FISCAL METHODOLOGIES OF GOVERNMENT AND APPROACHES FOR CIVIL SOCIETY STAKEHOLDERS AT INFLUENCING PUBLIC FINANCE EXPENDITURE (PFE) FOR RESPONSIVE PRO-POOR GOALS.

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INTRODUCTION

- Government has two approaches to control economic activities in the country. These are monetary policy which is often referred to as physical policy, and fiscal policy instruments.
- The monetary policy instrument entails the control of actual currency in circulation. Printing of currencies into circulation has varying imparts depending on whether they are meant to replace damaged currencies, lost currencies, or as a means of raising money for government.

Introduction –Cont.

Fiscal policy instrument revolves around fiscal governance. This entails:

- The use of government expenditure and revenue (Tax) drive to management the economy.
- The management or control of government expenditure to hasting economic development.
- Deliberate use of government taxes to achieve macro-economic goal.

The use of fiscal policy has different approaches or what can be referred to as methodologies.

Introduction –Cont.

Definition of Fiscal Governance: This has been variously defined.

- According to European Commission, these are those rules, regulations and procedures that influence on how budgetary policy is planned, approved, carried out and monitored.
- According to Open Society Foundations, the *Fiscal Governance* Program promotes new global norms, strengthens independent oversight mechanisms, and increases government capacity to harness public resources for development

Introduction –Cont.

Common Factors in the Definition:

- Rules / Policies or program. It means this is a practice enshrined in laws of the land
- It has to do with budgetary procedure and
- Independent monitoring of the budget
- It has to do with satisfying public interest by focusing on activities that will enhance development in spending / using public resources.
- Allowing public to contribute to the process.

Our Definition: For the purpose of this presentation, we will define **fiscal governance**, as policies and procedures put in place to guide and regulate processes of government in raising public resources (including money) and spending the same for the betterment of the society.

FISCAL POLICY METHODOLY

The instrument of fiscal policy can be used in different ways, and for different purposes. It can be used to favour the poor or the rich, a sector or the other, an industry or the other. 4 methods are discussed below:

a. **TAXATION POLICY**

Taxation is a strong policy instrument for government in aiding economic growth. Taxation policy may focus on the following:

- Promote capital formation. This can be a form of tax incentive to those saving for investment, or bringing capital from abroad to invest in the country.
- It can be used to discourage consumption of goods that are inimical to economic growth. Thus creating savings that can be used for investment
- Target based taxation can be adopted to mobilize savings from economic surplus unit. This is the use of tax to discourage consumption of goods normally consume by a group in order to divert such spending to more productive goods that will boost economic activities.

FISCAL POLICY METHODOLY -Cont.

A GOOD TAX SYSTEM SHOULD FOCUS ON:

- Mobilizing resources capital formation
- Reduce consumption of luxury goods
- Increase the ratio of saving to consumption.
- Reduce inequality
- Control inflation, and
- Bring economic stability

b. **PUBLIC EXPENDITURE POLICY.**

This policy instrument is key to developing world because the private sector is yet to be fully developed; and economic activities rely mainly on government expenditure. Public expenditure can focus on: i) Development of public enterprises, and ii) encouragement to private sector

FISCAL POLICY METHODOLY -Cont.

c. PUBLIC DEBT POLICY:

Mobilizing resources through public debt is key to developing countries because resources collected through tax are not sufficient to meet the development requirement. Tax collection is very poor due to poverty level of the common masses, and its adverse effects on savings and investments. **Public debt can be** i) Internal debt and ii) External debt.

(i) Internal debt:

Internal debt is floated within the country. In a less developed country, it should be so mobilized that it does not have adverse effect on private investment.

FISCAL POLICY METHODOLY -Cont.

(ii) External Debt:

This refers to funds which are floated in other countries. External debts are particularly helpful in the initial stages of economic development of underdeveloped countries. Such debts bring in foreign capital, technology, technical know-how and capital goods.

NOTE: external debts may create the problem of repayment of such borrowings if not utilized strictly for productive purposes.

FISCAL POLICY METHODOLY -Cont.

The importance of public debt in economic development of under developed countries include:

(i) It encourages propensity to save through creation of income to unemployed.

(ii) It helps capital formation for economic development

(iii) It helps to control inflation

(iv) It can be repaid out of the increased national income,

(v) Useful for meeting emergencies and war expenditure;

(vi) Better allocation of resources and

(vii) Useful for social services.

FISCAL POLICY METHODOLY -Cont.

Impediments to the mobilization of public debt in under-developed countries e.g.:

i. Lack of organised money and capital markets

ii. Economic instability

iii. Lack of saving

iv. Use of saving in unproductive activities.

Therefore, efforts should be made to overcome these difficulties so that such borrowings may be utilized for the uplift of the underdeveloped countries.

