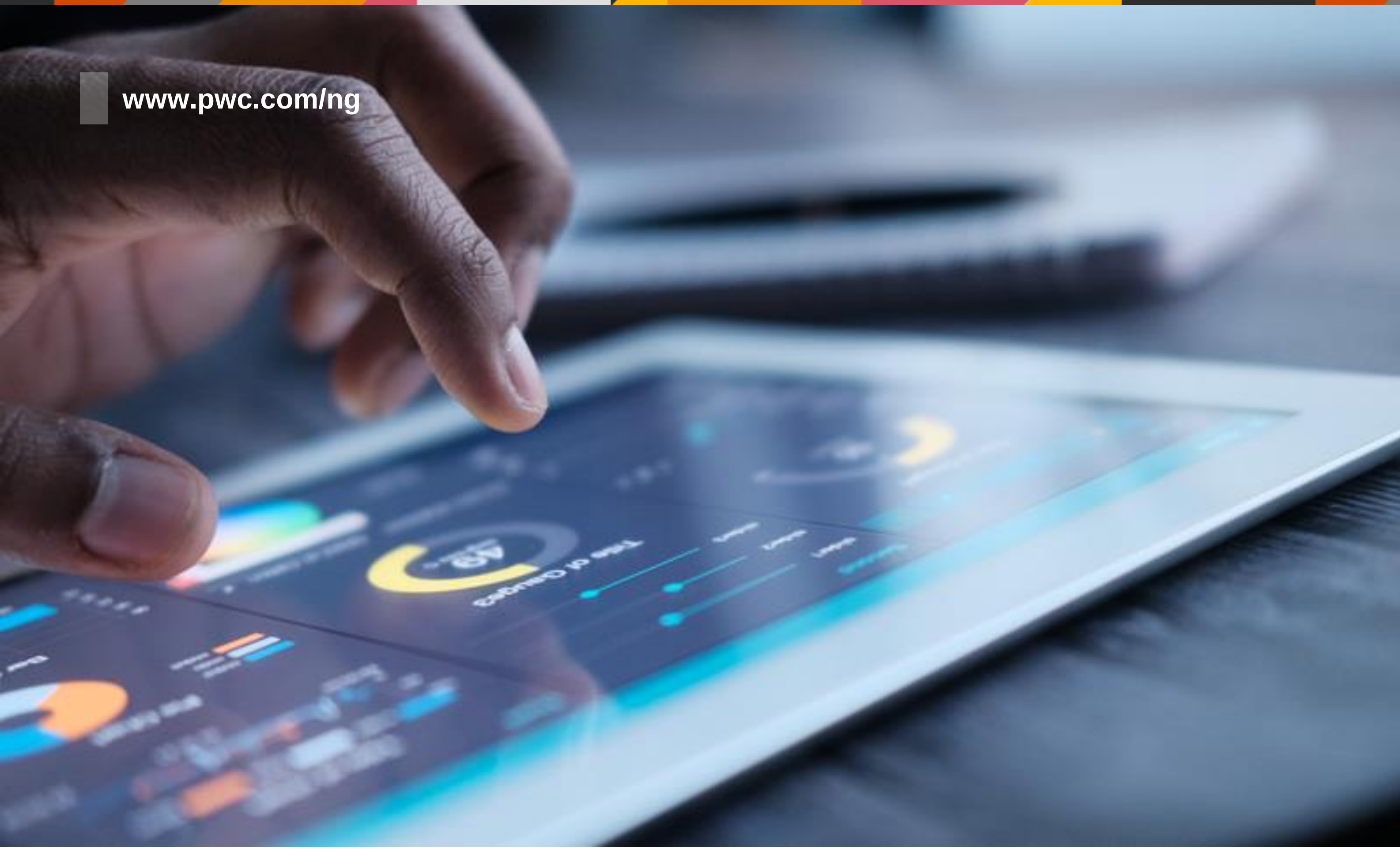

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Public Financial Management

Aligning Nigeria's economic reforms with its journey to a sustainable economy

October 2023

Introduction

The year 2023 marks a significant turning point for Nigeria. Following a keenly contested election in February, President Bola Ahmed Tinubu's administration was inaugurated in late May. As expected, the new administration came with an immediate raft of reforms and policy pronouncements with far reaching implications for the economy and the citizens. These policy decisions hold immense potential to reshape the nation's economic trajectory and set it on a path towards sustainable growth and development. Crucial to the success of these endeavours is effective Public Financial Management (PFM).

PFM refers to the processes and methods with which the government organises, allocates, and oversees public resources. In the context of Nigeria's economic transformation, sound financial management practices are vital to the realisation of the new administration's policies. This article explains how sound public financial management can transform Nigeria's economy.

