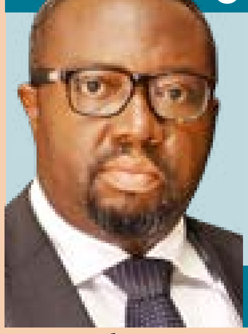
STATES & LOCAL FINANCE



The IGR Initiative

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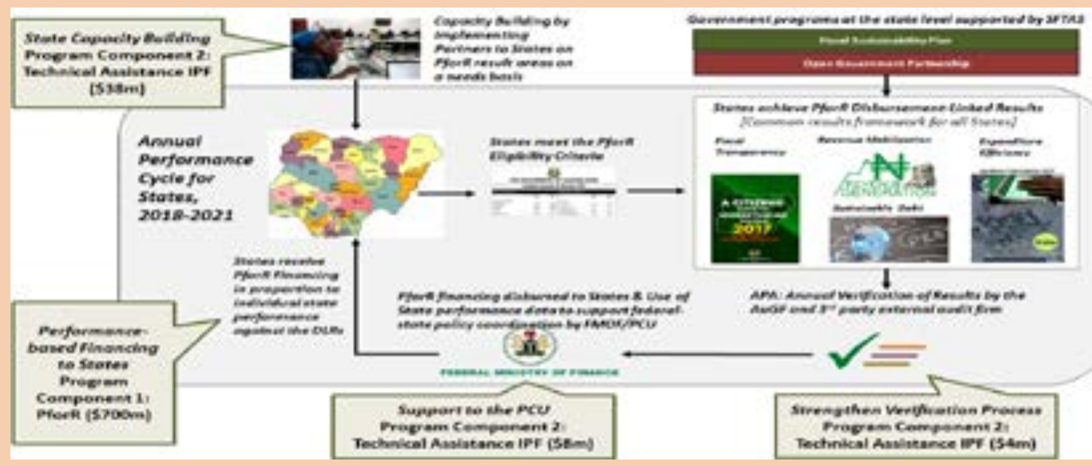
Sustaining transparency and accountability at subnationals beyond the SFTAS programme



FOR MANY YEARS, GOVERNORS EXPLOITED the relative budgetary independence of their states to enrich themselves corruptly, limit citizens' rights to participate in governance, and support a perverse culture that undermined their ability to fulfil their commitments to employees and citizens. The strategy was simple: prevent the citizens from having adequate information about the government. Fuzzy, opaque, scanty and often non-existent financial records make it challenging for citizens to know, investigate and ask questions about government activities. Citizens were also not carried along in the budgeting process. Some organisations such as BudgIT, the Nigerian Governors Forum, and several NGOs and development partners focusing on open government, have made remarkable efforts to improve the environment for citizens' enhanced awareness of government activities. But the arrival of the States Fiscal Transparency, Accountability and Sustainability (SFTAS) Programme in 2020 appeared to have had the most noticeable effect on governments' openness.

The SFTAS programme deployed the carrot and stick strategy to incentivize several state governments to publish their audited financial statements, detailed budget statements and optionally other accompanying strategic documents such as the medium-term expenditure framework (MTEF), fiscal strategy paper (FSP), medium-term revenue strategy (MTRS), and several others. These were the essential eligibility criteria for participating in the federal government's World bank assisted $1.5 billion grants. While some states responded with detailed reports dating back to 2010 and earlier, some evidently scratched the surface to meet the requirements. In addition to fiscal reports, SFTAS also promoted improved citizens' engagement in the budgeting process, the management of public debt and the adoption of Fiscal Responsibility Acts by up to 34 states. It also encouraged establishing associated driving commissions and agencies in 24 states. The programme has generally facilitated tremendous data availability by many (not all) state governments. Academics, non-governmental organisations (NGOs) and other civil society organisations now have a rich information base for investigating and interrogating some of the fiscal programmes of governments at the subnational level. The apprehension, however, is that with the end of the SFTAS programme in 2022 and the state governments' incentives for continued data openness, this evolving culture of sound public financial management (PFM) may also recede.

SFTAS was a four-year programme with an end date of November 2022. The programme emerged from an understanding between the federal government of Nigeria and the World Bank on strengthening subnational governments' fiscal performance and sustainability. Consistent with its acronym, the programme's objective was to improve fiscal transparency, accountability and sustainability in all 36 states. In summary, the federal government set aside $1.5 billion out of its $2 billion World Bank debt as a grant to states to incentivize them to shore up their Public Finance Management (PFM) practices. The primary incentive for strengthening this PFM practice is to satisfy result expectations in a set of nine disbursement-linked indicators (DLI) on the four key result areas (KRAs) necessary for enhancing openness and citizen engagement. The DLIs were, however, extended to thirteen for additional financing. Each of the disbursement-linked results (DLRs) attracts a specific amount of performance-based funding for each state per year. Some of the indicators cover the following: improved budgeting and financial reporting transparency, increased openness and citizens engagement in the budget process, improved cash management and reduced leakages through the implementation of an active treasury single account (TSA), strengthening internally generated revenue (IGR) collection and the use of biometric and bank verification number (BVN) to reduce payroll fraud among others. The implementing agencies and partners include the Nigerian Governors Forum, the Debt Management Office (DMO), and the Public-service Institute of Nigeria, under the office of the Auditor-General of the Federation. PriceWaterhouseCoopers (PwC) supported the World Bank and the federal government in verifying and confirming that states achieved the DLRs under the agreed protocol.

