

**FISCAL SUSTAINABILITY AND RISK MANAGEMENT IN
PUBLIC SECTOR BUDGETING**

BY

ASSOCIATE PROF DR AO YAHAYA

(B.SC., M.SC., MBA, PH.D., CNA)

DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

NIGERIAN DEFENCE ACADEMY, KADUNA

+2348036064334

YOADABENEGE@NDA.EDU.NG

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SESSION OBJECTIVE AND OUTLINE

- **Session Objective**

The objective of this paper is as follows:

- To examine fiscal sustainability and risk management within the context of public sector budgeting in Nigeria.

- **Outline**

The outline of the paper is as follows:

- Background/Motivation of the paper
- The 2024 Budget
- Basic principles of public sector budget
- Characteristics of public sector budget
- Challenges and problems of public sector budget
- What is fiscal sustainability?
- Challenges of fiscal sustainability
- Risks and their management strategies
- Conclusion
- Acknowledgements

MCPD LEARNING OUTCOMES

- At the end of this MCPD, participants will
 - **Understand** public sector budgets and budgeting.
 - **Describe** the principles of public sector budget.
 - **Identify** the characteristics of public sector budget.
 - **Understand** the challenges and problems of public sector budget and how to overcome them.
 - **Comprehend** the need for fiscal sustainability.
 - **Elaborate** the advantages of fiscal sustainability.
 - **Appreciate** the challenges of fiscal sustainability.
 - **Identify** risks and how to manage them.
 - **Connect** these three concepts and appreciate how they relate.

BACKGROUND

- The public sector budget in Nigeria is marred with several challenges.
- Ensuring long-term fiscal sustainability requires that public sector accountants **engage in continual strategic forecasting of future revenues and liabilities, environmental factors and socio-economic trends in order to adapt to financial plans.**
- This is evidence in the fiscal discipline measures undertaken by governments in recent years.
- These measures range from part payment of salary by some state governments, full commercialization of diesel price, removal of fuel subsidy, non-compliance with agreements reached with the organised labour, and several other cost cutting measures embarked upon by governments.
- Although, the current problems are not limited to Nigeria alone, experts agreed that the economic situation of Nigeria calls for intellectual minds and self-discipline by all.
- It is on this basis that this paper calls members of the Association of National Accountants of Nigeria to embrace fiscal discipline in order to ensure fiscal sustainability, now and forever.
- In the final analysis, what matters is to survive this current hardship; it is simply part of what experts call the economic or business cycle (ups and downs).
- The overall objective of fiscal sustainability is to maintain the condition of full employment, economic stability and to stabilize the rate of growth. For an under-developed economy like Nigeria, the

main purpose of fiscal policy is to accelerate the rate of capital formation and investment.

SUMMARY OF 2024 BUDGET

The 2024 Federal Government Budget totals ~~N~~27.5 trillion. The component parts are as follows:

- Recurrent expenditure (salaries & overheads) ~~N~~9.92 trillion
- Capital expenditure ~~N~~8.73 trillion
- Debt servicing ~~N~~8.25 trillion

GDP growth rate 3.76%

Exchange rate \$750

Oil price \$77.96

Inflation rate 21.4%

Oil production 1.78 million barrels per day

Sectoral allocation:

- Education ~~N~~2.2 trillion
- Health ~~N~~1.35 trillion
- Security ~~N~~3.2 trillion
- Infrastructure ~~N~~1.3 trillion
- Students loan ~~N~~700 billion
- Social development & poverty reduction ~~N~~534 billion

A cursory look at the 2024 Budget Summary paints a gloomy picture. It is only a pointer of several challenges and problems ahead. The

time to tighten one's budget and be fiscally sustainable is now, not later.

WHAT IS FISCAL SUSTAINABILITY?

- Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long term.
- Fiscal sustainability, or public finance sustainability, is the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures.
- Fiscal sustainability represents broadly the ability of government to sustain its **current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures.**
- This definition is a mouthful of words. Let us break them down
- In simple terms, fiscal sustainability usually involves an assessment of whether, based on current policy, government revenue raised will match spending requirements over the long term.
- Any deficit adds to public debt, with a judgement then made on the sustainability of that debt. High levels of debt lead to higher interest rates, with government funds being diverted from investment and public services to servicing the debt, which may be unsustainable.