FISCAL POLICY METHODOLY -Cont.

d. Deficit Financing:

This is an important tool of fiscal policy. It means the gap caused by the excess of government expenditure over its receipts through the creation of new money. Generally, deficit financing is done by the method of borrowing from central bank, withdrawal of its cash balance from the central bank and issuing of new currency and putting into circulation. This type of fiscal policy was specially advocated by Lord Keynes

Why Deficit Financing?

- The low income in underdeveloped countries further lowers the taxable capacity, power to save and hence, low capital formation.
- Deficit financing is useful for quick command over resources for development activities like irrigation, transport, power generation and other big projects, war expenditures, encouragement to private investment and mobilization of domestic resources.
- It may lead to inflationary trends in the economy and other hardships. Consequently, profits of the producers go up and they are induced to produce more. Under inflationary conditions, income of the entrepreneurial and business classes increases substantially. These classes have a high propensity to save and low propensity to consume

FISCAL POLICY METHODOLY -Cont.

Shortcomings of Deficit Financing

- The main defect of deficit financing is that beyond a particular limit it may lead to excessive rise in prices. This adversely affects the economic development of the country. Thus, there must be some limit to deficit financing.

KNOWLEDGE REQUIRED BY CIVIL SOCIETY STAKEHOLDERS

i. Sound knowledge of macroeconomics. This enables individual to holistically evaluate macroeconomic impart of government policies, and appreciate the urgency.

ii. Sound fiscal and monetary policy knowledge to evaluate and appreciate policy direction of government.

iii. Sound knowledge of issues confronting governance in the country to appreciate why policies were made, and suggest better options when necessary. It is important to note that every policy has many interpretations – erroneous, biased, and correct. Knowledge of prevailing problems enables one to understand why policies are put in place, and even suggest to government where necessary.

iv. Attend budget public hearing and clarify issues of concern.

v. Be free of biased assessment.

vi. Be current with happenings in the country.

KEY SOURCES OF INCOME AND THEIR EFFECTS ON THE PUBLIC

- Taxation: Taxation is a key source of income to any government. It includes the following forms of tax- personal Income tax, Value Added Tax (VAT), Withholding Tax (WHT), Company Income tax, Petroleum Profit Tax (PPT), etc. All these taxes were taken by government and pulled together as public resources to address common problems of the public. The individual or corporate entities that paid these taxes were denied the opportunity to spend on their individual needs (Opportunity cost)
- Levies may take the form of a charge for getting documents from government, towards development project, by offenders, use of market, etc
- Oil Money. This may take the form of profit sharing from Joint Ventures, royalties, bidding proceeds, field allocation fees. These could have been used for further investment by the payer.

KEY SOURCES OF INCOME AND THEIR EFFECTS ON THE PUBLIC –Cont.

- Printing of money without withdrawal of equivalent from circulation. This is an effective way of raising money or income by any government but often not well pronounced or favoured by the masses because of the consequence on the public's real income. Printing of currency by government is a way of creating demand in the market while supply remains the same. In accordance to economic principle, the forces of demand and supply definitely force the prices to go up in this senario. General price increase (Inflation) reduces the real income of income earners. The reduction in income is a form of tax which is not open to the masses.
- Revenue from solid minerals: Just as we have in the oil sector we also have revenues derivable from solid minerals. These include royalties, fees, licences, and land rent.
- Duties –Import and export

KEY SOURCES OF INCOME AND THEIR EFFECTS ON THE PUBLIC –Cont.

Impacts of these Revenues on the Masses

- Opportunity Cost: The direct charges / taxes have opportunity cost to the general masses. The individual payer could have used the money paid for others personal or provide other essential services such roads, water, etc. The resources were pulled together to provide services that are general or cheaper to provide in mass.
- The public went extra miles by going through stress to meet these defined obligations believing that the end shall justify the means.
- Stress of the masses is further compounded when such money is not judiciously spent. This should be avoided by the people in whose hands the money is entrusted.
- The sacrifice made at times have imparts on the future of children or relations who could have used the money to develop themselves for the future.

APPROACHES FOR CIVIL SOCIETY STAKHOLDERS

1. Involvement in public hearing
2. Participate in budget need gathering event
3. Organize workshops on budget and publicize communique representing the Civil Society stakeholders' position
4. Knowledge of budget details and close monitoring of projects located within the community environment.
5. A constructive criticism of policies / finance expenditure that negate pro-poor goal
6. A constant submission / publication of critical needs that can improve life at the community, and follow up through representatives at the legislative assemblies.
7. Articulated and constructive evaluation and criticism of budget provisions that negate pro-poor target.

CONCLUSION

Civil Society Stakeholders need to acquire the right knowledge on fiscal policy, and macroeconomics at large to understand, appreciate, evaluate, and criticise fiscal policies of government in a constructive way, and direct the expenditure to pro-poor goal. The best approach is to be involved from needs collation for budgeting, project monitoring and evaluation as well as budget performance evaluation.

THANK YOU