TUTORIAL KIT
OMEGA SEMESTER

PROGRAMME: BANKING AND FINANCE

COURSE: BFN 325

PUBLIC SECTOR FINANCE

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BFN 325: PUBLIC SECTOR FINANCE

1. Discuss five principal sources of income to the Federal Government of Nigeria.
2. Explain the nature of debt instruments in Nigeria?
3. Explain briefly the role of the CBN in effective management of domestic debt?
4. State seven of the documentations required before state government can offer a project tied debt securities to the public?
5. Discuss briefly three policy investments that are usually used to achieve macroeconomic objectives?
6. What are the problems of debt conversion programme in Nigeria?
7. How can the problems of debt conversion programme be minimized?
8. What is external debt management?
9. Explain three policies regarding external borrowing in Nigeria?
10. Explain debt buy-back and debt restructuring?
11. What are the main shortcomings of the existing traditional budgeting system in Nigeria?
12. Analyze the merits of Performance-Based Budgeting system that would justify its being recommended for adoption in Nigeria.
13. Explain pareto efficiency in the allocation of resources, clearly showing weak and standard pareto optimum?
14. Explain private and public goods?
15. Give at least three features of private and public goods?
16. Why do governments prefer borrowing to taxation that does not entail servicing problem?
17. Explain the main features of a good tax system in Nigeria?
18. Explain why too much public sector borrowing can be harmful?
19. What are the main features of the National Tax Policy?
20 What is performance-based budgeting?

ANSWERS

Question 1

a. Petroleum profit tax
b. Company and Corporate taxes
c. Personal income taxes of people living in Abuja and the PAYE of armed forces, police personnel, and Nigerians on foreign mission.
d. Mining rent and royalties.
e. Excise duties, import and export duties.
f. Fees, fines, and licenses.

Question 2

a. Treasury bills: They are short-term borrowing instrument, which the CBN issue on behalf of the federal government. They are usually of 90 to 91 days maturity and are in multiples of thousands. They are issued and traded on a discount basis; government receives the discounted amount and payback the face value on maturity.
b. Treasury certificates: This is also issued by the federal government but with a longer maturity usually between 1 to 2 years. Its rates are usually higher than that of treasury bills. Principal investors in treasury certificates include CBN, commercial banks, merchant banks, discount houses, etc.
c. Government Development Stock: These are longer term borrowing instrument issued by the government to raise fund to finance development projects. Major investors here include insurance firms, commercial banks, etc.
d. Treasury bond: This is a means of raising fund open to all the tiers of government. They are issued to meet dedicated purposes such as construction of schools, hospitals, etc. Repayment of this bond comes from general revenue earnings of the issuing authority.

Question 3

a. Advising the government as to the timing of floatation of debt instruments and term of issue.
b. Monitoring of the domestic debt level in the country vis a vis other macroeconomic variables.
c. Regular advise to the federal government on implication of new issue on monetary and fiscal policy.
d. Liaising with the Ministry of Finance on timely redemption and maintenance of a favourable level of domestic debt.
e. Preparing and provision of regular statement of account of the domestic debt position.

Question 4

a. A profile of the state government showing population, major industries, location, and prospect.
b. A feasibility report on the project to be financed as all bonds should be project tied.
c. Consent of the Federal Ministry of Finance to the state to borrow from the capital market.
d. A copy of the state gazette authorizing the issue of bonds.
e. Copies of the government account for the last five years.
f. A draft Trust Deed in respect of the issue.
g. Copies of the beneficiary company's account for five years (where applicable)

Question 5

a. Monetary policy: This is a measure designed to influence cost, allocation and distribution of credit in order to change the level of money supply in the economy.

b. Fiscal policy: This refers to the deliberate action which the government of a country takes in areas of spending money and/or levying of taxes with the objectives of achieving macroeconomic variable.

c. Income policy on the other hand relates to the regulation of the rewards that go to the factors of production such as labour (minimum wage legislation). It equally includes the registration of product prices (minimum and maximum price legislation).

Question 6

a. Arising from the fact that most debt conversion transactions involve the release of local currency, there could be unplanned increase in money supply thus leading to inflation and exchange rate pressure.

b. Debt conversion programme offers opportunity for round-tripping, which involves the commission of a part, or all of the redemption proceeds in the foreign exchange in the parallel or official market for exportation immediately or at a later date.

c. debt conversion programmes tend to increase fears about the possibility of radical change in the structure of business ownership in favour of foreigners.

Questions 7

a. Favouring redemption for purposes such as investment which can easily be monitored to ensure that redemption proceeds are used exclusively for approved projects.

b. Requiring the beneficiary under the project to show evidence of import financing.

c. Setting minimum time before capital.

Question 8

It is a conscious and carefully planned schedule of the acquisition, development, and retirement of loans acquired either for developmental purposes or to support the balance of payments. It incorporates sources of foreign exchange earnings, sources of finance, and the project returns from investment and repayment schedule. It also includes an assessment of the country's capacity to service existing debts and the judgment of the desirability for contracting further loans.

Question 9

a. Economic sector projects should have positive IRR as high as the cost of borrowing.

b. Social services or infrastructure would be ranked on the base of cost-benefit analysis.

c. Project to be financed with external loans should be supported with feasibility studies and this will include loan acquisition, deployment, and retirement plan schedule.

Question 10

Debt buy-back involves the offering of a substantial discount in order to pay off an existing debt.

Debt restructuring: This involves the conversion of the existing debt stock into various categories of debt.