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ABSTRACT

This paper seeks to analyze the imperatives of Fiscal responsibility practice in Nigeria. The paper explores some theoretical issues surrounding fiscal responsibility in an economy. Major features of the fiscal responsibility laws in Nigeria are highlighted. Some of the fundamental flaws in Nigeria’s public financial management that impede economic development as well as the imperatives of the fiscal responsibly law in Nigeria are analyzed. The paper concludes advisedly that strict adherence to the new fiscal policy law is bound to promote macroeconomic stability in Nigeria if strictly adhered to.

Keywords: Fiscal Responsibility, economic growth, fiscal federalism, budget, Nigeria.

INTRODUCTION

Fiscal responsibility is the act of creating, optimizing and maintaining a balanced budget. People can do this independently, certainly, as can organizations of any size or format; in most cases, though; this particular term is used in the context of corporate spending and governmental finance.

According to Feingold (2004) in Yelwa (2014), fiscal responsibility is about balancing the budget and eliminating wasteful government spending. In a governmental context, a pledge of fiscal responsibility is a government’s assurance that it will judiciously spend, earn, and generate funds without placing undue hardship on its citizens. It includes a moral contract to maintain a financially sound government for future generations on the understanding that a functional society is difficult to maintain without a financially secure government.

When a government is fiscally irresponsible, its ability to function effectively is severely limited. Emergent situations and disasters typically arise unexpectedly, even with the best planning, and a government needs to have quick access to reserve funds in order to mediate damages and send help when needed. A fiscally irresponsible government isn’t able to sustain programs designed to provide fast relief to its citizens, and depending on the extent of the budgetary problem, may not even be able to fund its own programs in ordinary times. Not only does this cause problems internally, but it can also cause a lack of confidence on a
global scale that can negatively impact everything from currency exchange rates to general economic stability.

According to Umunna (2013), a more relevant definition of fiscal responsibility would be the responsibility of government to use its spending power to maximise real outcomes like full employment and increasing living standards, building homes for people and ensuring we have world class health and education systems. But responsibility also includes ensuring inflation doesn’t get out of control, so it doesn’t mean spend spend spend. Tax and spending decisions should be taken on the basis of maximising real outcomes while keeping inflation stable. That’s true fiscal responsibility.

Fiscal responsibility relates to fiscal federalism. It is the assignment of revenue and expenditure functions to the different tiers of government, namely Central, State and Local Governments in a federal system of government. However, Fiscal Federalism and intergovernmental fiscal relations are often used interchangeably. Intergovernmental fiscal relations refer to the fiscal transactions and coordinating arrangements among the various tiers of government in a federation (Musgrave and Musgrave, 1989). The nature of intergovernmental fiscal relations constitutes an extremely relevant consideration for the attainment of fiscal nationality and macroeconomic stability in a federal structure of government. Nigerian operates a federal

The 1999 constitution of the Federal government of Nigeria gives each tier of government a set of responsibilities around which programmes are articulated and budgeted for, and for which expenditure requirements need to be funded (Ezebasili & Herbert, 2007). Government intervention through fiscal policy is geared towards the achievement of macroeconomic stability and real growth. This interventional role is warranted by the failure of market mechanisms, due mainly to market imperfections to efficiently allocate resources and achieve a stable equilibrium and fair distribution of income (Okunroumu: 2000). However, public sector management in Nigeria since independence has failed to deliver the much expected macroeconomic stability. This has led to poor macroeconomic performance, for example, through rising interest and exchange rates, increases in money supply, low real gross domestic product and negative trade balances during much of this three-decade period, Structure of government, with different tiers as noted above.

THEORETICAL EXPOSITION OF FISCAL RESPONSIBILITY LAW

Ezebasili, And Herbert, (2013), posits that Federalism and Fiscal Adjustment Emerging economies should devote attention not only to the maintenance of prudent fiscal policies in every budgetary period, but also progressively seek to build over the long-run, a coherent,
consistent, and a reliable and stable fiscal policy. It is this perception of the long term trend, based on credible institutional framework and positive socioeconomic development pursuits that generate signals of lower real interest rates and country risk premium as drivers of sustainable economic growth. The sustenance of growth is a desideratum of economic policy across the globe. However, poverty reduction and economic advancement can only be achieved through a period of stable and sustained high rates of economic growth. In other words, the path towards poverty reduction and economic advancement is laced with first the establishment of sound and sustainable fiscal policies, delivering consistent economic results with strong institutions and mechanisms, like the fiscal responsibility law and effective execution (Guardia and Sonder, 2004).