A rundown of the major economic reforms of the current administration

The new administration in Nigeria has set the stage for significant measures aimed at solving the country's economic challenges. Two of these measures stand out, drawing considerable attention and shaping the administration's economic approach.

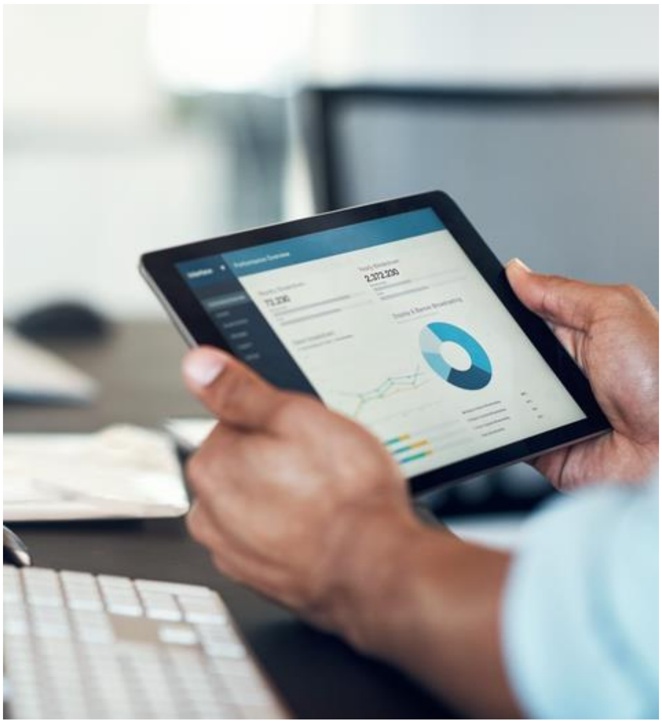
The first is the abolition of petrol fuel subsidy, a move aimed at reducing government expenditure and promoting a more efficient and market-driven fuel pricing system. This decision marked a departure from the traditional subsidy model, which strained public finances and created opportunities for corruption and inefficiencies.

The second noteworthy decision is the unification of the foreign exchange rate. This move represents a shift towards a market-oriented foreign exchange system, allowing market forces to determine the value of the national currency. By relinquishing control over the foreign exchange rate, the administration aims to enhance competitiveness, attract foreign investment, and foster a more efficient allocation of resources in the economy.

President Tinubu has made his market-oriented economic stance clear: pulling back government intervention in certain economic spaces and allowing market forces to determine the price of commodities. Many experts have commended these economic decisions.

How will these policies affect the economy?

From a business perspective, these policies will encourage investments and help pick up the pieces of Nigeria's economy. On June 14, 2023, the CBN collapsed all segments of foreign exchange markets into the Investors and Exporters (I&E) forex window. Few days after the FX liberalisation, the stock market soared by 5.5 percent. The single floating value of the naira will eliminate any market distortion and arbitrage opportunity, decrease uncertainty, and increase overall investor confidence in Nigerian markets.



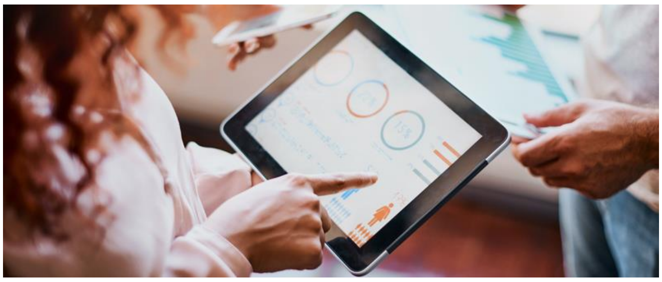
The removal of the fuel subsidy also has many projected economic benefits. A report from the Nigeria Extractive Industries Transparency Initiative (NEITI), reveals that ₦13.7 trillion was allocated to subsidies during the period spanning from 2005 to 2021. Remarkably, ₦8 trillion was spent within the period commencing from 2022 to the first half of 2023. This pronounced escalation in subsidy disbursements highlights the imperative for a thorough evaluation of subsidy-related policies and their fiscal ramifications within the context of the Nigerian economy. Trillions of naira that would have been spent annually on the subsidy scheme can now be used for improving infrastructure, education, healthcare, and other areas that will help alleviate poverty and stimulate growth. The announced policy changes reflect a commitment to reform and reshape Nigeria's economic landscape.

These foundational policy adjustments, crucial as they may be, do not come without significant costs. The financial burdens resulting from these stringent policies are ultimately borne by the Nigerian public. Since the sudden removal of fuel subsidies, the price of petrol has surged by over threefold, soaring from ₦195 per litre to ₦617 per litre in some parts of the country. Consequently, production costs for businesses across all sectors have escalated, leading to inflated prices of goods and services throughout the nation. The inflation rate surged from 22.79% in June to 24.08% in July 2023. In August 2023, it further increased to 25.80%.