A 2022 compendium report by PwC in collaboration with the office of the Auditor General of the Federation regarding subnational governments' performance on the DLIs showed continuous improvement of state governments in their annual performance assessments. As of 2018, only 24 states qualified for verification and disbursement. However, by 2020, all 36 states qualified. In November 2022, at an event on the sidelines of the 28th Nigeria Economic Summit, the federal government commended state governments on their performance in the programme. Yobe State was the top performer on all DLIs. States in the excellent performer category comprised Jigawa, Kebbi and Ebonyi states. Among others, some of the unmistakable merits of the programme included the consolidation of state revenue codes, expanded growth rates of internally generated revenue exceeding the benchmark 20 percent and palpable management of payroll fraud using the biometric data and bank verification number (BVN) linkage. The programme also induced improved ability and willingness of about 27 state governments hitherto unable to pay contractors, staff salaries and pensioners, to start settling them. Many states equally performed incredibly well in plugging revenue leakages.

But it does not appear that civil societies, namely the academia and NGOs working in the PFM and, more specifically, the fiscal transparency domains, have made the most out of the tonnes of information made available by subnational governments. Before the emergence of SFTAS and the resulting data availability, civil societies complained about the scarcity of data regarding government activities. With the programme, the expectation would have been the growth in the quantity and quality of published papers and reports leveraging these data sets. Although we do not have access to enough information to make a conclusive judgement, there is not much observable evidence to justify the contrary. Ideally, the role of academia and civil societies is to amplify and provide objective justifications and objections regarding observed levels of accountability and transparency in subnational governments. This low utilisation of the resulting data is a considerable gap necessary for sustaining the culture of sound PFM practices beyond SFTAS. It is a vast opportunity that academics, civil societies and the media miss.

Again, can we reasonably conclude that state governors and local government chairpersons have been adequately acculturated in best practices in public financial management these last four years? How do we ensure that leaders at state and local governments continue toeing this path with the cessation of this grant? There is no doubt that the risks of states sliding back to the pre-SFTAS era are high. First, the stoppage of financial grants will substantially reduce the erstwhile motivation to strive to meet and comply with the minimum result thresholds set for each DLI. More than the apparent benefits of sound PFM practices, accessing the SFTAS grants was the most evident justification for states meeting the eligibility criteria. Second, although most states have enacted the Fiscal Responsibility and Transparency Acts, at least 15 states do not have complete organisational set-ups or institutions to drive it. This situation may worsen with the change of leadership at various state levels. Most, if not all, state governors operate as emperors and only give life and meaning to programmes and institutions of their liking. Because of the natural effect of transparency and accountability requirements on their opportunities to self-enrich, some may not be well committed to sustaining it. Third, four years may not have been enough to build robust sound PFM culture and the supporting technical capabilities at the workforce level in most states. Therefore, the risk of those already trained not adequately passing those skills to the succeeding workforce remains high.

In addition to enjoying generous grants, a few state governments still failed to comply fully with some disclosure requirements. Although states like Kano, Kogi and Ondo published their audited annual financial statements, they nevertheless failed to fully disaggregate their independent revenue sources to enable a more informed understanding. The less information that is available, the lesser the quality of probing that is possible. For states like these, we can correctly argue that they only participated because of the grant. To a large extent, it is incontrovertible that other states likewise did, leaving a primary discriminating factor as the buy-in of their governors. As already mentioned, most state governors act like emperors, with their state's fiscal autonomy adding a fillip and further facilitating opportunities for corruption and self-enrichment. Without the grants, many may consider that the costs of such disclosures considerably outweigh their benefits. Therefore, the governor's motivation is a significant factor in the continuity of these sound PFM cultural practices.

A critical triune of the states and the federal Fiscal Responsibility Commissions, civil society organisations consisting mainly of NGOs, researchers, and states' legislatures may wield the most decisive influence to sustain these wholesome best practices in our governments. The reason for including the federal fiscal responsibility commission is that some of the state's fiscal commissions (and, regrettably, even the state judiciary) lack a reasonable level of independence to rein in their governors to live up to the required minimum standards of sound PFM practices. Where it becomes necessary to intervene, the fiscal responsibility commission at the centre can invoke its legal personality and, if possible, challenge the state government in question in the courts to do the right thing. NGOs and researchers hitherto scavenging and interrogating published details to the benefit and delight of the citizens would be the first lines of protesters if the government begins to backslide on the minimum disclosure, prudent spending and IGR expansion requirements provided. Although the state houses of assembly owe it a natural duty to defend the interests of the citizens in these regards, most of them are mere appendages of the governor. Nevertheless, they have a constitutional responsibility to live up to that billing.

Finally, sound PFM practices ensuring transparency and accountability will strengthen citizens' trust in the administration. In four years of its operation, the federal government under the World Bank, through the SFTAS programme, considerably improved the PFM practices of subnational governments in Nigeria. We must prevent these beneficial behavioural changes from disappearing, even though they were primarily the consequences of the strict SFTAS grant eligibility conditions. Governors, many of whom are no different from mediaeval emperors, may return to their old ways, abandoning good PFM practices as was predominantly the case. We must do well not to allow that.

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