CASE FOR FISCAL RESPONSIBILITY IN NIGERIA

Fiscal Responsibility policy started as a response to demands during Obasanjo’s administration by Nigerian Civil Society and International Financial Institutions for more transparent and people-centred development policies and actions, especially within the context of Poverty Reduction Strategy Papers (PRSPs), which Nigeria had earlier subscribed to, and domesticated under its National Economic Empowerment and Development Strategy (NEEDS).

The objectives of Fiscal Responsibility policy according to the FRA (2007) are as follows:

i. To provide for prudent management of the nation’s resources.
ii. To ensure long term macroeconomic stability of the nation’s economy.
iii. To secure greater accountability and transparency in fiscal operations.
iv. To establish the Fiscal Responsibility Commission (FRC) to ensure the promotion of the nation’s economic objectives.

In view of the high rate of corruption, dwindling revenue and ever demanding needs of the people especially within the climate of democracy being experienced in the country, fiscal responsibility can go a long way to curtail these vices in our system.

According to Nwoko, (2014), the challenge of corruption in Nigeria’s public service led to the enactment of the Fiscal Responsibility Act 2007; to provide for prudent management of the nation’s resources, ensure Long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within the Medium Term Fiscal Policy Framework, and the establishment of the Fiscal Responsibility Commission. It is to ensure the promotion and enforcement of the nation’s economic objectives is contained in chapter 2, section 16 of the constitution of Nigeria the Act that created the commission.

The Fiscal Responsibility Act (2007) ensures that the Federal Government carries out expenditure within formally specified and reasonable limits, given a sound revenue base. The new law also places strict limits on the accumulation of public debts. The FRA is designed to institutionalise transparency in the budgeting process in Nigeria, provide guidelines for public expenditure management and revenue forecasting, and limit the level of national debt. Collectively, these reforms should improve fiscal transparency on one hand, and the efficiency of public expenditure, on the other.

Given the scale of state corruption in Nigeria, the introduction of the FRA is a laudable step.
However, the institutional and policy environment presents constraints for the effectiveness of the legislation, and there is the knotty issue of the fiscal and political privileges enjoyed by sub-national units in the Nigerian federation, and how the national political economy influences fiscal discipline. (Ushe: 2002). In the preamble of the federal FRA, it is stated that the Law was enacted to: ‘provide for prudent management of the nation’s resources, ensure long-term macro-economic stability of the national economy, secure greater accountability and transparency in fiscal operations within the medium term fiscal policy framework (MTFF), and the establishment of the Fiscal Responsibility Commission to ensure the promotion and enforcement of the nation’s economic objectives.’ (Federal Republic of Nigeria: 2007).

In Nigeria the dismal performance of the public sector since the first half of the 1980s has brought to the front burner the issue of fiscal federalism which has remained dominant and most contentious in Nigeria’s polity (Arowolo 2011). According to Ewetan, (2012), in the last three decades Nigerians have contended with not only vanishing real incomes but also unbearable levels of unemployment and inflation, decay in social amenities and failure to maintain, not to talk of improving, the nation’s infrastructures. This dismal performance of the public sector has prevented the creation of opportunities for a resilient and sustainable growth and development of the Nigerian economy, which should be the object of rational and functional fiscal federalism.

THE SUCCESS STORY OF FISCAL RESPONSIBILITY PRACTICE IN NIGERIA

In spite of the problem encountered, the fiscal responsibility commission has braced up to its assignment as there is marked departure from the disjointed, adhoc and poorly enforced fiscal policy management to a new system aimed at expenditure restraint. The passage into law of the FRA at the federal level has helped to reduce financial recklessness and has improved efficiency in fiscal management, especially in areas of allocation and management of public expenditure, revenue collection, saving and transparency in fiscal matters.

The adoption of ruled-based public expenditure process such as multi-year approach to budgeting and the savings recorded recently all bear testimony to the potential of the efforts of fiscal responsibility act (FRA). For instance, not less than N21 billion was realized in 2007 and 2008 from payment of 80% operating surplus into the Consolidated Revenue Fund of the Federal Government.