Allowing the foreign exchange rate to float resulted in up to 37% appreciation of the American dollar against the naira, causing the naira to plummet to its lowest recorded value. As a result, imports have become significantly more expensive. These high prices have substantially eroded the purchasing power of a vast portion of the population, especially those millions of Nigerians living below the poverty line. The current policies and their forecasted effects bode well for the Nigerian economy in the long run, but the heightened inflation indicates that, in the meantime, they come at a huge expense to the masses.

A robust public financial management is Nigeria’s way forward

Historically, many promises have gone unfulfilled, and policies meant to benefit the common man are rendered obsolete. Sometimes, project plans are not followed through, or allocated funds slip through the cracks of vague planning and corruption. To instil trust and confidence in the new administration, the government must maintain an elaborate system of public financial management to show Nigerians that the sacrifices of the present will not be in vain and their endurance of economic adversity will yield future economic prosperity.



As the government prepares for the upcoming year, the budget and financial goals are shaped around policies in the economic context that exists. The annual budget accounts for total forecasted revenue from all sources and estimated expenditure by all Ministries, departments, and agencies (MDAs). However, to be enacted into law, the budget must undergo a rigorous review and obtain approval from the National Assembly. The significance of this process cannot be overstated. It serves as a blueprint that guides the government's financial decisions and actions throughout the year. It outlines the allocation of funds to different sectors, such as education, healthcare, defence, infrastructure, and social welfare, which reflect the government's priorities and commitments. The budget formulation ensures a disciplined approach to financial management and promotes fiscal responsibility.

After the budget has been passed and signed into law, the next responsibility is managing public resources to ensure that necessary funds are made available to the entities that will achieve the budget objectives. This includes the costs of civil servant remuneration, procurement costs, funding of development projects, and acquiring capital.

There are numerous sectors, offices, and other constituents to which monetary resources are allocated in Nigeria. Having fixed internal controls and audits is a necessary means to ensure that all members comply with the predetermined rules and regulations for resource management. Accounting procedures are a very important part of budget execution. Cash flow in and out of every government-associated account should be recorded. Financial statements and reports should accurately display revenue and expenditure and be made available to the public on a timely basis.

In the final stage of the cycle, the budget is evaluated and audited by an independent external auditor to assess government compliance with regulations and the initial budget. It should corroborate the internal audit and provide areas for reform or correction for the next year.

In the face of challenging economic circumstances, the country is entering a period that demands careful consideration and proactive measures. The government is tasked with the critical responsibility of optimising costs and exercising fiscal prudence as the economy seeks to rebound. Cost optimisation assumes a pivotal role in this pursuit, with the primary goal of maximising the efficiency and effectiveness of public resource utilisation while minimising overall expenditure. This multifaceted approach encompasses evidence-based decision-making, and the streamlining of expenditures, while enhancing the quality of public services provided to its citizens. An independent third party should be appointed by the administration to ensure compliance and affirm credibility to instil trust and confidence in the society.

The state has a duty to serve the people. According to The International Federation of Accountants (IFAC), the central objective of PFM is to improve citizens' lives through better management of public money. However, this goal cannot be attained with the existing obscurity surrounding the use of public resources. Conscientious governance and irrefutable accountability are indispensable in functional public financial management. Internal and external audit functions are prerequisites for achieving structural accountability. It is imperative that the existing rules and regulations are evaluated to verify their adequacy and whether the MDAs are compliant. Any instances of aberration from the regulations should be publicised and the responsible parties penalised.

Public entities are expected to publish detailed and accurate financial reports in a timely fashion using widely accepted international standards such as those outlined in the International Public Sector Accounting Standards (IPSAS) to guide the ways in which management of public assets and liabilities is presented. This will promote openness, establish a means of accountability, and contribute to overall system stability.

Furthermore, using the right channels and frameworks to publish implementation strategies, progress, and outcomes of public resource use will go a long way in convincing stakeholders that the administration is moving in the right direction. Collaborating with independent experts in this regard can provide greater assurance of success. This, coupled with a commitment to transparency, will ensure that all cash flows within the system are aligned with the initial policies.

Accountability is the bedrock of progress

Effective financial planning is the backbone of every successful economic outcome. The achievement of sustainable economic growth and development hinges on the proper allocation of public resources. Consulting credible third-party firms for expertise will enhance financial management and produce economic outcomes and optimal returns on investments in every venture.

If this administration wishes to demonstrate to the Nigerian public that the interests of the people are indeed a priority, then they must take the necessary measures and reforms to strengthen the current Public Financial Management system. By handling public finances with due diligence and transparency, the new administration can hold itself accountable before the populace, garner public support, and ensure the sustainability of economic policies, ultimately driving the nation towards a prosperous and inclusive future.

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