides of man’s social existence, finance has been the bedrock of all the general development of any society. Despite the economic meltdown and the problem of federalism, the Nigeria financial sector and financial development have really improved economy of the nation. Though, the implementation of financial policies in Nigeria has not been very easy due to the high number of illiteracy and ignorance of the economic evolvement. However, the Nigerian government needs to be serious on financial discipline, especially, on budget implementation. The Nigeria budget is a mere ritual of ceremonial presentation with total ignominy as to the implementation and evaluation. Even at skeletal implementation, it is full of self interest syndrome of me, I and myself. This causes massive abandonment of projects and mere paper presentation of projects, without execution. Also, the high rate of corruption and rivalry in Nigeria, calls for total reorientation of our leaders and policy makers. The institution of insurance in Nigeria is yet to develop. There is need for the government and even our insurance technocrats/experts including some serious investors (under the proper guide of the government) to come into the insurance sectors and enhance the operation of the institution and accelerate its growth. There is need for public enlightenment campaign on insurance needs and modalities.

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