It is gratifying to note that the commission has succeeded in ensuring compliance by the Federal Ministry of Finance with the Medium Term Expenditure Framework (MTEF) in the preparation of the budget while also insisting that the budget elements match those specified in the Fiscal Responsibility Act.

Another milestone achieved in fiscal responsibility is that during the life of the past administration, Nigeria embraced fiscal reforms including the passing into law of the Bureau for Public Procurement Act and initiating the FSA. Nigeria is also one of the few oil producing countries that have signed up to the Extractive Industry Transparency Initiatives as a way to help improve corporate governance in the oil sector. It established the Nigeria Extractive Industry Transparency Initiative (NEITI) to monitor the consistency of oil revenue to production quotas.
CHALLENGES IN ACHIEVING FISCAL RESPONSIBILITY IN NIGERIA

For the past seven years now, the Nigerian government has been grappling with the challenges of implementing this sunshine law that has the capacity to renew our fiscal values and help the recovery of the economy which is riddled with corruption and opaque practices.

Very little is known by the citizenry and the relevant government agencies, particularly Ministries, Department and Agencies on their various roles and expectations from the Fiscal Responsibility Act 2007; due to weak political will by the Federal Government to implement the law, and the failure of the Commission to carry out a well-thought-out awareness campaign to draw the attention of the citizens and government agencies to the provisions of the Act.

The fact of our fiscal reality is still that most of the agencies and stakeholders in the fiscal responsibility reforms have not been brought on board to key into the fiscal agenda meant to promote the economic objectives of the Nigerian constitution.

In the words of Ushe (2002), the combination of low technical and institutional capacities in strategic government agencies and the influence of distributive patronage in shaping the tenor of national politics have affected the implementation of the federal FRA. The introduction of the MTFF, MTEF and a coherent budget cycle by way of the FRA, have not made a significant dent on the accountability of public revenues and quality of public spending. The inability of the federal government to curtail ballooning recurrent expenditure, a sizeable domestic debt stock valued at US$28.6 billion (the equivalent of 17 percent of GDP), and rising fiscal deficits in excess of 3 percent of GDP, indicate that the FRA is not being properly implemented. The Fiscal Responsibility Commission, with the mandate of monitoring compliance with the legislation, is hampered by low capacity and a lack of political will within the national leadership, leaving it unable to adequately execute its mandate.

Lack of transparency and prudence in the budgetary process has denied most Nigerians access to vital information that citizens of other countries take for granted, given the arrant primitive accumulation of wealth by the elites. There has been so much misappropriation and corruption leading to diversion of huge money meant to fund the budget. To that extent, essential amenities like good roads, potable water, affordable healthcare, constant power supply, quality education, clean and sanitary environment and assured security of life and property have been difficult to provide.

Another issue of great worry is the indiscriminate and uncoordinated loans that are collected from different sources by federal, states and local governments without good reasons for doing so. Most times the loans, so collected are mismanaged with little or nothing to show for it. This is more worrisome, when the tenure of some chief executives is about to end, they still go for loans and transfer the debt burden to the incoming executive. According to Ndan (2013), this is nothing short of financial recklessness.

Olutuyi (2008), said that over the years, billions of dollars of Nigeria's revenue has been wasted and unaccounted for, due to financial rascality by our leaders. According to him, none of our leaders, at all levels of governance is exempted from this financial recklessness of public funds and resources. Contracts have been awarded and are still being awarded without
due process, ministries, departments and their agencies procure goods and services without recourse to transparency. Refurbished materials and equipment have been supplied as against the brand new ones paid for. Payments are fully made to contractors without executing the contracts.

According to Yelwa (2013), at the public hearing organized by the House Ad-Hoc Committee on Foreign Loans Obtained by the Federal and State Governments held on 16 and 17 February, 2010, it was found that all the three tiers of Government and their Ministries, Departments and Agencies (MDAs) did not comply with the provisions of the FRA on the management of public debt, particularly on borrowing. This is because no sanction is provided as punishment for non-compliance with the Act or violation of its provisions.