- High and increasing debt levels are harmful to governments' fiscal positions and can cause a vicious cycle of growing debt, reducing the potential for economic growth as funds are diverted away from productive investments.
- Nigeria has continued to face rising public debt-to-GDP ratios since the financial and economic crisis.
- The costs associated with addressing the current economic slowdown, as well as projected increases in ageing-related spending, present serious challenges for the sustainability of public finances.
- Nigeria requires a total average increase of over 6% of potential GDP (economy working at full capacity), in order to reduce public debt to 60% of GDP. Currently, the estimate is 3.76%, an indication that hard times lay ahead.
- There is need for fiscal consolidation plans (revenue and expenditure measures).
- There should be sound strategic forecasting exercises from medium term to long term.
- Fiscal discipline requires that governments maintain fiscal positions that are consistent with macroeconomic stability and sustained economic growth. To this end, it warrants avoiding excessive borrowing and debt accumulation.

CHALLENGES OF FISCAL SUSTAINABILITY

- The major challenges of the public finance sustainability consist of
 - Creating independent fiscal institutions.
 - Fiscal responsibility laws.
 - Fiscal rules.
 - Management of fiscal risks.

POTENTIAL SOLUTIONS

- Invest in yourself. Having further education, more knowledge, and required skills for work can support your career advancement.
- Make extra money from what you like.
- Set saving for investment and expense budgets.
- Spend wisely. Avoid anything not budgeted for.
- Set emergency fund for contingencies.
- Pay off debts. Ensure that debts are within the limit set by equity.
- Plan for early retirement. Salary is a bribe to prevent you from realizing your dreams/potentials.

These measures are not exhaustive.

RISKS AND THEIR MANAGEMENT STRATEGIES

- Public sector is
 - Vulnerable
 - Need for guidance & learning
 - Growth, strength & capacity
 - Tolerance: safety zone
- Planes crash and public sector fails usually not because of one single event or mistake.
- It is a series of events and/or mistakes that eventually lead to the disaster.
- The government accountant must have a risk management system that can indicate threats before they become emergencies.
- Risk is inherent in all human activities.
- Above all, risk is associated with our lives, whether public or private.
- Accordingly, different people have different views regarding the perception of risk.
- The fundamental consideration is the implication of risk for the corporate existence of Nigeria.
- Government accountants should always start their risk management planning process with the question – What can go wrong in this activity?
- Every country work with risks in their activities.

- Therefore, risk management is a key area of focus for every country.
- To work towards planning for an unknown risk variable, every country needs to have a comprehensive risk management strategy
- A risk is “the possibility of loss or injury”.
- Risk management involves understanding potential problems that might occur, and how they might impede its survival or stability.
- Risk management is like a form of insurance; it is an investment.
 - Key attributes of risks
 - Uncertainty
 - Positive and Negative
 - Cause and Consequence

TYPES OF RISKS AND THEIR MANAGEMENT STRATEGIES

- Financial risk
- Political risk
- Speculative risk
- Systematic risk
- Exchange rate risk
- Market risk
- Sources of risks
 - Change in tastes and preferences of citizens

- Citizens' dissatisfaction
- Inadequate cash flow
- Increased competition
- Unexpected policy/regulatory changes
- Obsolescence
- Labour unrest
- Weak internal control
- Weak governance structures
- Investments in high risky ventures
- Operations in volatile environment
- Poor planning
- Product failures
- War
- COVID-19
- Thefts
- Moral hazards (dishonesty, indifferences, insanity, carelessness)

Risk management is a systematic approach to identify, assess, and understand risk in order to guide further appropriate government decisions and actions.

The purpose is to minimize the potential harm of a risk event by implementing strategies and actions to control and reduce risk.

- Proactive

- Pre-disaster activities associated with reducing risk
 - Developing mitigation strategies, spreading awareness, etc.
- Reactive
 - Post-disaster activities associated with reducing impacts
 - Emergency relief, reconstruction, etc.
- **Techniques/Strategies:**
 - Avoidance – Eliminate it
 - Transference – Pawn it off
 - Mitigation – Reduce probability or impact of it
 - Acceptance – Do nothing
- **Steps in risks management**
 - Identification
 - Evaluation
 - Measurement and Treatment
 - Administration of Risk Management Process, and
 - Monitoring and Reviewing of the Process

CONCLUSION

- This paper sets out the current realities of Nigeria's public budget.
- The paper provides an overview of fiscal sustainability challenges faced by Nigeria over the short, medium and long term.
- Risk management is a series of steps that help government to understand and manage uncertainty.
- The earlier, risk is handled, the better the chance of survival or success.
- Sustainable finance plays a key role in promoting the transition to a carbon neutral and sustainable Nigeria. By supporting projects that prioritize resource efficiency, healthy ecosystems and promote the circular economy, it helps reduce waste generation, promotes recycling and reuse, and protects ecosystems.
- Planning is important for fiscal sustainability. Start with your organisation's vision and aims, and then look to see how that work could be funded. Stay focused on work that uses the skills, experience and knowledge you have within the organisation. Do not plan your work or change your aims just to get easy funding.