RECOMMENDATIONS

Leaving sub-national governments, which control over 50% of the national resources, out of the purview of fiscal responsibility is obviously counterproductive. To checkmate the incidence of time-inconsistent fiscal policy, common-pool problem or the tragedy of the commons, and embarking on generous welfare state without matching rise in tax revenue, the FRA, 2007, should be made applicable to the lower-levels of governments. This can be done in the first place by persuasion and dialogue through the channels of National Council of State, National Economic Council and Governor’s Forum, unavailing which, recourse should be made to the policy of “carrot and stick” and, ultimately, to constitutional amendment.

One of the best ways of securing compliance with fiscal responsibility is to mainstream it in the heart of the Nigerian politics. Make the FRF one of the manifestoes of the electioneering campaign by candidates for the posts of the President, Governor and Chairman (Local Government). These public officeholders should be assessed partly on the basis of their performance in compliance with the FRF.

Heads of Government at the three tiers should be permitted to alter the MTEF planning horizon to synchronize or tally with their tenures in office. They should, however, be restrained, 12 months to the end of the tenure, from embarking on new projects that they cannot complete before leaving office unless they set aside cash or fund for completing them. At the end of their tenure, Heads of Government who contravene the FRA, 2007, should be persecuted and, if found guilty, punished with fine, forfeiture of illegally acquired assets, imprisonment and ban from holding public office for a reasonable length of time. This approach is practised in Brazil and it is working perfectly well.

Our budget should be approved and signed into law one or two months before the commencement of the related financial year. This is the international practice in places like Canada and Switzerland, and it makes for full execution of the budget within the financial year.

We must let the Fiscal Responsibility Commission stay and be properly constituted in line with the relevant provisions of the Act. However, it is important to ensure that politicians do not take the upper hand this time, as it was used for the settlement of politicians who failed elections in the previous regime.
States and local governments should adopt the fiscal responsibility Act in their various areas of jurisdictions as the states and the local governments draw more than half of their revenue from the federation account and so should be compelled to adopt fiscal responsibility in the best national interest.

Budget indiscipline is so common that monies are spent for items not budgeted for and virement has become a common practice. Crude oil theft should be curtailed. The various sources of revenue should be effectively and efficiently administered. Nigeria should also avoid going for loans, unless when it is absolutely necessary and the loan when collected should be judiciously utilized. The subsisting Memoranda of Understanding should be fully pursued and implemented in order to achieve a reformed public financial management for Nigeria designed to strengthen fiscal policy coordination, safeguarding macroeconomic stability and promoting growth, while being consistent with the rules and practices underlying the federal system of government. The three tiers of government must work hand in hand complement each other and pursue the cause of development through the use of the budget.

Governments at all tiers must ensure strict compliance with the FRA’s position on incurring debts notably, it should be for capital expenditure or human development provided that the interest rate is not above 3 per cent with a long amortisation period and subject to legislative approval. Debts should be tied to concrete and verifiable projects and activities.

Non Governmental Organisations should collaborate with strong grassroots groups (including communities who are victims of fiscal rascality and maladministration) in making demands for fiscal accountability. Collaboration with professional groups and organised labour is also necessary for success in the campaign for fiscal responsibility. CSOs are also enjoined to take advantage of the provisions of the Fiscal Responsibility Act, Public Procurement Act, the Nigeria Extractive Industries Transparency Initiative Act and the Freedom of Information Act in making demands for value for money and increased accountability at all levels. Requests for information, demands on government officials to follow the stated fiscal rules and possible litigations should be explored to enforce citizens’ fiscal accountability rights.

Conclusion

The global financial crisis with its attendant austerity measures demands fiscal responsibility. Also, with the increasing developmental needs and sharp fall in the price of crude oil in the international market, public expenditure and static, if not dwindling, public revenue, fiscal responsibility is dominating economic policies of government at all levels. A disciplined approach to fiscal activities remains the only and sure way to promote and sustain economic development in Nigeria. The evolution of the fiscal responsibility law will, no doubt, go a long way in curbing most of the problems that militate against sound public sector financial resource management. Proper compliance is essential in promoting fiscal discipline, transparency, accountability and therefore foster economic growth. We have tried to grapple with the topic, “Achieving Fiscal Responsibility For Economic Growth”, illustrating what it means, its benefits, its enforcement, the obstacles hindering its full realization and what further actions are required to be taken to achieve economic growth.
through fiscal responsibility. The discussion may not have been exhaustive; this will certainly provoke questions, comments and rejoinders. These are welcome.

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